ONWARD

Annual Report 2010

Year Ended February 28, 2010

ONWARD HOLDINGS CO., LTD.

Contents

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

Profile

Proposing "Fashions" That Become an Integral Part of All Aspects of Our Living Culture

The Onward Group has defined its business domain as "a world of fashion that gives refreshment and beauty to people's lives." 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. The Onward Group is constantly seeking to increase customer satisfaction and aims to be a corporate group that satisfies all its stakeholders.

A Leading Company in the Apparel Industry

The Onward Group comprises 103 companies in Japan and the rest of the world.* Its principal businesses are the planning, production, and sales of textile products, including men's and women's fashions. The Group's activities also include services and resort businesses.

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 May 2005, the JOSEPH Group and, in October 2008, the JIL SANDER Group became consolidated subsidiaries of ONWARD HOLDINGS CO., LTD. Through collaboration with the GIBO' CO. Group, Onward is positioned to implement a more-global strategy. Looking ahead, Onward will aim for further global growth by working to achieve stable growth in net sales and net income in its activities in Japan and by aggressively expanding its overseas business operations.

* As of February 28, 2010

** In September 2007, the Onward Group made the transition to a holding company structure to strengthen its competitiveness and implement a growth strategy. At that time, the name of the Group's core company, ONWARD KASHIYAMA CO., LTD., was changed to ONWARD HOLDINGS CO., LTD.

Financial Highlights

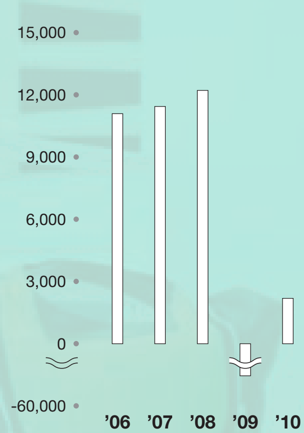
ONWARD HOLDINGS CO., LTD. and Subsidiaries
Years ended February 28, 2009 and 2010

	Millions of yen		Thousands of U.S. dollars
	2009	**2010**	**2010**
At year-end:			
Total current assets	¥ 98,946	**¥100,680**	**$1,125,797**
Total current liabilities	92,369	**90,929**	**1,016,762**
Short-term loans	28,252	**31,881**	**356,491**
Total shareholders' equity	178,023	**175,450**	**1,961,870**
For the year:			
Net sales	¥261,006	**¥248,635**	**$2,780,219**
Operating income	9,084	**4,384**	**49,022**
Net income (loss)	(30,895)	**2,188**	**24,466**
	Yen		U.S. dollars
Per share:			
Net income (loss)—basic	¥(197.21)	**¥13.97**	**$0.16**
Cash dividends	30.0	**24.00**	**0.27**
ROE (%)	(17.6)	**1.4**	
Operating income margin (%)	3.5	**1.8**	

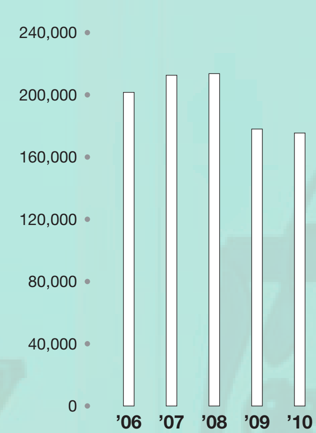
Note: Yen amounts have been translated, for convenience only, at ¥89.43=US$1, the approximate exchange rate on February 28, 2010.

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

The Onward Group is aiming to increase net sales and net income through stable growth in its activities in Japan and aggressive expansion of its overseas business operations.

Performance in Fiscal 2010

During the fiscal year ended February 28, 2010, consolidated net sales amounted to ¥248,635 million, 4.7% lower than for the previous fiscal year, and consolidated operating income was ¥4,384 million, 51.7% lower than for the prior year. The Group reported consolidated net income of ¥2,188 million, which represented an improvement of ¥33,083 million from the net loss reported in the previous fiscal year.

During the fiscal year under review, economic conditions continued to be stagnant, and operating conditions in the apparel industry were difficult. Reasons for this included the growing need among consumers to maintain their lifestyles, which led, in turn, to more-intense price competition among apparel companies. In the Onward Group, we worked to increase the efficiency of our operations and aggressively pursued measures to strengthen our capabilities for developing and offering products that have the right balance of value and price from the customers' perspective. We also implemented policies with an eye to future growth, including stepping up our M&A activities to expand the scope of the Group's business operations and making a full-scale entry into the e-commerce market.

Implementing Brand-Leveraged Management and Creating Brand Value

In Japan's apparel market, while there is a trend toward lower-priced, so-called "fast fashion" apparel, high-quality apparel products that offer the right balance of value and price are continuing to receive strong acceptance and support in the market. We believe that our mission is to enhance the value of products and respond to the needs of Japan's mature consumers who have well-developed sensitivities to fashion and are seeking high-quality products.

The current fiscal year will be the final year of the Onward Group's Three-Year Medium-Term Management Plan (covering the period from the year ended February 2009 through the year ending February 2011). However, as a result of the effects of major changes in the world economy following the collapse of Lehman Brothers, we are not expecting to attain the plan's numerical goals. Nevertheless, in the midst of a tough economic environment, many of the initiatives we undertook to attain new growth are beginning to take effect. Going forward also, we will implement the policies of our Medium-Term Management Plan that call for us to create brand value by implementing Brand-Leveraged Management and, thereby, strive to achieve stable growth in net sales and net income in Japan and aggressively expand our overseas business operations.

Developing and Offering the Right Balance of Value and Price from the Consumers' Perspective

The Onward Group conducts its business activities under its corporate philosophy of contributing to the enrichment of lifestyles by proposing fashions that become part of our living culture. To continue to be a leading company in our industry, we believe that our mission is "to create good products" and aim for quality that always satisfies our customers.

Onward quality is a product of the time, effort, and concern that go into the making of an excellent piece of apparel, commencing with active engagement in the creation of materials in the product design stage. Making clothing that customers really want to wear, that they will buy, and that they will be satisfied with is Onward's core competence as a company.

For example, in developing our "AIR JACKET," which we launched full-scale in April 2010, we made the judgment that consumers wanted a jacket that combined the feel of casual wear with a tailor-made look. We drew on Onward's original know-how, and, working in cooperation with material manufacturers and sewing plants, we crafted a completely new jacket that did not exist previously in the market. We implemented a simultaneous promotional campaign across different brand lines, and the "AIR JACKET" appealed strongly to consumers because it is fashionable, is easy to wear, and has other outstanding qualities.

We cannot gain the support of customers unless we create items that are differentiated from existing products and offer something that no other company has offered before. We intend to continue to develop such items that offer new value because they are based on cutting-edge technology, embody the latest fashions, and are made to the most-exacting standards.

As an Apparel Manufacturer, We Will Be Responsible for Our Products over Their Full Life Cycles.

As part of the environmental management activities of the Onward Group, ONWARD KASHIYAMA, as the core company in domestic business activities, believes that "as an apparel manufacturer, we should be responsible for our products over their full life cycles." Based on this idea, in September 2009, ONWARD HOLDINGS began its Onward Green Campaign. Prior to the campaign, Onward created a system for accepting in department stores the used Onward apparel that customers have purchased in the past but no longer need. Under this system, to the greatest extent possible, the items collected are then recycled or arrangements are made for their reuse.

During the fiscal year ended February 2010, we accepted 130,649 items of apparel from 25,608 customers, and 61% of these were recycled and the remaining 39% were reused. Items that were recycled were reprocessed to make 3,000 blankets and 54,500 pairs of work gloves. These blankets and gloves were then distributed to refugee camps around the world and used in Onward's other environmental and community-related activities. During fiscal 2011, ending February 2011, we are planning to conduct this campaign twice and expect to collect about 200,000 apparel items.

Kentaro Mizuno
President

Looking to the Next 10 Years, Starting a Period of New Growth

Fiscal 2011 will mark the start of a new period of growth for the Onward Group. Many of the policies and measures we have implemented are expected to show results, and we should see major business opportunities emerging.

A priority policy in our operations in Japan will be to improve profitability and secure stable earnings. We will take up the challenge of developing new distribution channels by expanding aggressively into urban fashion shopping centers and undertaking full-scale e-commerce business. At the same time, in our overseas business activities, we will step up our entry into Southeast Asia and will aim to increase the asset value of companies we have acquired by expanding their sales and income.

In Europe, which is the focus of our overseas business activities, we have been successful in developing a production platform for the JIL SANDER Group and the JOSEPH Group that makes use of the GIBO' CO. Group's infrastructure. This production structure realizes powerful synergies and will enable us to create a new business model. In June 2010, the JIL SANDER brand announced the JIL SANDER NAVY lineup of casual luxury items, which is an extension to its main brand lineup. This will be an important strategic step for further developing the JIL SANDER business and will make it possible to approach new customer segments through offerings in new price ranges.

Along with these initiatives, we are preparing to split off a portion of the existing International Operations Business Department to form the Asian Business Group, which will focus on expanding our business activities in Asia.

Contributing to Enriched Lifestyles

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 2010, after giving full consideration to performance and the operating environment, we have set the cash dividend for the year at ¥24 per share, which is ¥6 per share lower than in the previous fiscal year.

For the fiscal year ending February 2011, we are targeting consolidated net sales of ¥250.0 billion, an increase of 0.5% year on year; operating income of ¥6.6 billion, an increase of 50.5%; and net income of ¥3.5 billion, an increase of 60.0%. Almost all major core brands are expected to show positive growth in sales, and the Onward Group as a whole is expected to report an increase in income. In addition, we plan to resume capital investment, which we have been restraining, and have adopted a policy of making investments where necessary. Please note that we are scheduled to release a new medium-term management plan during the current fiscal year, which ends in February 2011.

The Onward Group will continue its drive to create and offer a new affluence to its customers, implement measures to increase efficiency and attain growth, and increase corporate value and shareholder value. We wish to express our thanks to you, our shareholders, for your continued understanding and support.

May 2010

Takeshi Hirouchi

Takeshi Hirouchi
Chairman

Kentaro Mizuno

Kentaro Mizuno
President

Strategy for the Apparel Business

Becoming a Truly Global Corporation, Leading the Fashion Industry

Domestic Apparel-Related Business

- **Improve profitability and aim for stable profitability**
- **Take up the challenge of new distribution (through urban fashion shopping centers, e-commerce, and other channels)**

Overseas Apparel-Related Business

- **Improve the profitability of companies acquired through M&A, expand sales, and develop business operations in Southeast Asia**

Net Sales

(Actual in Fiscal 2010 and Plans for Fiscal 2011)

	Actual in Fiscal 2010*	Plans for Fiscal 2011
Total	¥262.0 billion	¥262.8 billion
Domestic	¥216.5 billion	¥216.7 billion
Overseas	¥45.4 billion	¥46.1 billion
Europe	¥37.1 billion	¥36.8 billion
Asia (excl. Japan)	¥5.4 billion	¥6.3 billion
Americas	¥3.0 billion	¥3.0 billion

*Simple total (before eliminations)

Creating Brands with Presence and Offering Products with the Right Balance of Value and Price

As Onward improves its profitability and works to increase earnings, it is making necessary investments in businesses where new growth is anticipated. In addition, we are taking up the challenge of new distribution by aggressively expanding our store network in urban fashion shopping centers, making full-scale entry into e-commerce, and implementing other measures.

Department Stores

Drawing on the technological and marketing capabilities of the Onward Group, we are working to create new value across our brands.

Strengthening major core brands thoroughly and establishing them as brands with an outstanding presence

For our major core brands NIJYUSANKU, KUMIKYOKU, and JIYUKU, we are implementing our "RAINBOW STRATEGY" and working to strengthen their brand value. Our aim is to strengthen these brands thoroughly and give them an outstanding presence from the customers' perspective by focusing on three key themes. These are using our strong merchandising capabilities to achieve a balance of value and price, drawing on our strong marketing capabilities and offering appealing customer services, and creating more-attractive store environments by relocating and expanding in prime locations.

NIJYUSANKU

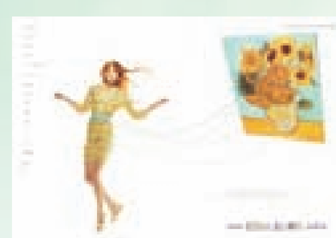
KUMIKYOKU

JIYUKU

iCB

Differentiation through offering attractive products and employing effective sales tactics

We must determine what consumers' latent needs are and then "create value" by developing what is not available, rather than search among what is already on the market. Our "AIR JACKET," which we developed together with material manufacturers and sewing plants, is a jacket that is light, like a cardigan, and sales have been robust as we conducted marketing campaigns for these jackets across our seven men's brand lines. Also, in our "ONWARD COLOR MUSEUM" campaign, we turned department stores into art museums, and, with the key words "wearing colors from around the world," we developed clothing, across men's and women's core brands, in attractive colors drawn from the works of impressionist painters.



Developing new brand business through collaboration with department stores

By combining the strong information and planning capabilities of Onward and department stores, we developed new brands evolved from customers' needs. The "ENTER-G" suits collection targeted at young businessmen was priced to appeal to the younger generation. On the other hand, our "RE-EARTH" casual brand for women in their 50s features upmarket quality but is priced in the impulse-buying zone. Items, which are displayed in prime locations in the women's floors of department stores, are on sale for about 70% of previous department store prices.

New framework for brand management

Department stores
Sales area creation, sales, sales analysis, and customer analysis

Information sharing

ONWARD KASHIYAMA
Planning, production, trend analysis, and distribution

New Distribution Channels (Other than Department Stores)

Onward is moving into high gear in the expansion of its fast-growing e-commerce business and the development of locations in urban fashion shopping centers, where sales are expanding principally to members of the younger generations.

Improvement in Profitability of Existing Core Brands

For anyFAM, a family brand, and anySiS, a brand for young people, we are placing maximum emphasis on trendiness and value for price. We are also strengthening store management capabilities based on retail concepts.

Development of New-Concept Shopping Center Store

We have developed a new business genre combining fashion and lifestyles and will launch these stores simultaneously in Japan and China.

Active Approach to Urban Fashion Shopping Centers

We are engaged in a drive to expand sales in urban fashion shopping centers that involves drawing on DNA from outside Onward, including that of ISLAND. CO., LTD.'s "Grace Continental" (acquired in December 2009) and CANDELA INTERNATIONAL CO., LTD.'s "CROON A SONG," while maintaining the uniqueness of their brands as we develop their activities further.

Aggressive Development of e-Commerce

We are developing our e-commerce activities by drawing on synergies with real stores. In addition to ONWARD KASHIYAMA's directly operated net shop, Onward Group companies are establishing virtual shops on highly popular net malls. We are aiming for Group sales of ¥2.5 billion.

Continuing a Growth Strategy and Establishing a Global Presence

In Europe, which is the focus of Onward's overseas business activities, we are working to increase profitability and sales by moving forward with measures to strengthen our merchandising capabilities and improve efficiency in the three groups that joined the Onward Group through acquisitions: the GIBO' CO. Group, JOSEPH Group, and JIL SANDER Group. In Asia, we are actively expanding production and sales, especially in the fast-growing Chinese market, and proceeding with the development of our operations in Southeast Asia.

Europe

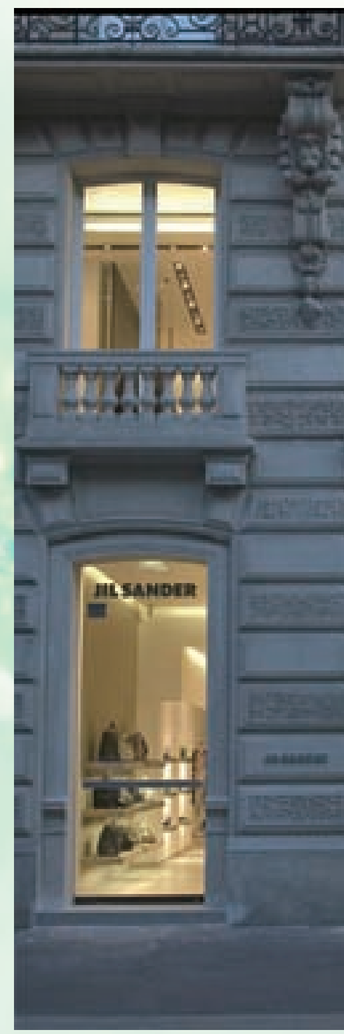
Making Companies That Joined the Group through Acquisitions Profitable and Seeking New Growth Paths

GIBO' CO. Group

With its capabilities as a luxury apparel manufacturer, the GIBO' CO. Group is aiming for stable sales in the lingerie market. At present, this group has nearly finished creating a full-scale production system for the items in the JIL SANDER brand line and is currently moving forward with initiatives to develop production capabilities for other new major brands. In addition, the GIBO' CO. Group is working to achieve recovery in orders under its previously existing brand contracts and will continue to raise profitability by increasing group synergies and enhance production efficiency through the more-appropriate assignment of personnel.

JIL SANDER Group

The JIL SANDER Group is working to strengthen its management base and return to profitability as quickly as possible through a major increase in earnings. Specific initiatives include taking stronger initiatives with the GIBO' CO. Group and realizing group synergies. Other measures are enforcing the inventory supervision and control of directly managed stores, reviewing personnel systems, making more-efficient use of expenses, and increasing royalty revenues through expansion in the licensing business. Moreover, the JIL SANDER Group is conducting a review of its franchise stores, strengthening these by area, working to recover wholesale business, and structuring sales and production systems with a view to the world market.



Current Status of Group Synergies

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

JOSEPH Group

The JOSEPH Group is further stepping up the implementation of its new growth strategy. In the product area, the new collection developed by the Paris design team is producing clear results. Going forward, this group will strengthen its merchandising capabilities by expanding its lineup of fashion goods and further increase the attractiveness of its stores as well as enhancing its brand equity by raising brand awareness through more exposure in magazines and newspapers. In the retail outlet area, this group is implementing a range of aggressive measures to raise sales, including the renovation of its freestanding flagship stores, expanding the area for wholesale business, and promoting its franchise business.

Asia

Aggressive Expansion of Japan Fashion Goods from Onward to the Rest of Asia

China

Onward is increasing the number of stores by launching flagship stores and opening other new stores. In existing outlets, we are moving stores to better locations and expanding them. In addition, we are creating an organizational structure to provide for regional supervision (Shanghai, Beijing, and Chongqing).

Southeast Asia

Onward is expanding its activities into Southeast Asia, which will be a new area for business development for the Company. In the ASEAN markets, we are opening new sales locations and making preparation for new production centers.

Expansion in Number of Stores in the Rest of Asia

	Actual in Fiscal 2010	Planned for Fiscal 2011	Increase (Decrease)
China	161	175	14
Hong Kong	8	7	(1)
South Korea	23	24	1
Taiwan	57	63	6
ASEAN markets	3	10	7
Total	252	279	27

North America

Proceeding with Restructuring of North American Operations

J. PRESS

J. PRESS, INC., is working toward further business development through the strengthening of its flagship stores in New York and the expansion of its e-commerce business.

Onward Group Companies Newly Entering the Market

FREED OF LONDON LTD. and other companies in the CHACOTT Group are expanding their operations and entering new businesses and are currently considering entry into the wholesale business.

Corporate Social Responsibility (CSR)

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.

For example:

(1) Onward always offers high-quality products that customers can enjoy for many years.

(2) To reduce the burden on the environment, Onward develops cutting-edge technologies, products, and services.

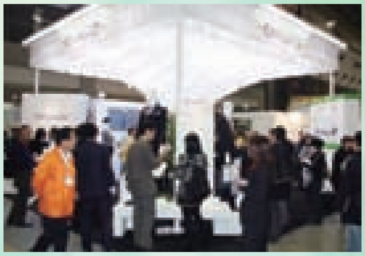
(3) The Onward Green Campaign is conducted with the objective of creating a recycling system for apparel.

(4) Onward implements many initiatives aimed at environmental preservation, including energy-saving measures in its business locations, introduction of eco-friendly vehicles, and the “TOSAYAMA ONWARD Rainbow Forest” forestland preservation activities in Japan’s Kochi Prefecture.

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 2009," Japan's Largest Environment-Related Trade Fair



As part of its activities to promote environmental management, the Onward Group presented its first exhibit in the Eco-Products 2009 trade fair, which is Japan's largest environmental exhibition and was held in the Tokyo Big Site exhibit hall from Thursday, December 10 through Saturday, December 12. Onward's environmental concept is "Thinking of the Earth. Clothing Its People." At the exhibition, the Onward Group introduced its various environment-related initiatives as an apparel corporation that is responsible for supplying a wide range of fashion apparel and other products and aims to promote "co-existence with the natural environment and the peoples of the world." Approximately 12,000 persons visited the Onward exhibition booth, including businesspeople, representatives of national and regional governments, members of citizens' groups, consumers, students in middle and high school, and other interested persons.

Development of Onward's "BIO TECH SUIT," the Ultimate Ecological Suit That Can Be Recycled to Nature

BIO TECH SUIT

ONWARD KASHIYAMA has developed the "BIO TECH SUIT," which is today's last word in ecological suits and can be returned to the soil. These eco-friendly suits will be offered under the GOTAIRIKU and J. PRESS menswear brands beginning in June 2010.

Looking like regular suits from the outside, not only do "BIO TECH SUITs" offer a fashionable look, but also, because they are made of only natural materials, when returned to nature, they can be biodegraded by bacteria and returned to the soil. When these suits are no longer needed, they can be buried in the ground, and, within one year, the oxygen contained in bacteria decomposes them into water and carbon dioxide. In addition, these suits do not contain any substances that have been identified as harmful to human life, such as heavy metals, carcinogens, and allergy-causing ingredients. Therefore, they have received the international "ECOTECHS Regulation 100" seal of approval from the ECOTECHS International Joint Testing Organization.

In Japan at present, the recycling and reuse of textile products are not actively encouraged, and, when these products are discarded by their owners, they are incinerated or disposed of in landfills. 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.

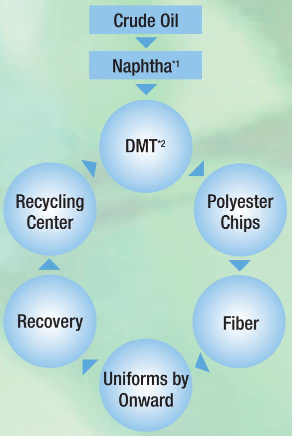
Aiming to Develop a Recycling System for Apparel

Compared to other products, recycling of textile products is behind the times. At ONWARD KASHIYAMA, by encouraging the recycling of apparel, we are intending to make the most-effective use of the world's limited resources. Also, as one of our activities for preserving the Earth's irreplaceable environment for future generations, we began our Onward Green Campaign in 2009. Under this campaign, through department stores, Onward collects the men's, women's, children's, and sportswear items that it has manufactured and works to make these items available for recycling and reuse. In addition, Onward contributes to the natural environment by making recycled thread and yarn from some of the used items, and uses these materials to make blankets and work gloves.

Development of Eco-Friendly Products

By introducing the appropriate materials, supplementary materials, and sewing techniques, ONWARD KASHIYAMA has also developed suits that can be cleaned at home in washing machines. When suits are washed at home, this not only reduces water pollution caused by dry-cleaning fluids but also helps to remove perspiration, food particles, and other materials that are water-soluble but difficult to remove with dry-cleaning fluids.

Also, ONWARD TRADING is developing the market for uniforms made of chemically recyclable materials. The aim of this initiative is to move away from the practice of using disposable uniforms and develop a system that returns used uniforms to the materials stage and uses recycled polyester fiber to make textile products.



*1: Naphtha is highly flammable unrefined gasoline that is distilled from crude oil.
*2: DMT is a raw material for the manufacture of polyester with the same level of quality as refined petroleum.

Highlights of Activities Contributing to Society

Customer Counseling Office

ONWARD KASHIYAMA has established its Customer Counseling Office to respond to the inquiries, requests for advice, and complaints of its customers. The motto of this office is "give clear, fair, and prompt responses" to all customers. In addition, Onward analyzes the content and other aspects of customer inquiries, provides feedback within the Company, and takes other steps to make this information useful in designing and improving Onward products.

Implementation of Workplace Environment Audits

Onward works together with its partners' sewing and other plants in Japan and overseas to maintain and improve on department store merchandise quality as well as increase productivity and supervision of product safety. Also, to maintain security and safety in the work environment, Onward places emphasis on whether production activities are being carried out properly. At present, Onward conducts periodic monitoring on its own and through third-party organizations to eliminate forcible labor tactics or having employees work for overly long hours and to make improvements in the workplace to ensure the safety and well-being of employees.

Commencement of the Zero Garbage Project

Onward Group subsidiary CREATIVE YOKO CO., LTD., as part of its project to reduce the volume of garbage from its operations to zero, began to conduct cleanup campaigns in April 2009 in the area around its headquarters in Nagano and inside its own premises on the 15th and 30th of each month. This project began as part of the "E-PROJECT," which was started autonomously by employees interested in doing their part in contributing to society. The objective of the Zero Garbage Project is to have other companies, schools, and others in the community take part in the cleanup activities. CREATIVE YOKO's Tokyo Office, located in the Omotesando district of Tokyo, also conducts similar activities in its vicinity and works together with the Green Bird project.

Other Activities Contributing to Society

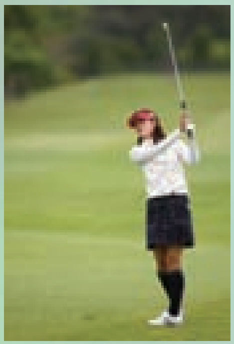
Donation of 3,000 Recycled Blankets to Refugee Camps in Bangladesh and Elsewhere

In May 2010, ONWARD KASHIYAMA donated 3,000 blankets, which were made from items accepted for recycling during its Onward Green Campaign in 2009, to the Cokes Bazaar refugee camp located in the Chittagong district in the southern part of Bangladesh and to a hospital serving the medical needs of people in the same district. Based on information from the United Nations High Commissioner for Refugees (UNHCR) database, priority was given to refugees in particularly weak social positions, 450 households headed by women without a male breadwinner, and to medical facilities experiencing shortages of medical equipment and other supplies as well as their surrounding communities. Recipients of these gifts at all facilities were delighted by their quality and colors. Letters of thanks were received from the managers and doctors of the hospitals receiving the blankets and other persons responsible, and a number of newspapers ran articles on the distribution of the blankets.

In addition, on July 20, ONWARD HOLDINGS received a certificate of appreciation from the representative office in Japan of UNHCR.

Support and Encouragement for Sports

ONWARD KASHIYAMA's activities to encourage sporting activities include providing the official team uniforms for the Tohoku Rakuten Golden Eagles, a professional baseball club, and the Nagoya Oceans, Japan's first professional futsal team. Onward also contributes to the promotion of other sports as well, including the provision of gear for professional golfers.



Corporate Governance

Basic Approach to Corporate Governance

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

Framework for Business Execution and Management Surveillance

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
Takeshi Hirouchi*

President
Kentaro Mizuno*

Vice President
Kazuya Baba*

Managing Directors
Masaaki Yoshizawa
Minoru Tanaka

Outside Directors
Hachiro Honjou
Yoshihide Nakamura

Officers

Executive Officers
Kenichi Iizuka
Eiji Touno
Hidenobu Tanaka
Hirokazu Yoshizato
Michinobu Yasumoto

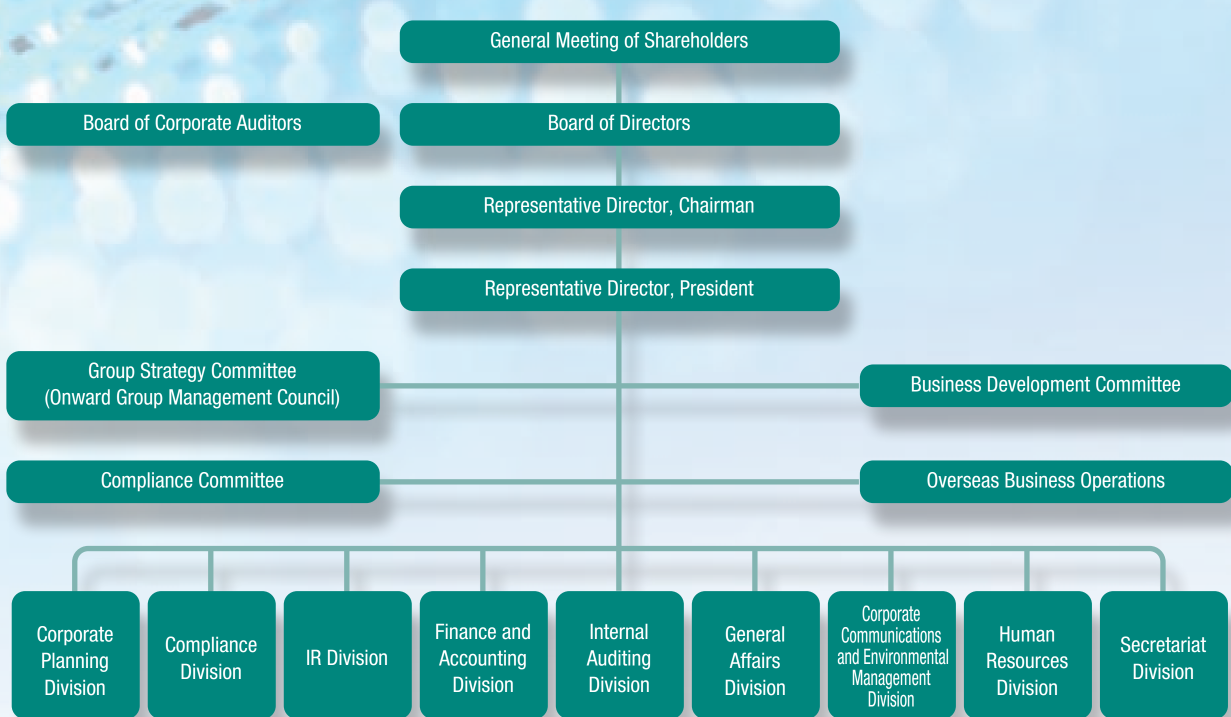
Corporate Auditors

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

As of May 27, 2010

* Representative Director
** Outside Auditor

Organization Chart
(As of March 1, 2010)



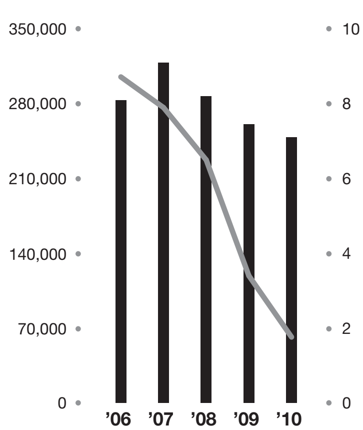
Consolidated Six-Year Summary

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

	Millions of yen						Thousands of U.S. dollars
	2005	2006	2007	2008	2009	**2010**	**2010**
At year-end:							
Total current assets	¥150,969	¥135,769	¥135,197	¥112,519	¥ 98,946	**¥100,680**	**$1,125,797**
Total property, plant and equipment	96,394	99,688	94,850	95,008	90,175	**89,742**	**1,003,489**
Total assets	308,170	329,403	347,936	309,092	296,283	**292,569**	**3,271,486**
Total current liabilities	79,025	97,617	103,494	93,321	92,369	**90,929**	**1,016,762**
Total shareholders' equity	202,377	201,599	212,600	213,625	178,023	**175,450**	**1,961,870**
For the year:							
Net sales	¥271,273	¥283,111	¥318,691	¥287,032	¥261,006	**¥248,635**	**$2,780,219**
Cost of sales	146,447	152,043	175,796	156,842	142,676	**134,459**	**1,503,511**
Selling, general and administrative expenses	100,621	106,360	117,464	111,562	109,246	**109,792**	**1,227,686**
Operating income	24,205	24,708	25,431	18,628	9,084	**4,384**	**49,022**
Income taxes, current	7,490	12,321	14,409	9,780	4,639	**4,016**	**44,907**
Net income (loss)	10,257	11,091	11,438	12,214	(30,895)	**2,188**	**24,466**
	Yen						U.S. dollars
Per share:							
Net income (loss)—basic	¥58.1	¥63.8	¥70.5	¥76.5	¥(197.2)	**¥13.97**	**$0.16**
Cash dividends	22.0	24.0	26.0	30.0	30.0	**24.00**	**0.27**

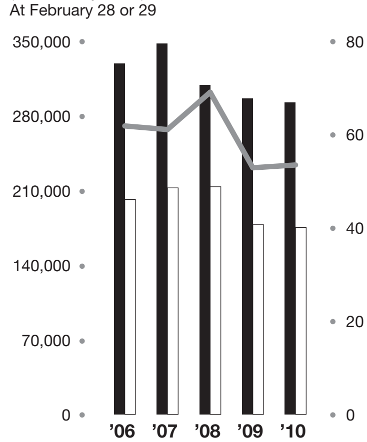
Note: Yen amounts have been translated, for convenience only, at ¥89.43=US$1, the approximate exchange rate on February 28, 2010.

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



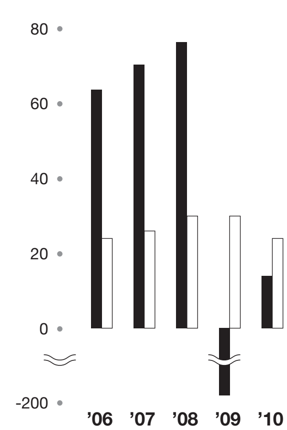
■ Net sales (left scale)
■ Operating income margin (right scale)

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, 2010), the Japanese economy operated amid persistently slack conditions in the global economy. Although the Japanese government's economic countermeasures elicited signs of a limited recovery in domestic demand, the deterioration of the domestic employment and income environments and other factors caused sluggish conditions in the Japanese economy to persist.

In the apparel industry, a rise in consumer cautiousness and belt-tightening intensified price-based competition, and conditions in the personal consumption environment became extremely harsh.

Amid this economic environment, the Onward Group moved ahead with measures to increase management efficiency while also proactively proceeding with measures aimed at strengthening its planning and design, manufacturing, marketing, and other departments so that they can handle all processes, from product development through product presentation, with emphasis on providing the right balance of value and price from the perspective of consumers. In addition, the Group emphasized measures—such as those to expand its business scope by means of M&A transactions, enhance its profitability by means of synergistic benefits, and establish a full-scale presence in the Internet market—that are designed to promote future growth. These measures generated benefits reflected in the performance figures explained below, although performance figures for the fiscal year under review were generally below figures for the previous year.

As a consequence of these factors, the Group reported net sales of ¥248.6 billion, down 4.7% from the level in the previous fiscal year, and operating income of ¥4.4 billion, down 51.7%. While a net loss of ¥30.9 billion was recorded for the previous fiscal year, the Group was able to generate ¥2.2 billion of net income in the fiscal year under review.

Results of Operations

Net Sales

Sales in the Group's apparel business amounted to ¥234.2 billion, down ¥11.2 billion, or 4.6%, from the previous fiscal year, and sales of service-related businesses decreased 8.9%, or ¥2.0 billion, to ¥21.1 billion.

After the elimination of intersegment sales amounting to ¥6.8 billion, net sales for the Group were ¥248.6 billion, representing a decline of ¥12.4 billion, or 4.7%, from the previous year. The business activities of the Onward Group are divided into two principal segments: namely, apparel and other textile product businesses and service-related businesses.

• Apparel and Other Textile Product Businesses

Regarding operations in Japan, ONWARD KASHIYAMA concentrated its focus on major core brands and proactively worked to relocate and expand its mainstay department store distribution channel with the objective of developing optimal shop environments for presenting products that offer value that is recognized by consumers as well as the right balance of value and price. Owing to these measures and concurrent efforts to improve efficiency—such as steps to eliminate inefficient brands and outlets and thorough store management—a trend of recovery was seen in sales of products of 23ku and other core brands from the start of the latter half of the fiscal year under review, and the gross profit ratio improved. With respect to other subsidiaries, although measures to increase management efficiency caused net sales levels to decrease, profitability increased. The performance of ISLAND. CO., LTD., which became a consolidated subsidiary on December 1, 2009, has been favorable, and that company made a contribution to the Group's overall profitability.

Overseas, a delay in the recovery of luxury markets caused two European luxury brands—the JOSEPH Group and the JIL SANDER Group—to record operating losses, although the JOSEPH Group began the full-scale implementation of "merchandise measures" and "shop measures" within its new growth strategy during the latter half of the fiscal year, and this enabled that group to augment its sales and profit during the latter half.

The JIL SANDER Group proceeded with structural reforms and therefore recorded considerable losses but made progress in improving its management constitution, while the GIBO' CO. Group completed the preparation of systems designed to generate synergies. In the Asia region, net sales decreased during the first half of the year but showed a trend of recovery from the second half. In the North America region, operations proceeded in accordance with plans and profitability improved.

As a result of these factors, sales of the apparel and other textile product businesses declined 4.6%, to ¥234.2 billion, and operating income decreased 49.1%, to ¥4.6 billion.

• Service-Related Businesses

Although the net sales of the Group's services- and resort-related businesses decreased during the fiscal year under review, efforts to increase management efficiency led to an improvement in performance.

Consequently, sales of this segment declined 8.9%, to ¥21.2 billion, and an operating loss of ¥39 million was recorded, compared to an operating loss of ¥120 million in the previous fiscal year.

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

• Japan

Regarding operations in Japan, the Group's core company—ONWARD KASHIYAMA—moved ahead amid slack market conditions with measures to increase management efficiency and was able to realize a trend of recovery during the latter half of the fiscal year, although it recorded lower levels of sales and profit for the year as a whole. Other domestic subsidiaries also recorded levels of sales below those in the previous year, but they were able to increase their operating income.

Thus, sales of this segment declined 9.6%, to ¥206.3 billion, and operating income amounted to ¥9.3 billion, down 13.5% from the previous fiscal year.

• Europe

With respect to business in Europe, a delay in the recovery of luxury markets decreased profitability, and this combined with a rise in one-time expenses associated with management structure reforms to increase the magnitude of the operating loss recorded.

Sales of this segment surged 35.4%, to ¥36.4 billion, but the operating loss expanded to ¥4.2 billion, from ¥1.5 billion in the previous fiscal year.

• Other

The performance of businesses in the United States, Asia, and other regions was as follows.

Sales of this segment amounted to ¥7.8 billion, down 6.2% from the previous fiscal year, and an operating loss of ¥0.9 billion was recorded, compared to an operating loss of ¥0.6 billion in the previous fiscal year.

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

The consolidated cost of sales declined 5.8%, to ¥134.5 billion, accompanying the decline in net sales. As the drop in net sales exceeded the fall in the cost of sales, gross profit decreased 3.5%, to ¥114.2 billion. However, the gross margin on net sales improved, rising 0.6 percentage point, to 45.9%, compared with 45.3% in the previous fiscal year.

Selling, general and administrative (SG&A) expenses edged upward 0.5%, or ¥0.5 billion, from the previous fiscal year, to ¥109.8 billion, owing to a rise of lease expenses within SG&A expenses. Reflecting the decrease in net sales and slight rise in SG&A expenses, the ratio of SG&A expenses to net sales increased 2.3 percentage points, to 44.2%, versus 41.9% in the prior fiscal year. Although the gross margin on net sales improved, the ratio of operating income to net sales decreased 1.7 percentage points, to 1.8%, compared with 3.5% in the previous fiscal year. Because of the substantial impact of the decline in net sales, operating income fell 51.7%, or ¥4.7 billion, to ¥4.4 billion.

Other income (expenses) amounted to income of ¥2.0 billion, an improvement of ¥41.7 billion compared with the previous period, when other income (expenses) amounted to expenses of ¥39.7 billion. This mainly reflects the lack of certain factors affecting other income (expenses) in the previous period—including the recognition of ¥22.6 billion in valuation losses on investments in unconsolidated subsidiaries and affiliates, ¥13.0 billion in impairment losses, including ¥11.6 billion in write-off on goodwill of a U.K. subsidiary, and a ¥5.3 billion foreign currency exchange loss—as well as the recording of ¥2.3 billion in gains on the sale of investment securities during the fiscal year under review.

As a result of these factors, the Company reported income before income taxes and minority interests of ¥6.4 billion, compared with a loss before income taxes and minority interests of ¥30.6 billion for the previous fiscal year. Income taxes, inhabitants' taxes, and enterprise taxes calculated based on assumptions including the assumption of a 40.7% effective tax rate amounted to ¥4.0 billion. Consequently, the Group recorded ¥2.2 billion in net income, which represents a ¥33.1 billion improvement compared with the ¥30.9 billion net loss of the previous fiscal year.

Financial Position

At the end of the fiscal year, total assets amounted to ¥292.6 billion, down ¥3.7 billion from the end of the previous fiscal year. Current assets were up 1.8%, or ¥1.7 billion, to ¥100.7 billion, mainly because cash and time deposits rose ¥10.9 billion, to ¥34.3 billion. Fixed assets declined 2.8%, or ¥5.4 billion, to ¥191.9 billion. Tangible fixed assets edged down just 0.5%, or ¥0.4 billion, to ¥89.7 billion. The almost unchanged level of tangible fixed assets reflects the level of capital investments and depreciation expense, which were almost equal at ¥5.7 billion each, and the limitation of impairment losses to only ¥0.3 billion.

Total liabilities decreased 2.5%, or ¥3.5 billion, to ¥134.4 billion. Current liabilities declined ¥1.4 billion, to ¥90.9 billion, and long-term liabilities fell ¥2.0 billion, to ¥43.5 billion. Interest-bearing debt stood at ¥58.4 billion at the end of the previous fiscal year and rose ¥1.9 billion, to ¥60.3 billion at the end of the fiscal year under review, but the decrease in total liabilities reflected a ¥3.7 billion drop in accounts and notes payable, which decreased from ¥39.6 billion to ¥36.0 billion.

Shareholders' equity declined 1.4%, or ¥2.6 billion, to ¥175.5 billion, reflecting a ¥2.6 billion decrease in retained earnings, to ¥118.8 billion. Total net assets, including minority interests in consolidated subsidiaries, remained almost unchanged, edging down just 0.2%, or ¥0.3 billion, to ¥158.2 billion. Consequentially, because of the decrease in assets and almost unchanged level of net assets, the equity ratio rose 0.6 percentage point, from 52.9% to 53.5%.

Cash Flows

Net cash provided by operating activities amounted to ¥14.1 billion, ¥3.2 billion higher than for the previous fiscal year. Income before income taxes and minority interests improved ¥37.0 billion, and this was roughly offset by a ¥12.7 billion drop in impairment loss on fixed assets and a ¥22.5 billion fall in valuation losses on investments in unconsolidated subsidiaries and affiliates, while a ¥7.6 billion decrease in income tax and other factors accounted for the rise in net cash provided by operating activities.

Net cash used in investing activities was ¥26.0 billion, ¥40.9 billion less than the previous fiscal year. Although net cash was used for the acquisition of stock in ISLAND and in sales facilities, the drop in net cash used in investing activities reflected the proceeds from the sale of investments in securities, which amounted to ¥12.9 billion.

Net cash used in financing activities amounted to ¥4.9 billion, compared with net cash provided by financing activities of ¥18.0 billion in the previous fiscal year. While the cash inflow in the previous year reflected ¥30.0 billion in proceeds from long-term debt and other factors, the ¥22.9 billion increase in net cash used during the period under review reflected such factors as ¥4.7 billion in dividends (paid by the parent company).

As a result of the aforementioned factors, the balance of cash and cash equivalents at the end of fiscal 2010 was ¥32.7 billion, ¥9.4 billion higher than at the end of fiscal 2009.

Policy on Distribution of Profits

The management of the Onward Group recognizes the distribution of a portion of profits to shareholders as one of its top priorities. The basic policy of the Company is to set a target dividend payout ratio of 35% or more and strive to make stable distributions from profits that are appropriate 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, strengthening the Company's financial position, and other objectives while giving due consideration to maintaining balanced demand for funds.

Outlook

Looking at trends going forward, some observers expect growth in overseas business to support a trend toward improvement in the performance of Japanese companies centered on export-oriented companies. In light of employment instability, income decreases, and other concerns regarding the future, however, it appears that additional time will be required to muster a recovery in personal consumption. Accordingly, it is thought that harsh economic conditions will continue.

Amid this kind of management environment, the Onward Group, in its domestic businesses, plans to take measures to improve its profitability and profit while also making necessary investments regarding businesses with new growth potential.

Specifically, regarding ONWARD KASHIYAMA, plans call for focusing primarily on major core brands and striving to thoroughly strengthen those brands based on consideration of the consumer perspective with respect to strong merchandising capabilities, solid marketing capabilities, and more attractive store environments, thereby increasing the level of brand value. In new business development, plans call for "value creation" measures across all brands through such initiatives as those to leverage the Group's technological power and marketing power to impress consumers and provide high-value-added merchandise in a captivating manner. In addition, plans for "collaboration" with department stores call for fusing the respective fields of strength of ONWARD KASHIYAMA and such stores to begin launching advanced new brands, and the debut of these new brands began in spring 2010.

In addition, as an expansion strategy designed to make full use of the Onward Group's comprehensive range of capabilities, the Group plans to move ahead with steps to establish a full-scale presence in the rapidly expanding Internet market as well as in urban fashion shopping centers that are expanding their youth-centered clientele.

Regarding overseas business, the Onward Group intends to get its growth in the Europe region on track based on the structural reforms implemented through the fiscal year under review and on the continued execution of far-sighted investments. Specifically, for the JOSEPH Group, merchandise measures undertaken by a new creative team and the benefits of renovating the flagship street-level store are smoothly expanding sales, and plans call for promoting additional growth strategies going forward that will enable the realization of improved profitability. The Group's strengthened efforts regarding the JIL SANDER Group and the GIBO' CO. Group are leading to initiatives that are strengthening and increasing the efficiency of manufacturing systems, and this is expected to facilitate the promotion of new global strategies. In the Asia region, where considerable market expansion is projected, the Group is advancing with a growth strategy that calls for focusing on the same consumer market segments as in Japan and implementing organization strengthening measures to expand the scope of business operations.

As a result of the implementation of these policies, the Onward Group has prepared plans for the fiscal year ending February 28, 2011, calling for a 0.5% increase in net sales, to ¥250.0 billion; a 50.6% rise in operating income, to ¥6.6 billion; and a 60.0% surge in net income, 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 they should emerge. Please note that forward-looking statements contained in this section are based on the Group's judgments as of May 29, 2009.

(1) Risks Associated with Changes in Consumer Needs

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

(2) Risks Associated with Weather Conditions and Natural Disasters

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

(3) Quality Risk

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

(4) Risks Associated with Business Partners

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

(5) Risks Associated with Intellectual Property

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

(6) Legal Risks

The Group conducts its business activities will full regard for laws and regulations, including those related to antimonopoly policies, the treatment of subcontractors, and labeling as well as laws concerning the natural environment and recycling. The Onward Group Compliance Committee takes a central role in providing information related to the importance of compliance with laws and regulations as well as internal control procedures with the aim of ensuring proper compliance management. However, despite the establishment of these compliance systems, issues may arise as a result of 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 impact on the Group's performance.

(7) Risks Associated with Information

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

(8) Risks Associated with Overseas Business Operations

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

(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 impact on the Group's performance.

Consolidated Balance Sheets

ONWARD HOLDINGS Co., Ltd. and Subsidiaries
February 28, 2009 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 2. (21))
ASSETS	2009	**2010**	**2010**
Current assets:			
Cash and time deposits (Notes 2. (18) and 8. (1))	¥ 23,415	**¥ 34,330**	**$ 383,876**
Accounts and notes receivable	26,421	**25,731**	**287,722**
Inventories (Note 2. (4))	33,758	**30,894**	**345,455**
Deferred tax assets (Note 10)	3,914	**4,239**	**47,400**
Other current assets	11,600	**6,348**	**70,983**
Less: Allowance for bad debt	(162)	**(862)**	**(9,639)**
Total current assets	98,946	**100,680**	**1,125,797**
Property, plant and equipment (Note 5):			
Buildings and structures	76,818	**78,589**	**878,777**
Other depreciable property	25,221	**26,340**	**294,532**
Less: Accumulated depreciation	(64,906)	**(68,519)**	**(766,175)**
	37,133	**36,410**	**407,134**
Land (Note 11)	53,042	**53,332**	**596,355**
Total property, plant and equipment	90,175	**89,742**	**1,003,489**
Intangible assets, net:			
Goodwill	47,475	**47,418**	**530,225**
Other	2,899	**3,393**	**37,940**
Total intangible assets, net	50,374	**50,811**	**568,165**
Investments and other assets:			
Investments in securities (Note 3)	33,825	**31,194**	**348,809**
Long-term loans receivable	4,507	**4,969**	**55,563**
Long-term prepaid expenses	1,271	**881**	**9,851**
Deferred tax assets (Note 10)	5,749	**5,530**	**61,836**
Other investments	14,159	**12,002**	**134,205**
Less: Allowance for bad debt	(2,723)	**(3,240)**	**(36,229)**
Total investments and other assets	56,788	**51,336**	**574,035**
Total assets	¥296,283	**¥292,569**	**$3,271,486**

LIABILITIES AND NET ASSETS	Millions of yen 2009	2010	Thousands of U.S. dollars (Note 2. (21)) 2010
Current liabilities:			
Accounts and notes payable	¥ 39,621	**¥ 35,961**	**$ 402,113**
Short-term loans (Note 13)	28,252	**31,881**	**356,491**
Current portion of long-term loans (Note 13)	3,395	**3,817**	**42,682**
Accrued income taxes	2,262	**4,086**	**45,689**
Accrued bonuses to employees	2,187	**1,569**	**17,545**
Allowance for sales returns	638	**545**	**6,094**
Provision for point program	—	**126**	**1,409**
Other current liabilities	16,014	**12,944**	**144,739**
Total current liabilities	92,369	**90,929**	**1,016,762**
Long-term liabilities:			
Bonds (Note 13)	—	**518**	**5,792**
Long-term loans (Note 13)	26,746	**24,054**	**268,970**
Accrued retirement benefits (Note 7)	2,933	**3,273**	**36,598**
Accrued retirement benefits for directors and statutory auditors	56	**123**	**1,376**
Deferred tax liabilities—revaluation of land (Notes 10 and 11)	5,949	**5,949**	**66,521**
Other	9,812	**9,559**	**106,888**
Total long-term liabilities	45,496	**43,476**	**486,145**
Total liabilities	137,865	**134,405**	**1,502,907**
Commitments and contingent liabilities (Note 12)			
Net assets:			
Shareholders' equity:			
Common stock:			
Authorized—400,000,000 shares			
Issued—172,921,669 shares at February 28, 2009 and 2010, respectively	30,080	**30,080**	**336,353**
Capital surplus	50,043	**50,043**	**559,577**
Retained earnings (Note 14)	121,412	**118,817**	**1,328,603**
Less: Treasury stock, at cost, 16,267,855 shares and 16,260,739 shares at February 28, 2009 and 2010, respectively	(23,512)	**(23,490)**	**(262,663)**
Total shareholders' equity	178,023	**175,450**	**1,961,870**
Valuation and translation adjustments:			
Net unrealized losses on available-for-sale securities (Note 3)	(6,930)	**(5,560)**	**(62,172)**
Deferred losses on hedging instruments	(75)	**(42)**	**(470)**
Net revaluation loss of land (Note 11)	(11,075)	**(10,993)**	**(122,923)**
Foreign currency translation adjustment	(3,077)	**(2,355)**	**(26,333)**
Total valuation and translation adjustments	(21,157)	**(18,950)**	**(211,898)**
Stock acquisition rights	294	**413**	**4,618**
Minority interests in consolidated subsidiaries	1,258	**1,251**	**13,989**
Total net assets	158,418	**158,164**	**1,768,579**
Total liabilities and net assets	¥296,283	**¥292,569**	**$3,271,486**

	Yen		U.S. dollars (Note 2. (21))
Per share:			
Net assets per share	¥1,001.36	**¥998.98**	**$11.17**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

ONWARD HOLDINGS Co., Ltd. and Subsidiaries
For the years ended February 28, 2009 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 2. (21))
	2009	2010	2010
Net sales	¥261,006	**¥248,635**	**$2,780,219**
Cost of sales	142,676	**134,459**	**1,503,511**
Gross profit	118,330	**114,176**	**1,276,708**
Selling, general and administrative expenses (Note 17)	109,246	**109,792**	**1,227,686**
Operating income	9,084	**4,384**	**49,022**
Other income (expenses):			
Interest income	385	**110**	**1,230**
Dividend income	502	**489**	**5,468**
Interest expenses	(535)	**(1,137)**	**(12,714)**
Royalty income	771	**909**	**10,164**
Equity in earnings (losses) of investees	(256)	**117**	**1,308**
Foreign currency exchange loss	(5,313)	**(643)**	**(7,190)**
Loss on derivatives	—	**(398)**	**(4,450)**
Gain on sale of investments in securities, net (Note 3)	857	**2,326**	**26,009**
Loss on write-down of investments in securities (Note 3)	(22,646)	**(146)**	**(1,633)**
Provision for allowance for bad debt	(1,338)	**(512)**	**(5,725)**
Loss on disposal of property, net	(190)	**(101)**	**(1,129)**
Impairment losses on fixed assets (Note 6)	(12,998)	**(294)**	**(3,287)**
Other, net	1,081	**1,286**	**14,380**
Income (loss) before income taxes and minority interests	(30,596)	**6,390**	**71,453**
Income taxes:			
Current (Note 2. (10))	4,639	**4,016**	**44,907**
Deferred (Note 10)	(4,603)	**158**	**1,767**
Income (loss) before minority interests	(30,632)	**2,216**	**24,779**
Minority interests in subsidiaries	(263)	**(28)**	**(313)**
Net income (loss)	¥ (30,895)	**¥ 2,188**	**$ 24,466**

	Yen		U.S. dollars (Note 2. (21))
Per share (Notes 14 ,15 and 17):			
Net income (loss)—basic	¥(197.21)	**¥13.97**	**$0.16**
Diluted net income per share	—	**13.91**	**0.16**
Cash dividends	30.00	**24.00**	**0.27**

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, 2009 and 2010

		Millions of yen				
		Shareholders' equity				
	Number of shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings (Note 14)	Treasury stock	Total
Balance as at February 29, 2008:	172,922	¥30,080	¥50,044	¥157,016	¥(23,515)	¥213,625
Cash dividends	—	—	—	(4,700)	—	(4,700)
Net loss	—	—	—	(30,895)	—	(30,895)
Purchase of treasury stock	—	—	—	—	(29)	(29)
Reissuance of treasury stock	—	—	(1)	(9)	32	22
Net changes other than shareholders' equity	—	—	—	—	—	—
Total changes during the year	—	—	(1)	(35,604)	3	(35,602)
Balance as at February 28, 2009	172,922	30,080	50,043	121,412	(23,512)	178,023
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**

	Thousands of U.S. dollars (Note 2. (21))				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings (Note 14)	Treasury stock	Total
Balance as at February 28, 2009:	$336,353	$559,577	$1,357,620	$(262,909)	$1,990,641
Cash dividends	**—**	**—**	**(52,555)**	**—**	**(52,555)**
Net income	**—**	**—**	**24,466**	**—**	**24,466**
Purchase of treasury stock	**—**	**—**	**—**	**(78)**	**(78)**
Reissuance of treasury stock	**—**	**—**	**(11)**	**324**	**313**
Reversal of net revaluation loss of land	**—**	**—**	**(917)**	**—**	**(917)**
Net changes other than shareholders' equity	**—**	**—**	**—**	**—**	**—**
Total changes during the year	**—**	**—**	**(29,017)**	**246**	**(28,771)**
Balance as at February 28, 2010	**$336,353**	**$559,577**	**$1,328,603**	**$(262,663)**	**$1,961,870**

See accompanying notes to consolidated financial statements.

(Continued)

	Millions of yen							
	Valuation and translation adjustments							
	Net unrealized losses on available-for-sale securities (Note 3)	Deferred losses on hedging instruments	Net revaluation loss of land (Note 11)	Foreign currency translation adjustment	Total	Stock acquisition rights	Minority interests in consolidated subsidiaries	Total net assets
Balance as at February 29, 2008:	¥(5,887)	¥(17)	¥(11,075)	¥(1,789)	¥(18,768)	¥135	¥2,647	¥197,639
Cash dividends	—	—	—	—	—	—	—	(4,700)
Net loss	—	—	—	—	—	—	—	(30,895)
Purchase of treasury stock	—	—	—	—	—	—	—	(29)
Reissuance of treasury stock	—	—	—	—	—	—	—	22
Net changes other than shareholders' equity	(1,043)	(58)	—	(1,288)	(2,389)	159	(1,389)	(3,619)
Total changes during the year	(1,043)	(58)	—	(1,288)	(2,389)	159	(1,389)	(39,221)
Balance as at February 28, 2009	(6,930)	(75)	(11,075)	(3,077)	(21,157)	294	1,258	158,418
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**

	Thousands of U.S. dollars (Note 2. (21))							
	Valuation and translation adjustments							
	Net unrealized losses on available-for-sale securities (Note 3)	Deferred losses on hedging instruments	Net revaluation loss of land (Note 11)	Foreign currency translation adjustment	Total	Stock acquisition rights	Minority interests in consolidated subsidiaries	Total net assets
Balance as at February 28, 2009:	$(77,491)	$(839)	$(123,840)	$(34,406)	$(236,576)	$3,287	$14,067	$1,771,419
Cash dividends	—	—	—	—	—	—	—	**(52,555)**
Net income	—	—	—	—	—	—	—	**24,466**
Purchase of treasury stock	—	—	—	—	—	—	—	**(78)**
Reissuance of treasury stock	—	—	—	—	—	—	—	**313**
Reversal of net revaluation loss of land	—	—	—	—	—	—	—	**(917)**
Net changes other than shareholders' equity	**15,319**	**369**	**917**	**8,073**	**24,678**	**1,331**	**(78)**	**25,931**
Total changes during the year	**15,319**	**369**	**917**	**8,073**	**24,678**	**1,331**	**(78)**	**(2,840)**
Balance as at February 28, 2010	**$(62,172)**	**$(470)**	**$(122,923)**	**$(26,333)**	**$(211,898)**	**$4,618**	**$13,989**	**$1,768,579**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

ONWARD HOLDINGS Co., Ltd. and Subsidiaries
For the years ended February 28, 2009 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 2. (21))
	2009	**2010**	**2010**
Cash flows from operating activities:			
Income (loss) before income taxes and minority interests	¥(30,596)	**¥ 6,390**	**$ 71,453**
Adjustments to reconcile income (loss) before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	5,986	**5,747**	**64,263**
Impairment loss on fixed assets	12,998	**294**	**3,287**
Net amortization of goodwill on consolidation	2,400	**3,403**	**38,052**
Increase in provision for allowance for bad debt	1,690	**929**	**10,388**
Decrease (Increase) in provision for accrued retirement benefits	(590)	**781**	**8,733**
Interest and dividend income	(887)	**(599)**	**(6,698)**
Interest expense	535	**1,137**	**12,714**
Equity in (earnings) losses of investees	256	**(117)**	**(1,308)**
Loss on disposal of property, net	190	**101**	**1,129**
Gain on sale of investments in securities, net	(857)	**(2,326)**	**(26,009)**
Loss on write-down of investments in securities	22,645	**146**	**1,633**
Valuation losses on investments in unconsolidated subsidiaries and affiliates	260	**126**	**1,409**
Decrease in trade receivables	3,602	**2,015**	**22,532**
Decrease in inventories	776	**3,711**	**41,496**
Decrease in trade payables	(4,844)	**(4,499)**	**(50,308)**
Other, net	3,411	**(2,575)**	**(28,794)**
Subtotal	16,975	**14,664**	**163,972**
Interest and dividends received	1,375	**624**	**6,978**
Interest paid	(439)	**(1,241)**	**(13,877)**
Income taxes paid	(9,987)	**(2,294)**	**(25,651)**
Refunded income taxes	2,915	**2,305**	**25,774**
Net cash provided by operating activities	10,839	**14,058**	**157,196**
Cash flows from investing activities:			
Increase in time deposits	(164)	**(443)**	**(4,954)**
Decrease in time deposits	2,164	**891**	**9,963**
Acquisition of property, plant and equipment	(2,848)	**(2,976)**	**(33,277)**
Proceeds from sale of property, plant and equipment	55	**8**	**90**
Acquisition of investments in securities	(3,399)	**(7,128)**	**(79,705)**
Proceeds from sale of investments in securities	974	**12,858**	**143,777**
Payments for long-term prepaid expenses	(875)	**(553)**	**(6,184)**
Payments for security deposits	(536)	**(421)**	**(4,708)**
Proceeds from security deposits	584	**835**	**9,337**
Payment for acquisition of consolidated subsidiaries resulting in a change in the scope of consolidation (Note 8. (2))	(33,335)	**(2,336)**	**(26,121)**
Acquisition of minority interests in consolidated subsidiaries	(3,105)	**—**	**—**
Other, net	(465)	**(761)**	**(8,509)**
Net cash used in investing activities	(40,950)	**(26)**	**(291)**

(Continued)

	Millions of yen		Thousands of U.S. dollars (Note 2. (21))
	2009	**2010**	**2010**
Cash flows from financing activities:			
Increase (decrease) short-term loans	(7,139)	**3,703**	**41,406**
Proceeds from long-term debt	30,000	**334**	**3,735**
Repayments of long-term debt	—	**(3,816)**	**(42,670)**
Acquisition of treasury stock	(29)	**(7)**	**(78)**
Dividends paid by the parent company	(4,700)	**(4,700)**	**(52,555)**
Dividends paid to minority stockholders	(177)	**(94)**	**(1,051)**
Other, net	17	**(310)**	**(3,467)**
Net cash (used in) provided by financing activities	17,972	**(4,890)**	**(54,680)**
Effect of exchange rate changes on cash and cash equivalents	(1,310)	**211**	**2,359**
Net increase (decrease) in cash and cash equivalents	(13,449)	**9,353**	**104,584**
Cash and cash equivalents at beginning of year	36,775	**23,326**	**260,830**
Cash and cash equivalents at end of year (Note 8. (1))	¥ 23,326	**¥32,679**	**$365,414**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

ONWARD HOLDINGS Co., Ltd. and Subsidiaries
For the years ended February 28, 2009 and 2010

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 80 subsidiaries as at February 28, 2010 (82 as at February 28, 2009). The accompanying consolidated financial statements include the accounts of the Company and 68 of its subsidiaries (70 for 2009). 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

The shares of Island Co., Ltd. were acquired during the year ended February 28, 2010; therefore, Island Co., Ltd. became a consolidated subsidiary of the Company.

In the Jil Sander AG Group, Jil Sander Austria GMBH was established and Jil Sander Taiwan was liquidated. In the Joseph Group, Joseph Tricot SARL merged with Joseph London EURL. Creative Yoko Co., Ltd. merged with CREATIVE YOKO Co., Ltd. and Mrs. YOKO's Garden.

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

The remaining 12 subsidiaries (12 for 2009) 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 (19 companies for 2009) are accounted for by the equity method for the year ended February 28, 2010.

The Company did not apply the equity method to 11 unconsolidated subsidiaries (12 in 2009) and 1 affiliate (4 in 2009) as at February 28, 2010, 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 average method. For the year ended February 28, 2010, the recorded write-downs were ¥11,593 million ($129,632 thousand).

Inventories were previously stated at cost, cost being determined generally by the last purchase invoice price method. Merchandise and finished goods held at retail stores are measured using the retail cost method. Up to February 28, 2009, when the net realizable value of certain classes of inventories (consisting primarily of seasonal merchandise which remains unsold after the end of such seasons) is substantially less than the carrying value (cost), and the decline in value is not expected to be recovered in the near future, appropriate write-downs are recorded on such inventory items. The amount of write-down is determined based on the experience of sales of merchandise similar to those unsold items during the last three years. For the year ended February 28, 2009, the recorded write-downs were ¥8,662 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.

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

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

(9) Amortization

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

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

(10) Income Taxes

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

(11) Allowances for Bad Debt

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

(12) Allowances for Sales Returns

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

(13) Retirement Benefits

Accrued retirement benefits are provided for at the present value of the projected benefit obligation less the estimated fair value of plan assets and deferred gains or losses at the balance sheet date. Unrecognized prior service costs are amortized and charged or credited to income on a straight-line basis over 5 to 10 years, which is within the related employees' average remaining service years. Unrecognized actuarial differences are amortized on a straight-line basis over 5 to 10 years, which is within the related employees' average remaining service years, from the year following the one in which they arise.

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

(14) Provision for Loss on Guarantee Obligations

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

(15) 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 point during and after the next fiscal year.

(16) 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.

(17) 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.

(18) 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.

(19) 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.

(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 ¥89.43=US$1, the rate of exchange as of February 28, 2010, 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, 2010.

3. Investments in Securities

(1) 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			Thousands of U.S. dollars		
	Acquisition cost	Fair value (carrying value)	Unrealized gain (loss)	Acquisition cost	Fair value (carrying value)	Unrealized gain (loss)
Securities with unrealized gains:						
Equity securities	¥ 8,173	¥ 9,309	¥ 1,136	$ 91,390	$ 104,093	$ 12,703
Other	55	63	8	615	704	89
Total	8,228	9,372	1,144	92,005	104,797	12,792
Securities with unrealized losses:						
Equity securities	18,740	13,887	(4,853)	209,549	155,283	(54,266)
Other	271	224	(47)	3,030	2,505	(525)
Total	19,011	14,111	(4,900)	212,579	157,788	(54,791)
Total	¥27,239	¥23,483	¥ (3,756)	$304,584	$ 262,585	$(41,999)

Losses on impairment of available-for-sale securities recognized to reflect declines in market value considered to be other than temporary were ¥146 million ($1,633 thousand) for the year ended February 28, 2010.

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

	Millions of yen	Thousands of U.S. dollars
Proceeds from sale of securities	¥12,858	$143,777
Gross realized gain on sale of securities	2,361	26,401
Gross realized loss on sale of securities	34	380

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

	Millions of yen	Thousands of U.S. dollars
Available-for-sale securities:		
Non-marketable equity securities	¥338	$3,779

(d) The aggregate carrying amount of investments in unconsolidated subsidiaries and affiliates as of February 28, 2010 was ¥7,372 million ($82,433 thousand).

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

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

Investments in securities whose fair values were readily determinable at February 28, 2009 are summarized as follows:

	Millions of yen		
	Acquisition cost	Fair value (carrying value)	Unrealized gain (loss)
Securities with unrealized gains:			
Equity securities	¥ 936	¥ 1,230	¥ 294
Other	8	10	2
Total	944	1,240	296
Securities with unrealized losses:			
Equity securities	29,694	24,535	(5,159)
Other	282	209	(73)
Total	29,976	24,744	(5,232)
Total	¥30,920	¥25,984	¥(4,936)

Losses on impairment of available-for-sale securities recognized to reflect declines in market value considered to be other than temporary were ¥22,646 million for the year ended February 28, 2009.

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

	Millions of yen
Proceeds from sale of securities	¥ 8
Gross realized gain on sale of securities	—
Gross realized loss on sale of securities	5

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

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

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

4. Derivative Transactions

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

The 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:			
U.S. dollar	**¥ 2,744**	**¥ 2,452**	**¥ (292)**
To sell foreign currency:			
U.S. dollar	**446**	**441**	**5**
Yen	**223**	**223**	**(0)**
Currency swap agreement:			
U.S. dollar 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 agreement:			
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)**

	Thousands of U.S. dollars		
	Contract or notional amounts	Fair value	Valuation gain (loss)
Forward exchange contracts:			
To buy foreign currency:			
U.S. dollar	**$ 30,683**	**$ 27,418**	**$ (3,265)**
To sell foreign currency:			
U.S. dollar	**4,987**	**4,931**	**56**
Yen	**2,494**	**2,494**	**(0)**
Currency swap agreement:			
U.S. dollar received for Japanese yen	**38,052**	**(2,393)**	**(2,393)**
Currency option contracts:			
Buy: U.S. dollar call	**33,725**	**1,990**	**1,990**
Sell: U.S. dollar put	**43,341**	**(7,839)**	**(7,839)**
Buy: Euro dollar call	**9,135**	**157**	**157**
Sell: Euro dollar put	**6,374**	**(749)**	**(749)**
	$168,791	**$ 26,009**	**$(12,043)**
Interest rate swap agreement:			
Variable rate received for fixed rate	**$ 3,354**	**$ 45**	**$ 45**
Variable rate received for variable rate	**10,120**	**(224)**	**(224)**
Fixed rate received for variable rate	**1,118**	**(45)**	**(45)**
	$ 14,592	**$ (224)**	**$ (224)**

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

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

5. Property, Plant and Equipment

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

Property, plant and equipment at February 28, 2009 and 2010 were reduced by ¥8,290 million and ¥8,232 million ($92,050 thousand), respectively, representing accumulated deferred gains from eligible sales.

6. Impairment Losses on Fixed Assets

For the years ended February 28, 2009 and 2010, the Company reviewed its long-lived assets for impairment and, as a result, recognized an impairment loss as follows:

February 28, 2010

Location	Usage	Description	Millions of yen	Thousands of U.S. dollars
Tokyo metropolitan area and other	Business assets	Buildings and structures	**¥ 50**	**$ 559**
		Other	**200**	**2,236**
Kanagawa Prefecture	Idle assets	Buildings and structures	**15**	**168**
		Land	**17**	**190**
		Other	**12**	**134**
United States	Business assets	Buildings and structures	**—**	**—**
		Other	**1**	**11**

February 28, 2009

Location	Usage	Description	Millions of yen
U.K.	Goodwill	Goodwill	¥11,592
Tokyo metropolitan area and other	Business assets	Buildings and structures	492
		Other	626
Kanagawa Prefecture	Idle assets	Buildings and structures	72
		Other	111
United States	Business assets	Buildings and structures	64
		Other	41

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

Impairment loss on long-lived assets for the years ended February 28, 2009 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	February 28, 2009	**February 28, 2010**	**February 28, 2010**
Buildings and structures	¥ 628	**¥ 64**	**$ 715**
Land	—	**17**	**190**
Goodwill	11,592	**—**	**—**
Other	778	**213**	**2,382**
Total	¥12,998	**¥294**	**$3,287**

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 appraisal value or reasonable estimated price based on actual transactions. The value in use is calculated by discounting the future cash flow with 5.0% discount rates for both the years ended February 28, 2009 and 2010.

7. Retirement Plan and Retirement Benefits

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

The reserve for retirement benefits as of February 28, 2009 and 2010 is analyzed as follows:

	Millions of yen		Thousands of U.S. dollars
	February 28, 2009	**February 28, 2010**	**February 28, 2010**
Projected benefit obligations	¥(35,820)	**¥(37,507)**	**$(419,401)**
Plan assets (including employee retirement benefit fund)	22,843	**25,463**	**284,726**
Funded status	(12,977)	**(12,044)**	**(134,675)**
Unrecognized prior service costs	(107)	**(72)**	**(805)**
Unrecognized actuarial differences	10,748	**9,014**	**100,794**
Subtotal	(2,336)	**(3,102)**	**(34,686)**
Prepaid pension cost	597	**171**	**1,912**
Accrued retirement benefits	¥ (2,933)	**¥ (3,273)**	**$ (36,598)**

The net periodic pension expenses for the years ended February 28, 2009 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	**2010**	**2010**
Service cost	¥1,445	**¥1,593**	**$17,813**
Interest cost	646	**644**	**7,201**
Expected return on plan assets	(450)	**(144)**	**(1,610)**
Amortization of unrecognized prior service costs	(41)	**(35)**	**(392)**
Amortization of unrecognized actuarial differences	455	**1,318**	**14,738**
Net periodic pension expenses	¥2,055	**¥3,376**	**$37,750**

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

	As of February 28, 2009	**As of February 28, 2010**
Method of attributing the projected benefits to periods of service	Straight-line basis	**Straight-line basis**
Discount rate	1.5~2.0%	**1.5%**
Expected rate of return on plan assets	0.3~2.4%	**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**

8. Notes to Consolidated Statements of Cash Flows

(1) Cash and cash equivalents at February 28, 2009 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	February 28, 2009	**February 28, 2010**	**February 28, 2010**
Cash and time deposits	¥23,415	**¥34,330**	**$383,876**
Time deposits with maturities of more than three months	(89)	**(1,651)**	**(18,462)**
Cash and cash equivalents	¥23,326	**¥32,679**	**$365,414**

(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 was as follows:

(Island Co., Ltd.)

	Millions of yen	Thousands of U.S. dollars
Current assets	**¥2,745**	**$30,694**
Fixed assets	**801**	**8,957**
Goodwill on consolidation	**3,389**	**37,896**
Current liabilities	**(1,974)**	**(22,073)**
Long-term liabilities	**(1,801)**	**(20,139)**
Cash paid for acquisition of the subsidiary	**3,160**	**35,335**
Cash and cash equivalents held by the subsidiary	**(824)**	**(9,214)**
Payment for acquisition of the subsidiary	**¥2,336**	**$26,121**

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

(Creative Yoko Co., Ltd.)

	Millions of yen
Current assets	¥3,048
Fixed assets	3,588
Goodwill on consolidation	4,210
Current liabilities	(2,819)
Long-term liabilities	(345)
Minority interests in the subsidiary	5
Revaluation gain of land	(83)
Cash paid for acquisition of the subsidiary	7,604
Cash and cash equivalents held by the subsidiary	(933)
Payment for acquisition of the subsidiary	¥6,671

(Violine S.à r.l.)

	Millions of yen
Current assets	¥ 8,210
Fixed assets	19,814
Goodwill on consolidation	17,146
Current liabilities	(7,684)
Long-term liabilities	(10,178)
Cash paid for acquisition of the subsidiary	27,308
Cash and cash equivalents held by the subsidiary	(699)
Payment for acquisition of the subsidiary	¥26,609

(Corporate S.r.l.)

	Millions of yen
Current assets	¥224
Fixed assets	113
Goodwill on consolidation	49
Current liabilities	(282)
Long-term liabilities	(49)
Cash paid for acquisition of the subsidiary	55
Cash and cash equivalents held by the subsidiary	(0)
Payment for acquisition of the subsidiary	¥ 55

9. 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, 2009 and 2010 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, 2009 and 2010 are summarized as follows:

	Millions of yen						Thousands of U.S. dollars		
	February 28, 2009			**February 28, 2010**			**February 28, 2010**		
	Tools, furniture, and fixtures	Other	Total	Tools, furniture, and fixtures	Other	Total	Tools, furniture, and fixtures	Other	Total
Acquisition cost	¥2,375	¥880	¥3,255	**¥1,727**	**¥681**	**¥2,408**	**$19,311**	**$7,615**	**$26,926**
Accumulated depreciation	(1,386)	(445)	(1,831)	**(1,184)**	**(417)**	**(1,601)**	**(13,239)**	**(4,663)**	**(17,902)**
Accumulated impairment loss	(145)	—	(145)	**(145)**	**—**	**(145)**	**(1,622)**	**—**	**(1,622)**
Net book value	¥ 844	¥435	¥1,279	**¥ 398**	**¥264**	**¥ 662**	**$ 4,450**	**$2,952**	**$ 7,402**

The scheduled maturities of future lease payments on such lease contracts as of February 28, 2009 and 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars
	February 28, 2009	**February 28, 2010**	**February 28, 2010**
Scheduled maturities of future leases:			
Due within one year	¥ 659	**¥389**	**$4,350**
Due over one year	765	**418**	**4,674**
	¥1,424	**¥807**	**$9,024**

The balance of accumulated impairment losses of leased assets as of February 28, 2009 is as follows:

	Millions of yen
Impairment losses of leased assets	¥17

Lease expenses, reversal of impairment loss of leased assets, depreciation and impairment loss for the years ended February 28, 2009 and 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars
	February 28, 2009	**February 28, 2010**	**February 28, 2010**
Lease expenses for the year	¥738	**¥637**	**$7,123**
Reversal of impairment loss of leased assets	14	**17**	**190**
Depreciation	738	**637**	**7,123**

The Companies' operating lease contracts:

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

	Millions of yen	Thousands of U.S. dollars
Scheduled maturities of future leases:		
Due within one year	**¥ 94**	**$1,051**
Due over one year	**243**	**2,717**
	¥337	**$3,768**

(Lessor)

The scheduled maturities of future lease income on such lease contracts as of February 28, 2009 and 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars
	February 28, 2009	**February 28, 2010**	**February 28, 2010**
Due within one year	¥ 81	**¥ 63**	**$ 705**
Due over one year	112	**56**	**626**
	¥193	**¥119**	**$1,331**

10. Income Taxes

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as at February 28, 2009 and 2010 consisted of the following elements:

	Millions of yen		Thousands of U.S. dollars
	February 28, 2009	**February 28, 2010**	**February 28, 2010**
Deferred tax assets:			
Valuation loss on inventories	¥ 2,262	**¥ 2,648**	**$ 29,610**
Evaluation loss on investments in unconsolidated subsidiaries	192	**177**	**1,979**
Accrued bonuses to employees	891	**645**	**7,212**
Accrued retirement benefits	3,129	**3,489**	**39,014**
Accrued retirement benefits for directors and auditors	56	**64**	**716**
Allowance for bad debt	690	**1,310**	**14,648**
Tax loss carryforwards	18,266	**11,872**	**132,752**
Impairment loss	6,635	**5,993**	**67,013**
Investments in securities	1,535	**747**	**8,353**
Net unrealized gains on available-for-sale securities	16	**4**	**45**
Other	2,917	**4,097**	**45,812**
Subtotal	36,589	**31,046**	**347,154**
Less: Valuation allowance	(25,195)	**(19,325)**	**(216,091)**
Total deferred tax assets	11,394	**11,721**	**131,063**
Deferred tax liabilities:			
Gain on securities contributed to an employee retirement benefit trust	(699)	**(699)**	**(7,816)**
Provision for deferred capital gains on real property for tax purposes	(21)	**(21)**	**(235)**
Business tax refundable	(17)	**—**	**—**
Other	(999)	**(1,590)**	**(17,779)**
Total deferred tax liabilities	(1,736)	**(2,310)**	**(25,830)**
Net deferred tax assets	¥ 9,658	**¥ 9,411**	**$105,233**

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

	%
Statutory tax rate	40.7
Reconciliation:	
Non-deductible items (entertainment expenses, etc.)	4.3
Income not credited for tax purposes (dividends received, etc.)	(1.5)
Goodwill amortization	14.1
Other	7.7
Effective tax rate	65.3

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

11. Revaluation of Land

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

As of February 28, 2010, the net accumulated revaluation loss amounted to ¥10,993 million ($122,923 thousand), which is presented as a separate component of net assets as “Net revaluation loss of land.” Related deferred tax liabilities of ¥5,949 million ($66,521 thousand) is recognized.

As of February 28, 2009, the net accumulated revaluation loss amounted to ¥11,075 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.

12. Commitments and Contingent Liabilities

The Company was contingently liable as a guarantor for certain affiliates’ bank loans. The outstanding balance of such bank loans guaranteed as at February 28, 2009 and 2010 aggregated to ¥89 million and ¥48 million ($537 thousand), respectively.

13. Short-Term Loans and Long-Term Debt

Short-term loans at February 28, 2009 and 2010 represented loans, principally from banks. The weighted-average interest rate on these loans was 1.2% in 2009 and 1.5% in 2010.

Long-term loans at February 28, 2009 and 2010 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	February 28, 2009	**February 28, 2010**	**February 28, 2010**
Unsecured loans, principally from banks, maturing in installments through 2014 with weighted average interest of 1.2% at February 28, 2010	¥ —	**¥27,871**	**$311,652**
Loans, principally from banks, maturing in installments through 2013 with weighted average interest of 1.4% at February 28, 2009, partially secured by mortgage of time deposits, lease deposits, buildings and land	30,141	**—**	**—**
Less current portion	3,395	**3,817**	**42,682**
	¥26,746	**¥24,054**	**$268,970**

Lease obligations at February 28, 2010 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Lease obligations	**¥585**	**$6,541**
Less current portion of lease obligations	**161**	**1,800**
	¥424	**$4,741**

The aggregate annual maturities of long-term loans after February 28, 2011 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending February 28 or 29:		
2012	**¥ 3,641**	**$ 40,713**
2013	**3,534**	**39,517**
2014	**16,869**	**188,628**
2015	**10**	**112**

The aggregate annual maturities of lease obligations after February 28, 2011 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending February 28 or 29:		
2012	**¥ 155**	**$ 1,733**
2013	**193**	**2,158**
2014	**62**	**693**
2015	**14**	**157**

Bonds at February 28, 2009 and 2010 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	February 28, 2009	**February 28, 2010**	**February 28, 2010**
0.80% unsecured yen bonds issued by a subsidiary, due 2010	¥ —	**¥ 20**	**$ 224**
1.73% unsecured yen bonds issued by a subsidiary, due 2012	—	**150**	**1,677**
1.08% unsecured yen bonds issued by a subsidiary, due 2011	—	**75**	**839**
0.56% unsecured yen bonds issued by a subsidiary, due 2013	—	**70**	**783**
0.82% unsecured yen bonds issued by a subsidiary, due 2012	—	**100**	**1,118**
0.72% unsecured yen bonds issued by a subsidiary, due 2012	—	**100**	**1,118**
0.90% unsecured yen bonds issued by a subsidiary, due 2014	—	**200**	**2,236**
0.79% unsecured yen bonds issued by a subsidiary, due 2010	24	**8**	**89**
1.23% unsecured yen bonds issued by a subsidiary, due 2009	150	**—**	**—**
	174	**723**	**8,084**
Less current portion	166	**205**	**2,292**
	¥ 8	**¥518**	**$5,792**

The aggregate annual maturities of bonds after February 28, 2011 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending February 28 or 29:		
2012	**¥ 205**	**$ 2,292**
2013	**151**	**1,688**
2014	**277**	**3,097**
2015	**50**	**559**
2016	**40**	**447**

14. Shareholders' Equity

Under the Corporation Law, the entire amount of the issue price of shares is required to be designated as a stated common stock account, although a company in Japan may, by resolution of its Board of Directors, account for an amount not exceeding 50% of the issue price of new shares as additional paid-in capital.

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

Cash dividends charged to retained earnings for the years ended February 28, 2010 and 2009 represent dividends paid out during those years. The amount available for dividends is based on the amount recorded in the Company's non-consolidated books of account in accordance with the Corporation Law.

Dividends to be paid after the balance sheet date, which were approved by the general meeting of shareholders held on May 27, 2010, are as follows:

(a) Total dividends	¥3,760 million ($42,044 thousand)
(b) Source of dividends	Retained earnings
(c) Cash dividends per common share	¥24 ($0.27)
(d) Date to determine which shareholders receive the dividends	February 28, 2010
(e) Effective date	May 28, 2010

15. Per Share Information

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

The basis for the calculation of basic and diluted net income (loss) per share for the years ended February 28, 2009 and 2010 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	**2010**	**2010**
Net income (loss)	¥(30,895)	**¥ 2,188**	**$ 24,466**
Less: Components not pertaining to common shareholders	—	—	—
Net income (loss) pertaining to common stock	¥(30,895)	**¥ 2,188**	**$ 24,466**
Average outstanding shares of common stock (thousand shares)	156,659	**156,655**	**156,655**
Effect of dilutive stock options (thousand shares)	—	**628**	**628**

16. Related-Party Transactions

Year Ended February 28, 2010

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 ($78 thousand). Also, Mr. Hirouchi paid a rental fee of ¥16 million ($179 thousand) to the Company for a house. The rental fees were determined by the average market prices.

Year Ended February 28, 2009

The Company leased land from Mr. Hirouchi, Chairman and CEO of ONWARD HOLDINGS Co., Ltd., during the year and the rental fee was ¥7 million. 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.

17. Stock Options

The cost recognized for the stock options for the years ended February 28, 2010 and 2009 was ¥164 million ($1,834 thousand) and ¥145 million, respectively, which is included in selling, general and administrative expenses.

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 ($4.83)
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, 2010 is as follows:

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

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 ($4.05)
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, 2010 is as follows:

	2009 stock option plan (No. 5)
Non-vested:	
Outstanding at February 28, 2009	—
Granted	268,900
Forfeited	4,300
Vested	—
Outstanding at February 28, 2010	264,600

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)
Fair value at the grant date	¥905 ($10.12)
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, 2010 is as follows:

	2008 stock option plan (No. 4)
Non-vested:	
Outstanding at February 28, 2009	91,100
Granted	—
Forfeited	—
Vested	—
Outstanding at February 28, 2010	91,100

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 ($10.56)
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, 2010 is as follows:

	2008 stock option plan (No. 3)
Non-vested:	
Outstanding at February 28, 2009	70,000
Granted	—
Forfeited	1,200
Vested	—
Outstanding at February 28, 2009	68,800

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	¥605 ($6.77)
Fair value at the grant date	¥1,284 ($14.36)
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, 2010 is as follows:

	2007 stock option plan (No. 2)
Non-vested:	
Outstanding at February 29, 2009	40,000
Granted	—
Forfeited	—
Vested	16,700
Outstanding at February 28, 2010	23,300
Vested:	
Outstanding at February 29, 2009	—
Vested	16,700
Exercised	1,500
Forfeited	—
Outstanding at February 28, 2010	15,200

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	¥579 ($6.47)
Fair value at the grant date	¥1,541 ($17.23)
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, 2010 is as follows:

	2006 stock option plan (No. 1)
Non-vested:	
Outstanding at February 29, 2008	36,500
Granted	—
Forfeited	—
Vested	16,500
Outstanding at February 28, 2010	20,000
Vested:	
Outstanding at February 28, 2009	23,500
Vested	16,500
Exercised	16,500
Forfeited	—
Outstanding at February 28, 2010	23,500

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

18. Segment Information

(1) Industry Segment Information

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

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

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

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**

For the year ended February 28, 2010	Thousands of U.S. dollars				
	Industry segment			Elimination of intersegment sales	Consolidated total
	Apparel	Other	Total		
Sales to outside customers	**$ 2,618,595**	**$ 161,624**	**$ 2,780,219**	**$ —**	**$ 2,780,219**
Intersegment sales	**235**	**75,399**	**75,634**	**(75,634)**	**—**
Total	**2,618,830**	**237,023**	**2,855,853**	**(75,634)**	**2,780,219**
Costs and expenses	**2,567,874**	**237,459**	**2,805,333**	**(74,136)**	**2,731,197**
Operating income (loss)	**$ 50,956**	**$ (436)**	**$ 50,520**	**$ (1,498)**	**$ 49,022**
Assets	**$ 2,250,676**	**$ 355,060**	**$ 2,605,736**	**$ 665,750**	**$ 3,271,486**
Depreciation and amortization	**$ 52,947**	**$ 7,816**	**$ 60,763**	**$ 3,500**	**$ 64,263**
Impairment loss	**$ 2,806**	**$ —**	**$ 2,806**	**$ 481**	**$ 3,287**
Capital expenditures	**$ 53,416**	**$ 4,898**	**$ 58,314**	**$ 6,474**	**$ 64,788**

The management expenses in Elimination of intersegment sales as of February 28, 2010 were ¥3,703 million ($41,407 thousand) and the assets used for management activity as of February 28, 2010 were ¥186,048 million ($2,080,376 thousand).

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

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

The management expenses transferred to Elimination of intersegment sales as of February 28, 2009 were ¥3,836 million and the assets used for management activity as of February 28, 2009 were ¥191,306 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, 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**

For the year ended February 28, 2010	Thousands of U.S. dollars					
	Geographic segment				Elimination of intersegment sales	Consolidated total
	Japan	Europe	Other	Total		
Sales to outside customers	**$ 2,291,054**	**$ 403,176**	**$ 85,989**	**$ 2,780,219**	**$ —**	**$ 2,780,219**
Intersegment sales	**16,035**	**3,857**	**1,085**	**20,977**	**(20,977)**	**—**
Total	**2,307,089**	**407,033**	**87,074**	**2,801,196**	**(20,977)**	**2,780,219**
Costs and expenses	**2,203,097**	**453,695**	**97,160**	**2,753,952**	**(22,755)**	**2,731,197**
Operating income (loss)	**$ 103,992**	**$ (46,662)**	**$ (10,086)**	**$ 47,244**	**$ 1,778**	**$ 49,022**
Assets	**$ 1,708,800**	**$ 740,702**	**$ 154,445**	**$ 2,603,947**	**$ 667,539**	**$ 3,271,486**

The management expenses in Elimination of intersegment sales as of February 28, 2010 were ¥3,703 million ($41,407 thousand) and the assets used for management activity as of February 28, 2010 were ¥186,048 million ($2,080,376 thousand).

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

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

The management expenses transferred to Elimination of intersegment sales as of February 28, 2009 were ¥3,836 million and the assets used for management activity as of February 28, 2009 were ¥191,306 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, 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%**

For the year ended February 28, 2010	Thousands of U.S. dollars		
	Overseas sales		
	Europe	Other	Total
Overseas sales	**$ 270,826**	**$ 187,018**	**$ 457,844**
Consolidated sales			**2,780,219**
Percentage of overseas sales against consolidated sales	**9.7%**	**6.7%**	**16.5%**

Segment information classified as overseas sales of the Company for the year ended February 28, 2009 is as follows:

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

Ernst & Young ShinNihon LLC
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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, 2010 and 2009, 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, 2010 and 2009, 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, 2010 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 27, 2010

Principal Subsidiaries

Overseas Subsidiaries

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

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

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

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

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

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

ONWARD KASHIYAMA KOREA CO., LTD.
GF, Hwankyoung B/D,
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Seoul 100-391, Republic of Korea
Tel: (82) 2-548-5841

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1 Scotts Road, #23-12 Shaw Centre,
Singapore 228208, Republic of Singapore
Tel: (65) 6838-0690

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,
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Tel: (44) 20-7240-0432

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

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

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

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

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

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

Domestic Subsidiaries

APPAREL AND TEXTILE PRODUCTS
ONWARD KASHIYAMA CO., LTD.
ONWARD TRADING CO., LTD.
CHACOTT CO., LTD.
CREATIVE YOKO CO., LTD.
BUS STOP CO., LTD.
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 February 28, 2010

Corporate Data

(As of February 28, 2010)

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	¥30,079 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)	4,008 (As of the end of February 2010)

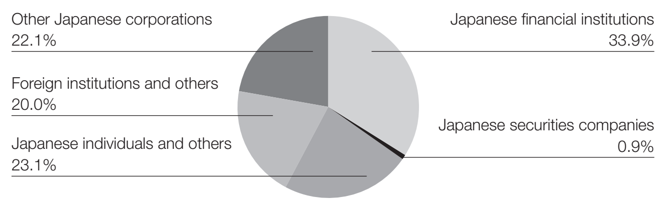
Major Shareholders

	Percentage of Total Shares Issued
Kashiyama Scholarship Foundation	5.5%
Japan Trustee Services Bank, Ltd. (Trust account)	5.2
The Master Trust Bank of Japan, Ltd. (Trust account)	4.5
Nippon Life Insurance Company	3.9
The Bank of New York Treaty JASDEC Account	3.7
Isetan Company, Limited	3.1
The Dai-ichi Mutual Life Insurance Company	2.6
MARUI GROUP CO., LTD.	2.1
SUMITOMO MITSUI BANKING CORPORATION	1.8
Japan Trustee Services Bank, Ltd. (Trust account 4G)	1.8

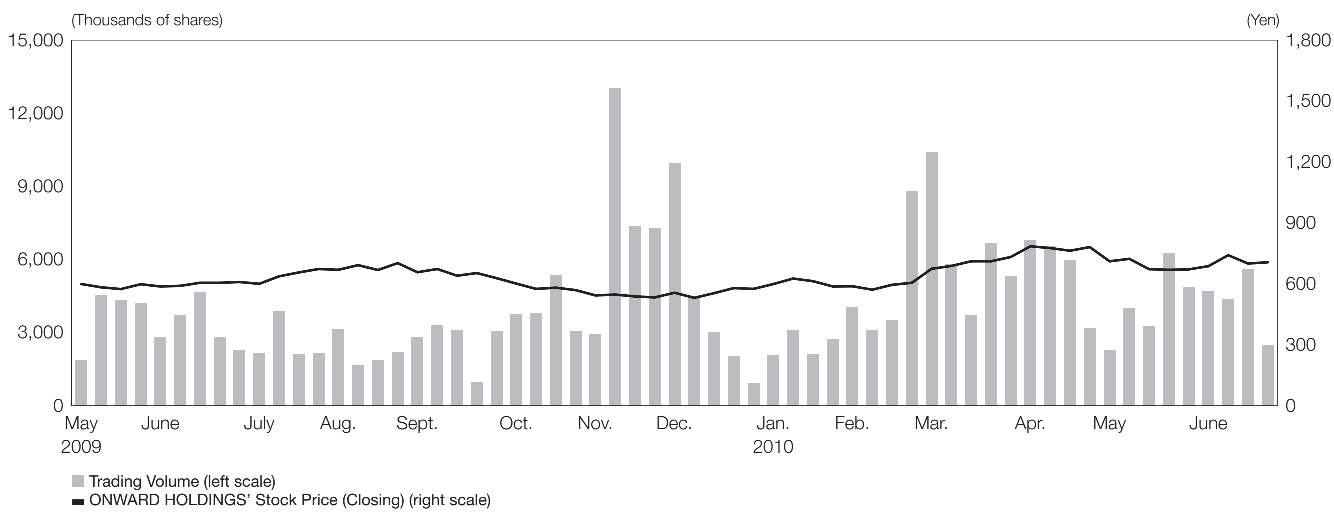
Note: The Company holds 16,260 treasury shares but has been excluded from the list of major shareholders.

Distribution of Ownership among Shareholders

(On a number of shares basis)



Stock Price Movement



ONWARD HOLDINGS CO., LTD.

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