

Japan Vilene Company, Ltd. and Subsidiaries

Notes to Consolidated Financial Statements Years Ended March 31, 2009 and 2008

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications and rearrangements have been made in the 2008 consolidated financial statements to conform to classifications used in 2009.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Japan Vilene Company, Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥98 to \$1, the approximate rate of exchange at March 31, 2009. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation—The consolidated financial statements as of March 31, 2009 include the accounts of the Company and its 12 significant (13 in 2008) subsidiaries (together, the "Group").

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in ten (ten in 2008) associated companies are accounted for by the equity method. Investments in the remaining associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The accounts of foreign subsidiaries are included on the basis of their fiscal year end of December 31. All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profits included in assets resulting from transactions within the Group are eliminated.

Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements—In May 2006, the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." PITF No. 18 prescribes (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model accounting for property, plant and equipment and investment properties and incorporation of the cost model accounting; (e) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and (f) exclusion of minority interests from net income, if contained. PITF No. 18 was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

The Company applied this accounting standard effective April 1, 2008. There was no effect from this change.

Cash Equivalents—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits and certificate of deposits, all of which mature or become due within three months of the date of acquisition.

Inventories—Prior to April 1, 2008, inventories were stated at cost, determined by the average method. Inventories of subsidiaries are stated principally at the latest purchase cost. In July 2006, the ASBJ issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories." This standard requires that inventories held for sale in the ordinary course of business be 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. The replacement cost may be used in place of the net selling value, if appropriate.

The Company applied this new accounting standard for measurement of inventories effective April 1, 2008. The effect of this change was to decrease operating income by ¥103 million (\$1,051 thousand) and income before income taxes and minority interests by ¥160 million (\$1,633 thousand).

Securities—Securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in the near term are reported at fair value, and the related unrealized gains and losses are included in earnings, (2) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost and (3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

Property, Plant and Equipment—Property, plant and equipment are stated at cost. Significant renewals and additions are capitalized; maintenance and repairs are charged to income as incurred. Depreciation of property, plant and equipment is principally computed by the declining-balance method except for buildings. The Company uses the straight-line method for depreciation of buildings. The domestic subsidiaries use the straight-line method for depreciation of buildings acquired after March 31, 1998. The declining-balance method was used for buildings acquired prior to April 1, 1998. Depreciation of property, plant and equipment of foreign subsidiaries is principally computed by the straight-line method.

The ranges of the estimated useful lives of the assets used for the computation of depreciation are as follows:

Buildings and structures	38 to 50 years
Machinery and equipment	Principally 7 years

Long-lived Assets—The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate 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 result 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.

Retirement and Pension Plans—Liabilities for employees' retirement benefits of the Company and its domestic subsidiaries are provided based on the retirement benefit obligations and the fair value of pension plan assets as of the balance sheet date.

Prior service cost is amortized by the straight-line method over stated years that do not exceed the average remaining service period of the eligible employees (five years).

Actuarial gain and loss are amortized in the year following the year in which the gain or loss is recognized by the straight-line method over stated years that do not exceed the average remaining service period of the eligible employees (ten years).

Retirement allowances for directors are recorded to state the liability at the amount that would be required if all directors retired at each balance sheet date.

Stock Options—ASBJ Statement No. 8, "Accounting Standard for Stock Options" and related guidance are applicable to stock options granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised.

The Company applied the accounting standard for stock options to those granted on and after May 1, 2006.

Research and Development Costs—Research and development costs are charged to income as incurred.

Leases—In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Under the previous accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee were to be capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions should be capitalized to recognize lease assets and lease obligations in the balance sheet. In addition, the revised accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to be accounted for as operating lease transactions.

The Company applied the revised accounting standard effective April 1, 2008. In addition, the Company accounted for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions. There was no effect from this change.

Bonuses to Directors and Corporate Auditors—Bonuses to directors and corporate auditors are accrued at the year end to which such bonuses are attributable.

Income Taxes—The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

The Company and certain domestic subsidiaries file a tax return under the consolidated corporate-tax system, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries.

Appropriations of Retained Earnings—Appropriations of retained earnings are reflected in the consolidated financial statements for the following year upon shareholders' approval.

Translation of Foreign Currency Transactions—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rate at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income to the extent that they are not hedged by forward exchange contracts. Forward exchange contracts are separately accounted for in accordance with the accounting standard for financial instruments.

Translation of Foreign Currency Financial Statements—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate at the balance sheet date except for equity, which is translated at the historical rates. Differences arising from such translation were shown as "Foreign currency translation adjustments" in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries and associated companies are translated into Japanese yen at the average rates of exchange. The accounts of the consolidated statements of cash flows in foreign currencies are also translated at the average rates of exchange.

Derivatives and Hedging Activities—The Company uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts and interest rate swap contracts are utilized by the Company to reduce foreign currency exchange and interest rate risks. The Company does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: (1) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of income and (2) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign currency forward contracts employed to hedge foreign exchange exposures for export sales and import purchases are measured at fair value and the unrealized gains or losses are recognized in income. Forward contracts designated as hedging forecasted (or committed) transactions are also measured at the fair value but the unrealized gains or losses are deferred until the underlying transactions are completed.

The interest rate swap contracts which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest expense or income.

Per Share Information—Basic net income per share is computed by dividing net income available to common shareholders, by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends of the Company applicable to the respective years including dividends to be paid after the end of the year.

New Accounting Pronouncements

Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method—The current accounting standard requires to unify accounting policies within the consolidation group. However, the current guidance allows to apply the equity method for the financial statements of its foreign associated company which have been prepared in accordance with generally accepted accounting principles in their respective jurisdictions without unification of accounting policies.

On December 26, 2008, the ASBJ issued ASBJ Statement No. 16 (Revised 2008), "Revised Accounting Standard for Equity Method of Accounting for Investments." The new standard requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method unless it is impracticable to determine adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP unless they are not material: (1) amortization of goodwill; (2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; (3) expensing capitalized development costs of R&D; (4) cancellation of the fair value model accounting for property, plant and equipment and investment properties and incorporation of the cost model accounting; (5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to the financial statements have been incorporated; and (6) exclusion of minority interests from net income, if contained.

This standard is applicable to equity method of accounting for investments effective on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or after April 1, 2009.

3. SECURITIES

Investment securities at March 31, 2009 and 2008, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2009</u>	<u>2008</u>	<u>2009</u>
Non-current—Investment securities:			
Marketable equity securities	¥ 672	¥ 853	\$ 6,857
Non-marketable equity securities	<u>197</u>	<u>213</u>	<u>2,010</u>
Total	<u>¥ 869</u>	<u>¥ 1,066</u>	<u>\$ 8,867</u>

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2009 and 2008, were as follows:

	Millions of Yen			
	2009			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Securities classified as available-for-sale equity securities	¥ 474	¥ 248	¥ 50	¥ 672

	Millions of Yen			
	2008			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Securities classified as available-for-sale equity securities	¥ 472	¥ 389	¥ 8	¥ 853

	Thousands of U.S. Dollars			
	2009			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Securities classified as available-for-sale equity securities	\$ 4,837	\$ 2,531	\$ 511	\$ 6,857

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2009 and 2008, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	<u>2009</u>	<u>2008</u>	<u>2009</u>
Securities classified as available-for-sale equity securities	¥ 197	¥ 213	\$ 2,010

Proceeds from sales of available-for-sale equity securities for the years ended March 31, 2009 and 2008, were ¥34 million (\$347 thousand) and ¥1 million, respectively. Realized gains on these sales, computed on the moving average cost basis, were ¥18 million (\$184 thousand) for the year ended March 31, 2009.

4. INVENTORIES

Inventories at March 31, 2009 and 2008, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2009</u>	<u>2008</u>	<u>2009</u>
Merchandise	¥ 561	¥ 1,255	\$ 5,725
Finished goods	4,104	3,009	41,878
Work in process	605	788	6,173
Raw materials and supplies	<u>1,651</u>	<u>1,761</u>	<u>16,847</u>
Total	<u>¥ 6,921</u>	<u>¥ 6,813</u>	<u>\$ 70,623</u>

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at March 31, 2009 and 2008, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2009</u>	<u>2008</u>	<u>2009</u>
Land	¥ 4,076	¥ 4,136	\$ 41,592
Buildings and structures	22,014	22,358	224,632
Machinery, equipment and vehicles	35,284	34,753	360,041
Tools, furniture and fixtures	5,938	5,931	60,592
Construction in progress	<u>225</u>	<u>486</u>	<u>2,296</u>
Total	<u>¥ 67,537</u>	<u>¥ 67,664</u>	<u>\$ 689,153</u>

Depreciation expense amounted to ¥2,770 million (\$28,265 thousand) and ¥2,565 million for the years ended March 31, 2009 and 2008, respectively.

6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of March 31, 2009. As a result, the Group recognized an impairment loss of ¥250 million (\$2,551 thousand) as loss on impairment of long-lived assets for the assets used for business of apparel materials, idle assets and leased assets due to a substantial decline in the apparel business environment and a decline in market value and the carrying amount of their assets was written down to the recoverable amount. The recoverable amount of their assets was measured at their net selling price determined by an appraisal from a real estate appraiser.

7. LEASES

The Group leases certain office equipment and vehicles under long-term noncancelable lease agreements.

Total rental expense for the years ended March 31, 2009 and 2008, was ¥706 million (\$7,204 thousand) and ¥699 million, respectively, including ¥31 million (\$316 thousand) and ¥32 million of lease payments under finance leases.

As discussed in Note 2, the Company accounts for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions. Pro forma information of leased property such as acquisition cost, accumulated depreciation and obligations under finance leases that do not transfer ownership of the leased property to the Group on an "as if capitalized" basis as of March 31, 2009 and 2008, was as follows:

	Millions of Yen					
	2009			2008		
	Machinery and Equipment	Tools, Furniture and Fixtures	Total	Machinery and Equipment	Tools, Furniture and Fixtures	Total
Acquisition cost	¥ 57	¥ 100	¥ 157	¥ 57	¥ 110	¥ 167
Accumulated depreciation	<u>28</u>	<u>48</u>	<u>76</u>	<u>20</u>	<u>35</u>	<u>55</u>
Net leased property	<u>¥ 29</u>	<u>¥ 52</u>	<u>¥ 81</u>	<u>¥ 37</u>	<u>¥ 75</u>	<u>¥ 112</u>

	Thousands of U.S. Dollars		
	2009		
	Machinery and Equipment	Tools, Furniture and Fixtures	Total
Acquisition cost	\$ 581	\$ 1,021	\$ 1,602
Accumulated depreciation	<u>285</u>	<u>490</u>	<u>775</u>
Net leased property	<u>\$ 296</u>	<u>\$ 531</u>	<u>\$ 827</u>

Future lease payments, including imputed interest, under finance leases that do not transfer ownership of the leased property and long-term noncancelable operating leases as of March 31, 2009 and 2008, were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2009	2008		2009
	Finance Lease	Finance Lease	Operating Lease	Finance Lease
Due within one year	¥ 28	¥ 31	¥ 31	\$ 286
Due after one year	<u>53</u>	<u>81</u>	<u>34</u>	<u>541</u>
Total	<u>¥ 81</u>	<u>¥ 112</u>	<u>¥ 65</u>	<u>\$ 827</u>

Depreciation expense which was not reflected in the consolidated statements of income, computed by the straight-line method, was ¥31 million (\$316 thousand) and ¥32 million for the years ended March 31, 2009 and 2008, respectively.

8. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans represented borrowings under bank overdraft agreements and notes, bearing interest at rates ranging from 0.8% to 3.4% and from 1.0% to 6.0% per annum at March 31, 2009 and 2008, respectively.

Long-term debt at March 31, 2009 and 2008, consisted of the following:

	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2009</u>	<u>2008</u>	<u>U.S. Dollars</u>
1.1% to 6.7% loans due through 2014:			
Collateralized	¥ 60	¥ 140	\$ 612
Unsecured	<u>3,505</u>	<u>768</u>	<u>35,765</u>
Total	3,565	908	36,377
Less current portion	<u>(148)</u>	<u>(154)</u>	<u>(1,510)</u>
Total	<u>¥ 3,417</u>	<u>¥ 754</u>	<u>\$ 34,867</u>

Annual maturities of long-term debt at March 31, 2009, were as follows:

<u>Year Ending</u>	<u>Millions of Yen</u>		<u>Thousands of</u>
<u>March 31</u>			<u>U.S. Dollars</u>
2010	¥ 148		\$ 1,510
2011	163		1,663
2012	2,779		28,357
2013	233		2,378
2014	<u>242</u>		<u>2,469</u>
Total	<u>¥ 3,565</u>		<u>\$ 36,377</u>

The carrying amounts of assets pledged as collateral for long-term bank loans of ¥60 million (\$612 thousand) at March 31, 2009, were as follows:

	<u>Millions of Yen</u>	<u>Thousands of</u>
		<u>U.S. Dollars</u>
Land	¥ 208	\$ 2,122
Buildings and structures	3,328	33,959
Machinery, equipment and vehicles	2,367	24,153
Tools, furniture and fixtures	<u>391</u>	<u>3,990</u>
Total	<u>¥ 6,294</u>	<u>\$ 64,224</u>

General agreements with respective banks provide, as is customary in Japan, that additional collateral must be provided under certain circumstances if requested by such banks and that certain banks have the right to offset cash deposited with them against any long-term or short-term debt or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the banks. The Company has never been requested to provide any additional collateral.

9. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.5% for the years ended March 31, 2009 and 2008. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2009 and 2008, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2009</u>	<u>2008</u>	<u>2009</u>
Deferred tax assets:			
Accrued bonuses	¥ 244	¥ 422	\$ 2,490
Liability for retirement benefits	882	1,020	9,000
Loss on write-down of investment securities	143	141	1,459
Loss on revaluation of long-lived assets	180	107	1,837
Loss on write-down of other investments	18	18	184
Tax loss carryforwards	27	28	275
Provision for contingent loss	34		347
Other	372	525	3,796
Less valuation allowance	<u>(363)</u>	<u>(259)</u>	<u>(3,704)</u>
Total deferred tax assets	<u>1,537</u>	<u>2,002</u>	<u>15,684</u>
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	(64)	(142)	(653)
Differences on land revaluation	(301)	(301)	(3,072)
Reserve for special depreciation	(23)	(27)	(235)
Reserve for advanced depreciation of non-current assets	(35)	(45)	(357)
Other	<u>(276)</u>	<u>(249)</u>	<u>(2,816)</u>
Total deferred tax liabilities	<u>(699)</u>	<u>(764)</u>	<u>(7,133)</u>
Net deferred tax assets	<u>¥ 838</u>	<u>¥ 1,238</u>	<u>\$ 8,551</u>

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of income for the year ended March 31, 2009, is as follows:

	<u>2009</u>
Normal effective statutory tax rate	40.5 %
Expense not deductible for tax purposes	1.4
Accrued bonuses to directors	1.9
Inhabitant tax—per capita	1.3
Valuation allowance	8.5
Difference incurred by preceding fiscal year's tax payment	(3.6)
Credit for foreign taxes	(13.0)
Equity in earnings of associated companies	17.0
Dividend from foreign subsidiaries eliminated for consolidation purpose	9.4
Lower income tax rate applicable to income in certain foreign countries	(9.7)
Other—net	<u>(0.5)</u>
Actual effective tax rate	<u>53.2 %</u>

For the year ended March 31, 2008, a reconciliation was not disclosed because the difference was less than 5% of the normal effective statutory tax rate.

10. LIABILITY FOR RETIREMENT BENEFITS

The Company adopted a cash balance pension plan and a point-method pension plan.

Some domestic subsidiaries have a tax qualified pension plan and a lump-sum retirement benefit plan as their defined benefit pension plan. A foreign subsidiary has a defined contribution pension plan. And in certain instances, the Company pays additional retirement benefits for employees. The cash balance plan adopted by the Company is a hybrid pension plan based on variable interest rates, enabling the Company to flexibly respond to market interest fluctuations. In addition, the Company contributes to the DIC pension funds under the cash balance plan.

The retirement benefits for directors are paid subject to the approval of the shareholders. With respect to the Company, the retirement benefits regulation for directors was abolished at the general shareholders meeting held on June 29, 2005. The accumulated amount to be paid in case of their retirement had been reclassified from "Liability for retirement benefits" into "Long-term liabilities—other" at March 31, 2009 and 2008.

Liability for retirement benefits at March 31, 2009 and 2008, consisted of the following:

	Millions of Yen		Thousands of
	<u>2009</u>	<u>2008</u>	<u>U.S. Dollars</u>
Employees' retirement benefit plans	¥ 2,183	¥ 2,526	\$ 22,276
Directors' plan at some of domestic subsidiaries	<u>67</u>	<u>66</u>	<u>683</u>
Total	<u>¥ 2,250</u>	<u>¥ 2,592</u>	<u>\$ 22,959</u>

The liability for employees' retirement benefits at March 31, 2009 and 2008, consisted of the following:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2009</u>	<u>2008</u>	<u>2009</u>
Projected benefit obligations	¥ 15,058	¥ 15,710	\$ 153,653
Fair value of plan assets	(9,062)	(11,140)	(92,469)
Unrecognized prior service cost	259	647	2,643
Unrecognized actuarial loss	<u>(4,072)</u>	<u>(2,691)</u>	<u>(41,551)</u>
Net liability	<u>¥ 2,183</u>	<u>¥ 2,526</u>	<u>\$ 22,276</u>

The components of net periodic benefit costs for the years ended March 31, 2009 and 2008, were as follows:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2009</u>	<u>2008</u>	<u>2009</u>
Service cost	¥ 562	¥ 533	\$ 5,735
Interest cost	309	307	3,153
Expected return on plan assets	(334)	(356)	(3,408)
Actuarial cost	462	333	4,714
Prior service cost	<u>(387)</u>	<u>(387)</u>	<u>(3,949)</u>
Net periodic benefit costs	<u>¥ 612</u>	<u>¥ 430</u>	<u>\$ 6,245</u>

Assumptions used for the years ended March 31, 2009 and 2008, are set forth as follows:

	<u>2009</u>	<u>2008</u>
Discount rate	2.2%	2.0%
Expected rate of return on plan assets	3.0%	3.0%
Recognition period of actuarial gain or loss	10 years	10 years
Amortization period of prior service cost	5 years	5 years

11. EQUITY

Since May 1, 2006, Japanese companies have been subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. *Increases/Decreases and Transfer of Common Stock, Reserve and Surplus*

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. *Treasury Stock and Treasury Stock Acquisition Rights*

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

12. COMMITMENTS AND CONTINGENT LIABILITIES

The amount of capital commitments outstanding at March 31, 2009, for purchases of property, plant and equipment for the purpose of renewal or expansion of production and research facilities was ¥324 million (\$3,306 thousand).

Contingent liabilities at March 31, 2009, are summarized as follows:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Guarantees and items of a similar nature of related parties' and employees' indebtedness	¥ 1,044	\$ 10,653
Trade notes endorsed	44	449
Export drafts discounted	<u>31</u>	<u>316</u>
Total	<u>¥ 1,119</u>	<u>\$ 11,418</u>

An action for damages of ¥704 million (\$7,184 thousand) was brought by ITOCHU PLASTICS INC. and another company relating to the fraudulent transaction in which a former employee of the Company had been involved. Four companies including the Company were accused in that case and the litigation is still in progress.

13. STOCK OPTIONS

The stock options outstanding as of March 31, 2009 are as follows:

<u>Stock Option</u>	<u>Persons Granted</u>	<u>Number of Option Granted</u>	<u>Date of Grant</u>	<u>Exercise Price</u>	<u>Exercise Period</u>
2005 Stock Option	8 directors	37,200 shares	June 29, 2005	¥1 (\$0.01)	From August 1, 2005 to June 29, 2025
2006 Stock Option	7 directors	28,400 shares	September 15, 2006	¥1 (\$0.01)	From September 16, 2006 to June 29, 2026

The stock option activity is as follows:

	<u>2005 Stock Option</u>	<u>2006 Stock Option</u>
	(Shares)	
<u>For the Year Ended March 31, 2008</u>		
Non-vested:		
March 31, 2007—outstanding		
Granted		
Canceled		
Vested		
March 31, 2008—outstanding		
Vested:		
March 31, 2007—outstanding	33,800	28,400
Vested		
Exercised	4,900	4,300
Canceled		
March 31, 2008—outstanding	28,900	24,100

	<u>2005 Stock Option</u>	<u>2006 Stock Option</u>
	(Shares)	
<u>For the Year Ended March 31, 2009</u>		
Non-vested:		
March 31, 2008—outstanding		
Granted		
Canceled		
Vested		
March 31, 2009—outstanding		
Vested:		
March 31, 2008—outstanding	28,900	24,100
Vested		
Exercised		
Canceled		
March 31, 2009—outstanding	28,900	24,100
Exercise price	¥1 (\$0.01)	¥1 (\$0.01)
Average stock price at exercise		
Fair value price at grant date		¥615 (\$6.28)

14. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2009 and 2008, is as follows:

	<u>Millions of Yen</u>	<u>Thousands of Shares</u>	<u>Yen</u>	<u>U.S. Dollars</u>
<u>Year Ended March 31, 2009</u>	<u>Net Income</u>	<u>Weighted-average Shares</u>	<u>EPS</u>	
Basic EPS—Net income available to common shareholders	¥ 672	64,894	<u>¥ 10.36</u>	<u>\$ 0.11</u>
Effect of dilutive securities— Stock options	_____	<u>53</u>		
Diluted EPS—Net income for computation	<u>¥ 672</u>	<u>64,947</u>	<u>¥ 10.35</u>	<u>\$ 0.11</u>
<u>Year Ended March 31, 2008</u>				
Basic EPS—Net income available to common shareholders	¥ 2,434	64,919	<u>¥ 37.50</u>	
Effect of dilutive securities— Stock options	_____	<u>55</u>		
Diluted EPS—Net income for computation	<u>¥ 2,434</u>	<u>64,974</u>	<u>¥ 37.46</u>	

15. RELATED PARTY DISCLOSURES

Transactions of the Company with associated companies for the years ended March 31, 2009 and 2008, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2009</u>	<u>2008</u>	<u>2009</u>
Sales	¥ 1,998	¥ 2,732	\$ 20,388
Purchases	932	1,296	9,510

The balances due to or from these associated companies at March 31, 2009 and 2008, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2009</u>	<u>2008</u>	<u>2009</u>
Trade accounts receivable	¥ 229	¥ 617	\$ 2,337
Prepaid expenses and other current assets	58	277	592
Trade accounts payable	54	201	551

The Company issued a letter of undertaking to provide a guarantee for loan and guarantee for purchase of raw material to certain creditors of Freudenberg & Vilene Nonwovens (Suzhou) Co., Ltd. ("FVC"), an associated company which is accounted for by the equity basis. As of March 31, 2009 and 2008, a letter of undertaking to provide a guarantee for loan and guarantee for purchase of raw material, included in contingent liabilities, covered ¥638 million (\$6,510 thousand) and ¥653 million, respectively, of FVC's obligations.

16. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥1,743 million (\$17,786 thousand) and ¥1,836 million for the years ended March 31, 2009 and 2008, respectively.

17. DERIVATIVES

The Company enters into foreign exchange forward contracts to hedge foreign exchange risk associated with certain assets and liabilities. The Company also enters into interest rate swap contracts as a means of managing its interest rate exposure on certain liabilities. All derivative transactions are entered into in order to hedge interest and foreign currency exposures associated with its business. Accordingly, interest and currency risks associated with these derivatives are basically offset by opposite movements in the value of hedged assets and liabilities. Because the counterparties to these derivatives are limited to major international financial institutions, the Company does not anticipate any losses arising from credit risk. Derivative transactions entered into by the Company have been made in accordance with internal policies, which regulate the authorization and credit limit amount.

The Company had the following derivatives contracts outstanding at March 31, 2009 and 2008:

	Millions of Yen				Thousands of U.S. Dollars	
	2009		2008		2009	
	Contract or Notional Amount	Fair Value	Contract or Notional Amount	Fair Value	Contract or Notional Amount	Fair Value
Forward exchange contracts—Selling U.S.\$	¥ 40	¥ 41			\$ 408	\$ 418

Interest rate swap contracts, which the Company uses, qualify for hedge accounting as of and for the years ended March 31, 2009 and 2008, and are not subject to disclosure.

18. SEGMENT INFORMATION

(1) Operations by Industry Segment

Information has not been provided because the Group operated principally in the "non-woven fabrics" industry in 2009 and 2008.

(2) Operations by Geographical Segment

Operations of the Group by geographical segment for the years ended March 31, 2009 and 2008, were as follows:

	Millions of Yen					Thousands of U.S. Dollars				
	2009					2009				
	Japan	North America	Asia	Eliminations	Consolidated	Japan	North America	Asia	Eliminations	Consolidated
Sales:										
Sales to customers	¥ 37,945	¥ 12,182	¥ 113		¥ 50,240	\$ 387,194	\$ 124,306	\$ 1,153		\$ 512,653
Intersegment sales	186		961	¥ (1,147)		1,898		9,806	\$ (11,704)	
Total sales	38,131	12,182	1,074	(1,147)	50,240	389,092	124,306	10,959	(11,704)	512,653
Operating cost and expenses	38,087	10,937	1,023	(1,131)	48,916	388,643	111,602	10,439	(11,541)	499,143
Operating income	¥ 44	¥ 1,245	¥ 51	¥ (16)	¥ 1,324	\$ 449	\$ 12,704	\$ 520	\$ (163)	\$ 13,510
Assets	¥ 46,218	¥ 5,560	¥ 972	¥ (130)	¥ 52,620	\$ 471,612	\$ 56,735	\$ 9,918	\$ (1,326)	\$ 536,939

	Millions of Yen				
	2008				
	<u>Japan</u>	<u>North America</u>	<u>Asia</u>	<u>Eliminations</u>	<u>Consolidated</u>
Sales:					
Sales to customers	¥ 43,547	¥ 15,339	¥ 135		¥ 59,021
Intersegment sales	<u>212</u>	<u>4</u>	<u>760</u>	¥ (976)	
Total sales	43,759	15,343	895	(976)	59,021
Operating cost and expenses	<u>41,976</u>	<u>13,307</u>	<u>843</u>	<u>(974)</u>	<u>55,152</u>
Operating income	<u>¥ 1,783</u>	<u>¥ 2,036</u>	<u>¥ 52</u>	<u>¥ (2)</u>	<u>¥ 3,869</u>
Assets	<u>¥ 47,811</u>	<u>¥ 6,987</u>	<u>¥ 1,108</u>	<u>¥ (117)</u>	<u>¥ 55,789</u>

Note: As discussed in Note 2, effective April 1, 2008, the Company applied ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories." The effect of this change was to decrease operating income of Japan by ¥103 million (\$1,051 thousand) for the year ended March 31, 2009.

(3) Sales to Foreign Customers

Sales to foreign customers of the Group for the years ended March 31, 2009 and 2008, were as follows:

	Millions of Yen				Thousands of U.S. Dollars			
	2009				2009			
	<u>Asia</u>	<u>North America</u>	<u>Other</u>	<u>Total</u>	<u>Asia</u>	<u>North America</u>	<u>Other</u>	<u>Total</u>
Sales to foreign customers	¥ 4,454	¥ 12,396	¥ 335	¥ 17,185	\$ 45,449	\$ 126,490	\$ 3,418	\$ 175,357
Consolidated sales				50,240				512,653
Ratio of sales to foreign customers to consolidated sales				34.2%				34.2%
	Millions of Yen							
	2008							
	<u>Asia</u>	<u>North America</u>	<u>Other</u>	<u>Total</u>				
Sales to foreign customers	¥ 6,691	¥ 15,534	¥ 506	¥ 22,731				
Consolidated sales				59,021				
Ratio of sales to foreign customers to consolidated sales				38.5%				

19. SUBSEQUENT EVENT

The following appropriation of retained earnings at March 31, 2009 was approved by the Company's Board of Directors held on May 15, 2009:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥6.0 (\$0.06) per share	¥ 389	\$ 3,969

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