



# CONSOLIDATED FINANCIAL REPORT THIRD QUARTER FISCAL 2008 (March 1, 2008 to November 30, 2008)

January 8, 2009

F&A Aqua Holdings, Inc. is listed on the First Section of the Tokyo Stock Exchange under the securities code number 8008. The Company's headquarters is located in Tokyo.

Representative: Saishi Kimura, President and Representative Director  
 Inquiries: Shigeo Ohki, Director and General Manager Operations Dept.  
 Tel: +81-3-5719-3429  
 URL: <http://www.fa-aqua.co.jp>

## 1. Consolidated Performance for the 3Q of the Fiscal Year 2008 (March 1, 2008 to November 30, 2008)

### (1) Consolidated Business Results

Millions of yen rounded down, %

(Percentages shown for operating revenues, operating income, ordinary income and net income are the rates of increase or decrease from the corresponding period of the previous fiscal year)

	Operating Revenues		Operating Income		Ordinary Income		Net Income	
3Q FY2008	37,062	0.2	1,366	47.6	1,107	(2.1)	182	—
3Q FY2007	36,976	(6.9)	925	(41.7)	1,130	(44.3)	(105)	—
FY2007	50,991	(5.8)	2,031	(10.6)	2,536	(11.3)	266	(32.4)

Yen

	Net Income Per Share	Net Income Per Share (Diluted)
3Q FY2008	6.31	—
3Q FY2007	(3.61)	—
FY2007	9.13	—

### (2) Consolidated Financial Position

Millions of yen unless otherwise stated

	Total Assets	Net Assets	Equity Capital Ratio (%)	Net Assets Per Share (Yen)
As of Nov. 30, 2008	59,641	36,830	61.7	1,282.44
As of Nov. 30, 2007	58,291	38,165	65.5	1,313.95
As of Feb. 29, 2008	53,722	38,056	70.8	1,309.14

### (3) Consolidated Cash Flows

Millions of yen

	Operating Activities	Investing Activities	Financial Activities	Cash and Cash Equivalents End of Period
3Q FY2008	(1,875)	(230)	2,844	1,384
3Q FY2007	(319)	(1,163)	2,032	1,230
FY2007	2,455	(974)	(1,513)	649

**2. Forecasts of Consolidated Business Results for the Fiscal Year 2008  
(March 1, 2008 to February 28, 2009) [Reference]**

Millions of yen unless otherwise stated, %

(Percentage figures are the increase / (decrease) for the corresponding period of the previous fiscal year)

	Operating Revenues		Operating Income		Ordinary Income		Net Income		Net Income Per Share (Yen)
Full Fiscal Year	52,000	2.0	2,450	20.6	2,800	10.4	1,200	350.2	41.45

**3. Other**

(1) Changes in important subsidiaries during the period (due to changes in the scope of consolidation and application of the equity method): Yes

[One new subsidiary (Company name: MISUZU Co., Ltd.)]

(2) Use of the simplified accounting method: Yes

(3) Changes in accounting methods used in the most recent consolidated fiscal year: No

Note: For further details please refer to Item “4. Other” of Qualitative Information and Financial Statements on page 4.

*Cautionary Statement Concerning Forecasts of Consolidated Business Results*

The forecasts presented in this document are based on management’s assumptions and beliefs in light of currently available information. F&A Aqua Holdings, Inc. cautions readers that a variety of factors could cause actual results to differ materially from forecasts.

## **[Qualitative Information and Financial Statements]**

### **1. Qualitative Information Regarding Consolidated Business Results**

During the nine-month period (March 1, 2008 to November 30, 2008) of fiscal 2008, the fiscal year ending February 28, 2009, the Japanese economy became increasingly weak. This was attributable to the growing severity of the global financial crisis as well as fears of a continued downturn in the worldwide economy, which intensified the downward pressure placed on corporate sector earnings and further highlighted the drop in capital investment. Despite the decline in such raw material prices as crude oil which had continued to hover at a high level, the retail sector encountered an increasingly harsh environment buffeted by lackluster personal consumption. This reflected the growing downturn in consumer confidence owing to uncertainty surrounding future market conditions, a product of substantial fluctuations in share prices and foreign currency exchange rates as well as deterioration in employment conditions.

Under these circumstances, and in fiscal 2008, the final year of F&A Aqua Holdings' Medium-Term Management Plan, the Group continued to address key issues on an individual business basis guided by the basic and underlying philosophy of pursuing business expansion commensurate with profit growth.

Throughout the period under review, the F.D.C. Products group worked diligently to establish a robust jewelry portfolio focusing mainly on its 4°C brand. As a result, both sales and ordinary income increased compared with the corresponding period of the previous fiscal year receiving a particular boost from brisk sales of its mainstay 4°C brand bridal products.

The AS'TY group strove to strengthen its internal management capabilities in an effort to secure profits. While sales declined compared with the corresponding period of the previous fiscal year due to a variety of factors including the implementation of initiatives to eliminate and consolidate businesses and underperforming products, these efforts to improve its earnings structure and platform contributed to a substantial year-on-year upswing in AS'TY Inc. ordinary income.

The âge group continued to promote measures aimed at expanding the scale of its retail business throughout the nine-month period ended November 30, 2008, carrying forward initiatives from the previous fiscal year. Taking the aforementioned into consideration, sales surpassed the level recorded in the corresponding period of the previous fiscal year. This was attributable to such factors as the solid performance at existing stores as well as the complete transfer of the RAPPORT business from AS'TY Inc. Impacted by increased expenditure relating to the opening of new PALLET stores in its daily fashion item business, a difficult operating environment affecting RAPPORT business event sales and other factors, however, ordinary income fell slightly below the amount recorded in the corresponding period of the previous fiscal year.

At MISUZU Co., Ltd., the company worked to strengthen its manufacturing capabilities while at the same time fostering its human resources. Results at existing stores increased compared with the corresponding period of the previous fiscal year. Buoyed by an improvement in gross profit margins and other factors, ordinary income climbed above the level reported in the nine-month period ended November 30, 2007.

Accounting for all of the aforementioned factors, consolidated business results for the nine-month period ended November 30, 2008 were generally sound. During the period under review, operating revenues increased slightly while operating income enjoyed a substantial improvement on the back of the Group's positive steps to improve its consolidated earnings structure and platform. Recognizing the impact of the deterioration in equity-method affiliates' business results, however, consolidated ordinary income declined compared with the corresponding period of the previous fiscal year. Excluding this factor, both ordinary income and net income improved considerably in real terms on a year-on-year basis.

In specific terms, consolidated operating revenues for the nine-month period ended

November 30, 2008 edged up 0.2% compared with the corresponding period of the previous fiscal year to ¥37,062 million. From a profit perspective, consolidated operating income for the period under review surged 47.6% year on year to ¥1,366 million. While consolidated ordinary income edged down 2.1% amounting to ¥1,107 million, consolidated net income totaled ¥182 million compared with a net loss of ¥105 million for the nine-month period ended November 30, 2007.

## **2. Qualitative Information Regarding Consolidated Financial Position**

Total assets as of November 30, 2008 stood at ¥59,641 million, an upswing of ¥5,918 million compared with the end of the previous fiscal year. This was mainly attributable to increases in notes and accounts receivable and inventories. Reflecting mainly higher short-term debt, total liabilities climbed ¥7,145 million compared with February 29, 2008 to ¥22,811 million. Net assets as of the end of the period under review stood at ¥36,830 million, up ¥1,226 million compared with the previous fiscal year-end.

Net cash used in operating activities amounted to ¥1,875 million. The principal cash inflow was net income before income taxes totaling ¥610 million. This was more than offset by increases in trade receivables and inventories of ¥1,602 million and ¥1,374 million, respectively.

Net cash used in investing activities was ¥230 million. In the period under review, F&A Aqua Holdings undertook a variety of activities including payments for the acquisition of property and equipment totaling ¥234 million.

Net cash provided by financing activities amounted to ¥2,844 million. The major cash inflow was an increase in short-term debt of ¥4,306 million. The principal cash outflow was payment of cash dividends totaling ¥602 million.

Accounting for the aforementioned activities cash and cash equivalents as of the end of the period under review stood at ¥1,384 million. This was up ¥734 million compared with the previous fiscal year-end.

## **3. Qualitative Information Regarding Forecasts of Consolidated Business Results**

Forecasts of consolidated business results for the full fiscal year ending February 28, 2009 identified in the Group's Financial Report for Fiscal 2008 announced on April 14, 2008 remain unchanged.

## **4. Other**

### **(1) Changes in important subsidiaries during the period (due to changes in the scope of consolidation and application of the equity method)**

(Changes in principal affiliated companies)

Newly consolidated: MISUZU Co., Ltd.

MISUZU Co., Ltd. was included in F&A Aqua Holding Co., Ltd.'s scope of consolidation as a subsidiary company on October 28, 2008.

### **(2) Use of the simplified accounting method**

The simplified method is used to account for a portion of tax expenses.

### **(3) Changes in accounting methods in the most recent consolidated fiscal year**

Not applicable.

**5. 3Q Consolidated Financial Statements**  
**(1) (Summary) 3Q Consolidated Balance Sheets**

(Thousands of yen unless otherwise stated)

	As of November 30, 2007		As of November 30, 2008		(Reference) As of February 29, 2008	
	Amount	(%)	Amount	(%)	Amount	(%)
(ASSETS)						
I. Current assets:						
1. Cash and time deposits	1,100,639		1,321,128		649,085	
2. Notes and accounts receivable	5,053,977		5,836,380		3,756,304	
3. Inventories	7,345,903		8,164,395		6,365,826	
4. Deferred tax assets	590,195		982,657		473,422	
5. Other current assets	885,957		602,962		386,014	
Allowance for doubtful accounts	(28,382)		(14,515)		(10,448)	
Total current assets	14,948,290	25.6	16,893,009	28.3	11,620,205	21.6
II. Fixed assets:						
1. Tangible fixed assets						
(1) Buildings and structures	6,531,437		6,414,290		6,202,332	
(2) Land	5,783,339		6,065,137		5,783,339	
(3) Construction work in progress	840		—		3,781	
(4) Other	380,538		397,119		328,500	
Total tangible fixed assets	12,696,156	21.8	12,876,547	21.6	12,317,953	22.9
2. Intangible fixed assets						
(1) Trademarks	3,302		3,664		2,867	
(2) Goodwill	9,680,244		9,013,395		9,281,949	
(4) Other	689,012		568,702		654,676	
Total intangible fixed assets	10,372,559	17.8	9,585,762	16.1	9,939,493	18.5
3. Investment and other assets						
(1) Investment securities	14,914,932		13,275,764		14,644,002	
(2) Long-term loans receivable	51,389		57,905		58,595	
(3) Prepaid pension expenses	1,955,688		2,027,976		1,977,572	
(4) Investment real estate	562,864		891,143		561,657	
(5) Deferred tax assets	113,865		631,579		146,913	
(6) Other	3,397,128		4,135,598		3,177,278	
Allowance for doubtful accounts	(720,925)		(733,617)		(720,963)	
Total investments and other assets	20,274,942	34.8	20,286,350	34.0	19,845,055	37.0
Total fixed assets	43,343,657	74.4	42,748,661	71.7	42,102,503	78.4
Total assets	58,291,948	100.0	59,641,670	100.0	53,722,708	100.0

(Thousands of yen unless otherwise stated)

	As of November 30, 2007		As of November 30, 2008		(Reference) As of February 29, 2008	
	Amount	(%)	Amount	(%)	Amount	(%)
	<b>(LIABILITIES)</b>					
<b>I. Current liabilities:</b>						
1. Notes and accounts payable	5,487,731		5,629,840		4,842,145	
2. Short-term debt	7,824,183		9,386,995		4,327,928	
3. Corporate bonds repayable within one year	90,000		295,000		90,000	
4. Corporate and enterprise taxes payable	575,385		527,083		732,057	
5. Deferred tax liabilities	55		235		21	
6. Reserve for employees' bonus	589,343		619,359		427,164	
7. Reserve for directors' bonus	57,839		46,793		39,500	
8. Other current liabilities	2,289,845		2,593,977		2,170,882	
Total current liabilities	16,914,384	29.0	19,099,285	32.0	12,629,699	23.5
<b>II. Fixed liabilities:</b>						
1. Corporate bonds	250,000		60,000		230,000	
2. Long-term debt	30,199		689,184		12,023	
3. Guarantee deposits held	346,979		310,570		332,272	
4. Deferred tax liabilities	1,782,448		1,541,468		1,637,129	
5. Reserve for retirement benefits	322,004		463,805		328,426	
6. Reserve for directors' retirement benefits	391,600		333,222		395,142	
7. Other fixed liabilities	88,413		314,062		101,683	
Total fixed liabilities	3,211,646	5.5	3,712,313	6.2	3,036,678	5.7
Total liabilities	20,126,030	34.5	22,811,599	38.2	15,666,377	29.2
<b>(NET ASSETS)</b>						
<b>I. Shareholders' equity</b>						
1. Capital stock	2,486,520		2,486,520		2,486,520	
2. Capital surplus	18,300,301		18,300,303		18,300,303	
3. Retained earnings	18,145,222		18,102,126		18,517,443	
4. Treasury stock	(1,184,412)		(1,418,004)		(1,174,018)	
Total shareholders' equity	37,747,632	64.8	37,470,946	62.8	38,130,249	71.0
<b>II. Valuation and conversions</b>						
1. Net unrealized gains on marketable securities	1,022,529		(9,292)		566,971	
2. Gains (losses) on deferred hedge transactions	(25,619)		(26,807)		(38,400)	
3. Net unrealized losses on land	(614,198)		(614,198)		(614,198)	
4. Foreign currency translation adjustments	31,735		6,777		8,641	
Total valuation and conversions	414,447	0.7	(643,520)	(1.0)	(76,985)	(0.2)
III. Minority interests	3,837	0.0	2,644	0.0	3,066	0.0
Total net assets	38,165,918	65.5	36,830,070	61.8	38,056,330	70.8
Total liabilities and net assets	58,291,948	100.0	59,641,670	100.0	53,722,708	100.0

**(2) (Summary) 3Q Consolidated Statements of Income**

(Thousands of yen unless otherwise stated)

	3Q Fiscal 2007 (March 1, 2007 to November 30, 2007)		3Q Fiscal 2008 (March 1, 2008 to November 30, 2008)		(Reference) Fiscal 2007 (March 1, 2007 to February 29, 2008)	
	Amount	(%)	Amount	(%)	Amount	(%)
[Operating revenues]	[36,976,961]		[37,062,445]		[50,991,447]	
I. Net sales	35,528,993	100.0	35,690,200	100.0	49,080,776	100.0
II. Cost of sales	19,551,360	55.0	18,684,402	52.3	26,405,608	53.8
Gross profit	15,977,632	45.0	17,005,798	47.7	22,675,168	46.2
III. Other operating revenues	1,447,968	4.0	1,372,244	3.8	1,910,670	3.9
Operating revenues	17,425,601	49.0	18,378,042	51.5	24,585,838	50.1
III. Selling, general and administrative expenses	16,500,228	46.4	17,011,975	47.7	22,553,967	46.0
Operating income	925,373	2.6	1,366,067	3.8	2,031,871	4.1
IV. Non-operating income						
1. Interest income	2,007		4,199		3,533	
2. Dividends received	38,715		42,944		61,835	
3. Equity in earnings of associated companies	107,424		—		406,602	
4. Fixed asset rental income	42,533		63,817		76,766	
5. Gain on foreign exchange	—		16,713		—	
6. Other non-operating income	86,632		53,609		99,513	
Total non-operating income	277,313	0.8	181,284	0.5	648,251	1.3
V. Non-operating expenses						
1. Interest expense	62,217		84,824		89,145	
2. Investment loss on the equity method	—		255,802		—	
3. Loss on foreign exchange	—		—		16,432	
4. Fee expense	—		74,300		—	
5. Other non-operating expenses	4,848		25,281		38,194	
Total non-operating expenses	72,066	0.2	440,208	1.2	143,812	0.2
Ordinary income	1,130,619	3.2	1,107,142	3.1	2,536,310	5.2
VI. Extraordinary income						
1. Gain on sales of fixed assets	—		2,543		285	
2. Gain on sales of investment securities	—		—		130,725	
3. Reversal of allowance for doubtful accounts	—		7,445		—	
4. Other extraordinary income	26,768		3,185		29,448	
Total extraordinary income	26,768	0.1	13,137	0.0	160,459	0.3
VII. Extraordinary loss						
1. Loss on sales of fixed assets	38,199		—		40,510	
2. Loss on disposal of fixed assets	118,571		43,909		155,188	
3. Loss on fixed asset impairment	14,988		120,359		520,788	
4. Amortization of goodwill	—		70,000		—	
5. Loss on sales of investment securities	—		2		—	

6. Loss on devaluation of investment securities	831		200,267		3,104	
7. Loss on devaluation of inventories	188,734		—		214,853	
8. Loss on closure of stores	—		55,944		79,080	
9. Other extraordinary loss	84,562		19,653		70,946	
Total extraordinary loss	445,886	1.2	510,137	1.4	1,084,471	2.2
Net income before income taxes	711,502	2.0	610,178	1.7	1,612,298	3.3
Tax expenses	817,181	2.3	427,853	1.2	1,343,915	2.8
Gain (loss) on Minority interests	—	—	(421)	(0.0)	1,842	0.0
Net income (loss)	(105,679)	(0.3)	182,747	0.5	266,541	0.5

**(3) (Summary) 3Q Consolidated Statements of Cash Flows**

(Thousands of yen unless otherwise stated)

	3Q Fiscal 2007 (March 1, 2007 to November 30, 2007)	3Q Fiscal 2008 (March 1, 2008 to November 30, 2008)	(Reference) Fiscal 2007 (March 1, 2007 to February 29, 2008)
I. Cash flows from operating activities:			
1. Net income before income taxes	711,502	610,178	1,612,298
2. Depreciation	490,654	576,696	683,684
3. Loss on fixed asset impairment	14,988	120,359	520,788
4. Amortization of goodwill	485,263	489,044	647,095
5. Increase in allowance for doubtful accounts	44,430	4,807	26,534
6. Increase in reserve for employee bonus	186,157	152,205	23,992
7. Decrease in allowance for employee retirement benefits	(85,836)	(30,715)	(101,215)
8. Increase (decrease) in other allowances	41,463	(350,622)	35,205
9. Interest and dividends received	(40,723)	(47,144)	(65,368)
10. Interest paid	67,217	84,824	89,145
11. (Gain) loss on foreign exchange	(1,227)	(8,695)	39,968
12. Equity in (gains) losses of associated companies	(107,424)	255,802	(406,602)
13. Loss on disposal of fixed assets	118,571	43,909	155,188
14. (Gain) loss on sales of fixed assets	38,199	(2,543)	40,224
15. (Gain) loss on sales of investment securities	—	2	(130,725)
16. Loss on devaluation of investment securities	831	200,267	3,104
17. (Increase) decrease in trade receivables	(772,744)	(1,602,184)	519,293
18. Decrease (increase) in inventories	(390,305)	(1,374,747)	594,783
19. Increase (decrease) in trade payables	271,146	340,649	(374,270)
20. Increase (decrease) in consumption tax payable	19,594	(99,589)	89,615
21. (Increase) decrease in other assets	(248,237)	(42,077)	281,474
22. Decrease in other liabilities	(26,290)	(349,257)	(572,301)
Subtotal	817,230	(1,028,828)	3,711,912
23. Interest and dividend income received	134,643	209,614	171,173
24. Cash paid for interest	(66,414)	(88,106)	(90,633)
25. Cash paid for income and enterprise taxes	(1,205,170)	(968,168)	(1,336,661)
Net cash (used in) provided by operating activities	(319,710)	(1,875,489)	2,455,791

(Thousands of yen unless otherwise stated)

	1Q Fiscal 2007 (March 1, 2007 to November 30, 2007)	1Q Fiscal 2008 (March 1, 2008 to November 30, 2008)	(Reference) Fiscal 2007 (March 1, 2007 to February 29, 2008)
<b>II. Cash flows from investing activities</b>			
1. Payments for fixed deposits	(4,506)	(2,509)	(6,009)
2. Proceeds from the reversal of fixed deposits	—	18,020	—
3. Payments for the acquisition of property and equipment	(322,736)	(234,674)	(376,821)
4. Proceeds from the sale of tangible fixed assets	3,414	5,396	13,653
5. Payments for the acquisition of intangible fixed assets	(412,630)	(51,943)	(420,732)
6. Proceeds from the sale of intangible fixed assets	33	—	33
7. Payments for the acquisition of investment securities	(253,410)	(26,418)	(393,278)
8. Proceeds from the sale of investment securities	—	17	154,312
9. Payments for the acquisition of shares in subsidiary companies	(10,948)	—	(10,948)
10. Payments for the acquisition of a subsidiary company	—	(155,790)	—
11. Payments for long-term prepaid expenses	(27,413)	(13,639)	(33,962)
12. Increase in long-term loans receivable	(7,122)	(3,698)	(18,459)
13. Proceeds from the collection of long-term loans receivable	17,198	15,118	23,616
14. Payments for other investments	(296,607)	(136,377)	(205,928)
15. Proceeds from recovery of other investments	151,113	355,729	300,095
Net cash used in investing activities	(1,163,617)	(230,770)	(974,429)
<b>III. Cash flows from financing activities</b>			
1. Increase (decrease) in short-term debt	3,280,082	4,306,591	(191,554)
2. Repayment of long-term debt	(148,941)	(159,882)	(203,125)
3. Payments for the redemption of corporate bonds	(20,000)	(447,500)	(40,000)
4. Proceeds from sale of treasury stock	202	64	207
5. Payments for the acquisition of treasury stock	(316,293)	(252,095)	(316,342)
6. Payment of cash dividends	(762,387)	(602,369)	(762,387)
7. Payment of cash dividends to minority interests	(230)	—	(230)
Net cash provided (used in) by financing activities	2,032,431	2,844,808	(1,513,433)
<b>IV. Effect of exchange rate changes on cash and cash equivalents</b>	(995)	(3,587)	(1,324)
<b>V. Net increase (decrease) in cash and cash equivalents</b>	548,108	734,961	(33,395)
<b>VI. Cash and cash equivalents at the beginning of the period</b>	682,481	649,085	682,481
<b>VII. Cash and cash equivalents at the end of the period</b>	1,230,589	1,384,047	649,085