Annual Report 2013

Year Ended February 28, 2013

ONWARD HOLDINGS CO., LTD.

Intent

Onward is changing.

During the past fiscal year, we faced a number of challenges, from a weak European economy to rising manufacturing costs in China. Despite these headwinds, we remained focused and stayed the course set in our medium-term management plan. Utilizing our substantial financial resources and deep expertise in fashion markets, our intent is to become a truly global purveyor of premier apparel and fashion products, the first Japanese company to ever do so.

Domestically, we will further respond to ever-changing customer needs and continue to leverage our core brands while looking for acquisition opportunities to spur growth. Overseas, we are reinforcing our three core properties in Europe, evaluating new sourcing and manufacturing solutions in Asia, and building brand presence in North America.

Meeting the challenges we face now and developing a clear action plan for the future—that is the Onward commitment.

Contents

Forward-looking Statements
Future business plans, targets, and related numerical figures presented in this annual report are intended to give an accurate picture of Onward Group's future prospects. However, no guarantee can be offered that plans, targets, and other numerical figures described herein will 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.

2013–2014 Autumn / Winter
JIL SANDER runway show in Milan

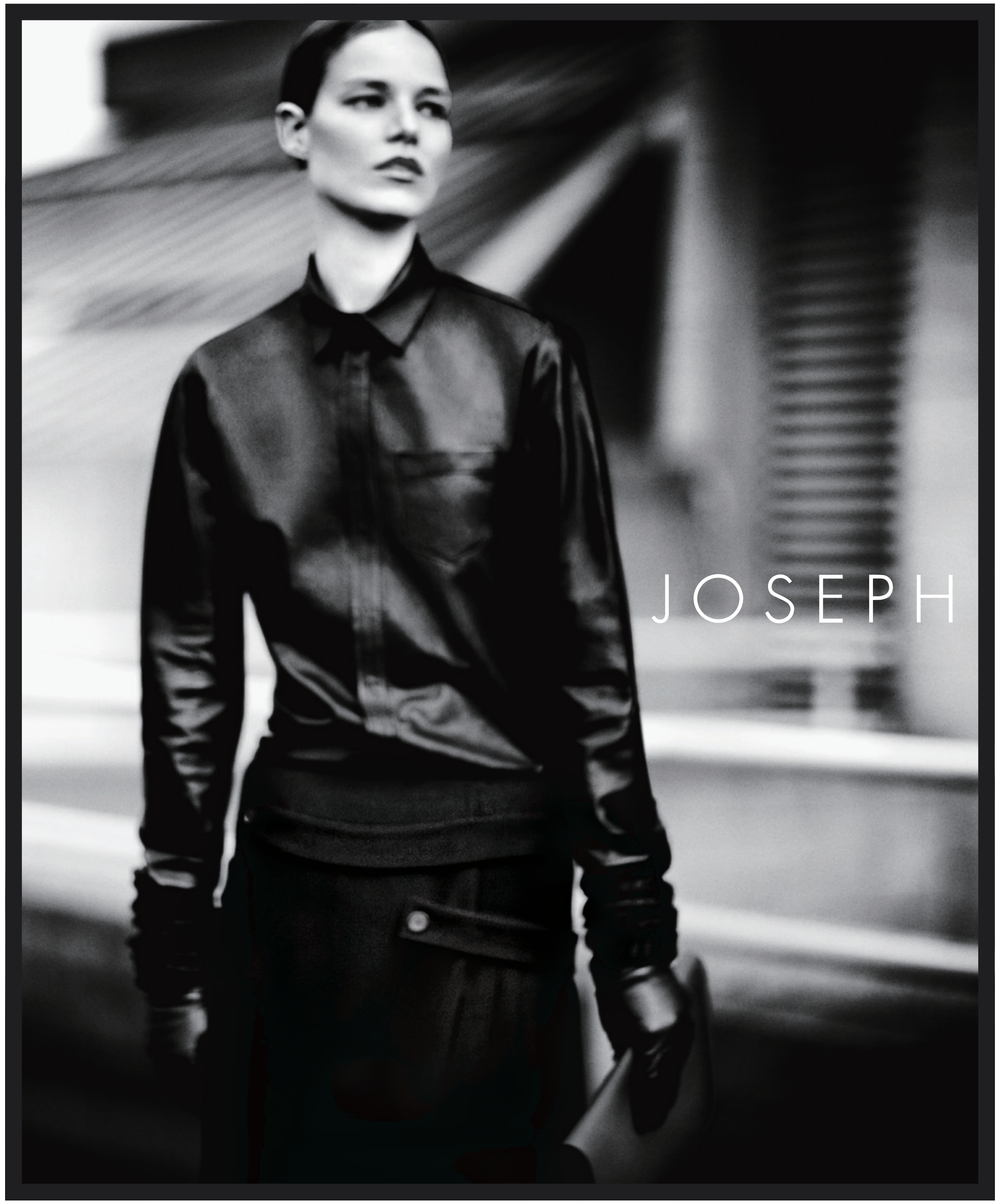
Autumn / Winter 2013 Kumikyoku campaign with the actress Satomi Ishihara

Autumn / Winter 2013 Nijyusanku

Autumn / Winter 2013 Jiyuku

Autumn / Winter 2013 ICB

Autumn / Winter 2013 JOSEPH



Autumn / Winter 2013 JIL SANDER Navy

Key Performance Trends

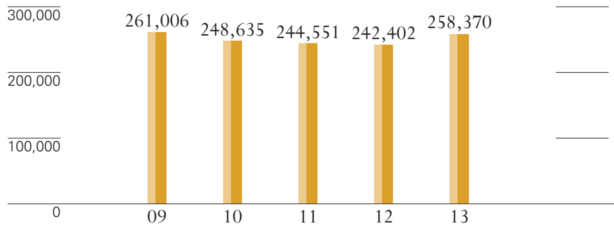
ONWARD HOLDINGS Co., Ltd. and Consolidated Subsidiaries
Years ended February 28 and 29

	Millions of yen					Thousands of U.S. dollars*1
	2009	2010	2011	2012	2013	2013
For the year						
Net sales	¥261,006	¥248,635	¥244,551	¥242,402	¥258,370	$2,792,883
Operating income	9,084	4,384	8,929	10,954	11,193	120,990
Net income (loss)	(30,895)	2,188	2,723	3,529	4,503	48,679
Cash flows from operating activities	10,839	14,058	11,207	13,181	10,138	109,583
Cash flows from investing activities	(40,950)	(26)	(5,152)	(1,962)	(10,683)	(115,475)
Cash flows from financing activities	17,972	(4,890)	(9,272)	(7,449)	(7,848)	(84,837)
Free cash flow*2	(30,111)	14,032	6,055	11,219	(545)	(5,892)
Capital expenditures	4,178	5,794	5,405	6,230	8,949	96,731
Depreciation and amortization	5,986	5,747	5,642	5,478	5,721	61,842
At year-end						
Cash and time deposits	23,415	34,330	30,939	33,192	24,677	266,754
Total assets	296,283	292,569	281,643	276,939	286,779	3,099,984
Total net assets	158,418	158,164	158,745	157,303	165,372	1,787,617

	Yen					U.S. dollars*1
Per share information						
Net income (EPS)	¥ (197.21)	¥ 13.97	¥ 17.38	¥ 22.52	¥ 28.71	$ 0.31
Net assets	1,001.36	998.98	1,002.34	995.11	1,043.64	11.28
Cash dividends	30.00	24.00	24.00	24.00	24.00	0.26
Payout ratio (%)	—	171.9	138.1	106.6	83.6	—
Ratios						
Return on equity (ROE) (%)	(17.6)	1.4	1.7	2.3	2.8	—
Operating margin (%)	3.5	1.8	3.7	4.5	4.3	—
SGA / Sales (%)	41.9	44.2	43.7	43.0	43.9	—
Shareholders' equity ratio (%)	52.9	53.5	55.8	56.3	57.1	—
Other information						
Overseas sales (%)	13.0	17.4	16.0	17.1	17.1	—
Number of full-time employees	2,473	4,008	3,910	3,993	5,208	—

*1. Yen amounts have been translated, for convenience only, at ¥92.51=US$1, the approximate exchange rate on February 28, 2013.
*2. Free cash flow = Cash flows from operating activities + Cash flows from investing activities

Net Sales
¥ million

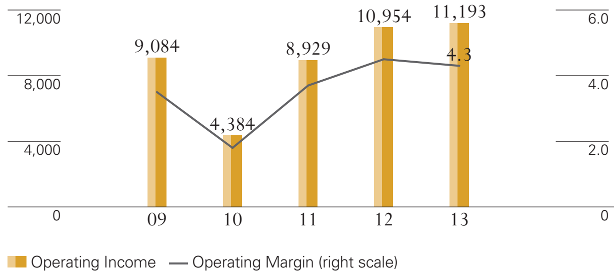


¥258.4 billion
+6.6% (YoY)

Net Sales

Although sales in overseas business operations fell substantially short of forecasts, domestic business operations recorded generally solid sales, and consequently the Company's net sales rose 6.6%, to ¥258.4 billion.

Operating Income and Operating Margin
¥ million/%

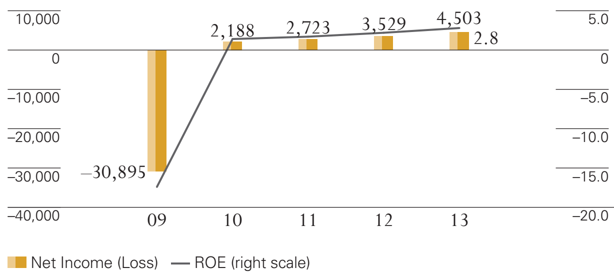


¥11.2 billion
+2.2% (YoY)

Operating Income

Operating income was up 15.1% year on year in domestic business operations, but overseas operations recorded a substantial decline, and as a result the Company's operating income was up 2.2%, to ¥11.2 billion.

Net Income (Loss) and ROE
¥ million/%

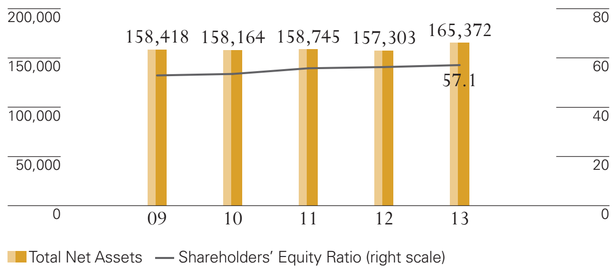


¥4.5 billion
+27.6% (YoY)

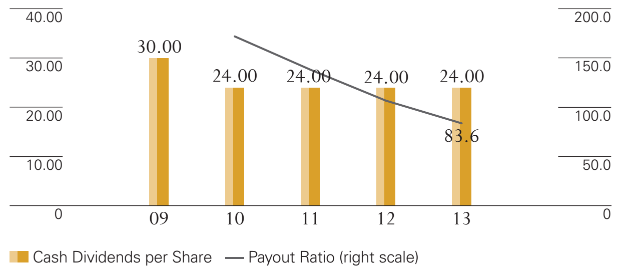
Net Income

Net income increased ¥974 million, or 27.6%, to ¥4.5 billion, and ROE increased 0.5 of a percentage point, to 2.8%.

Total Net Assets and Shareholders' Equity Ratio
¥ million/%



Cash Dividends per Share and Payout Ratio
¥/%



Letter to Our Shareholders

Takeshi Hirouchi

Representative Director, Chairman and President

Dear Shareholders,

In fiscal year 2013, ended February 28, 2013, the Japanese fashion market recovered more rapidly than initially expected from the effects of the devastating impact of the Great East Japan Earthquake, and consumer confidence improved. In contrast, the market situation overseas remained challenging due to economic instability in Europe, coupled with issues surrounding Japan–China relations. As a result, our domestic businesses performed largely in line with expectations, but overseas operations were less than what we had hoped for.

In the domestic business, robust sales of full-price items, particularly in our core brands sold by Onward Kashiyama, helped drive a significant profit rise. I was particularly pleased to see Kumikyoku, our second-largest brand, performing well. In the last few years, Kumikyoku merchandising was somewhat less than chic in the intensely competitive young market, and its sales had stagnated as a result. However, thanks to a revamp of the retail space, better planning, and recent TV advertising campaigns, customers returned to the brand. The Kumikyoku turnaround is particularly satisfying since it coincided with the 20th anniversary of the brand's launch. Other domestic businesses performed in line with expectations, achieving increases in sales and profits.

Our overseas operations were sluggish, with the JOSEPH business in Europe and Chinese retail operations suffering the most. To refresh the JOSEPH brand image, we concentrated on investing in product design and store renovations. Unfortunately, these efforts were largely cancelled out by weak consumer sentiment in Europe as economic problems persisted. In China, we were planning to capitalize on our early success and aggressively grow our retail presence in this large market, particularly in the second half of the fiscal year. However, issues between China and Japan placed a temporary strain on our operations in China, resulting in a shortfall compared with our initial outlook.

In fiscal year 2014, ending February 28, 2014, we are focused on sustaining domestic growth and returning to profitability in our overseas businesses back to fiscal year 2012 levels. In Japan, the once-clear boundaries between business domains continue to disappear as manufacturers enter the retail sphere and retailers increase their involvement in manufacturing. Amid intensified competition, we are maximizing our advantages as an established manufacturer of high-quality, high-value-added products, while at the same time pursuing sales strategies and developing a presence that draws on our expertise in the Japanese retail market. Specifically, we are expanding our presence in train station complexes and urban fashion malls—currently the fastest growing sales channels in Japan—and increasing the number of directly managed stores. Furthermore, we have implemented organizational reforms that will enable our product planning to more accurately reflect consumer opinions, invested in a range of IT systems, and plan to continue acquiring small brands with a proven track record either in Japan or overseas. We plan to take advantage of our strong foundation and market presence in local regions throughout Japan. This includes making greater use of Onward Kashiyama's nationwide network of eight regional offices, which now serve as marketing centers for the Group's fashion brands and its new businesses. Department stores—our main sales channel—have recently seen a recovery in sales. In fact, each of our major department store brands recorded substantially better than their previous year's sales performance. While we have not included any impact from Prime Minister Shinzo Abe's economic reforms in our forecasts for fiscal year 2014, we believe these reforms may boost demand for high-quality, high-value-added products that we pride ourselves on offering to consumers, and may become an additional important driver for our domestic growth.

Overseas, we anticipate the earnings outlook to improve, starting with JOSEPH in Europe. We are in the process of revamping operations at JOSEPH and have adopted a more centralized management structure, including more-thorough controls. We expect the products and stores in which the brand has invested over the past few years to begin generating satisfactory returns shortly. Ms. Jil Sander returned last year as creative director of JIL SANDER. She is at the forefront of efforts to rebuild this premier brand, driven by the vision and ideals that she maintained since establishing JIL SANDER many years ago. We recognize that realizing her creative vision requires time and investment. While some may disagree with our stance and insist on short-term measures to boost returns, given our brand building expertise at Onward, I believe we can create and nurture JIL SANDER into a truly global luxury brand. We aim to build the brand to an acceptable level of profitability within three years, but are currently focused on investing in the brand to make this turnaround a sustained, long-term success story. I feel encouraged by the achievements already made by the GIBO'Co Group, which will serve as the springboard for significant growth in the European fashion business. A fashion conglomerate engaged in apparel production—alongside Iris shoes, Frassineti bags, and Erika knitwear—the GIBO'Co Group is capable of covering the full gamut of high-end apparel and accessories from manufacture to distribution. Our plan in the coming years is to utilize GIBO'Co as the platform for establishing the Onward Luxury Group, which will become the centerpiece of our European business. In Asia, the Chinese market remains a challenge, with the luxury market below its peak and ongoing weak demand for Japanese products. However, we expect our business there to recover somewhat as we open shops in non-department store channels, introduce and grow the presence of our European brands, and tighten production controls. In North America, we are building a stronger sales organization and working to grow our business with the new ICB and J. PRESS lines while promoting dancewear and pet-fashion products, having opened a flagship store in New York last year.

As a result of these measures, for fiscal year 2014 we are targeting overall Group sales of ¥273.0 billion, a 5.7% rise over the previous year. We are expecting operating income of ¥12.9 billion, an increase of 15.3%.

We launched the New Medium-Term Three-Year Plan during fiscal year 2013, marking a new beginning for the Onward Group. We faced a challenging environment during our first year, with some of our goals not being met. However, the core of our growth strategy remains unchanged, and we remain firmly committed to its execution and to delivering results. We believe the transition in the Japanese economy presents a major opportunity, and we will strengthen our domestic businesses to capitalize on this. Overseas, we believe we can prevail in returning our European and Asian businesses back to growth.

I would like to conclude by expressing my gratitude to all our shareholders for their support, cooperation, and trust.

August 2013

Takeshi Hirouchi

Representative Director, Chairman and President

Looking Back on Fiscal Year 2013

Note: Figures for sales and operating income in the Japan and Overseas segments are before eliminations.

Results Overview

In fiscal year 2013, ended February 28, 2013, net sales increased 6.6% compared with the previous fiscal year, to ¥258,370 million, operating income increased 2.2%, to ¥11,193 million, and net income increased 27.6%, to ¥4,503 million.

Japan

Sales

¥227.2 billion

YoY +6.3%

Operating Income

¥15.0 billion

YoY +15.1%

Domestic sales increased 6.3%, to ¥227,206 million, and operating income increased 15.1%, to ¥14,965 million. Sales at the Group's main domestic subsidiary, Onward Kashiyama, increased 4.2%, to ¥156,280 million, while operating income increased 16.0%, to ¥11,049 million. Other domestic subsidiaries also performed well, as their sales increased 11.3%, to ¥70,926 million, while operating income increased 12.5%, to ¥3,916 million. Domestic operations as a whole showed increased profitability over the previous fiscal year in line with forecasts.

Sales at Onward Kashiyama were adversely affected by lingering summer heat in the middle of the fiscal year. Although sales began to pick up toward the end of fiscal year 2013, the recovery was not strong enough to enable the company to achieve its sales target. However, sales of high-margin core brands, and those through new distribution channels, including online sales, were robust, and contributed to an improvement in gross profit margin compared with the previous year. Onward Kashiyama's profitability improved largely as projected, attributable to strict cost controls. Furthermore, other domestic subsidiaries performed in line with our earnings forecasts, and achieved significant profit growth during fiscal year 2013.

Overseas

Sales

¥46.8 billion

YoY +6.6%

Operating Income

¥–945 million

Overseas sales for fiscal year 2013 increased 6.6%, to ¥46,845 million, compared with the previous fiscal year. However, the overseas business recorded an operating loss of ¥945 million compared with operating income of ¥1,090 million in fiscal year 2012. Sales in Europe increased 3.4%, to ¥35,316 million. The European business recorded an operating loss of ¥607 million compared with operating income of ¥964 million for fiscal year 2012. Sales in Asia increased 9.4%, to ¥7,543 million. The Asian business posted an operating loss of ¥147 million compared with operating income of ¥333 million in fiscal year 2012. Overseas sales were significantly lower than initial forecasts, leading to a substantial decline in overseas profitability. As a result, we recognized that achieving growth in overseas operations remains a challenge going forward.

The JIL SANDER and JOSEPH businesses were sluggish in Europe. The JIL SANDER operations recorded a decline in operating income, mainly due to a change in designer, which led to a delay in the shipping of a new season's collection, together with increases in certain expenses. In addition, severe economic conditions in Europe and an unsuccessful merchandising strategy saw sales of the JOSEPH brand decline compared with the previous fiscal year. Year-end inventory write-downs increased at JOSEPH contributing to a significant operating loss for European operations. In Asia, tensions in Japan–China relations coupled with the deteriorating Chinese economy contributed to a large decrease in sales in China, which affected overall overseas sales.

The Year in Brief

2012

April

Onward Holdings

Birz Group Acquired

Acquired the Birz Group, which offers—primarily via outlets inside train station complexes and urban fashion malls—brands popular among women in their 20s to 30s and also possesses its own production capabilities in Vietnam.

September

Onward Kashiyama

Kumikyoku TV Commercials Hit Screens

Popular among young Japanese women, actress Satomi Ishihara was specially selected to be the face of Kumikyoku for the core brand's first TV advertising campaign in 10 years.

September

Jil Sander Japan

JIL SANDER Navy Flagship Store Opened

JIL SANDER Navy opened its world-first flagship store in Tokyo's fashionable Aoyama district.

December

Onward Holdings

Participated in Eco-Products 2012

Centered on its Onward Green Campaign, the Group showcased its environmental and social contribution activities by exhibiting at Eco-Products 2012, Japan's largest environmental exhibition.

2013

January

Chacott, Creative Yoko

Joint Venture Flagship Stores Opened in New York

Chacott and Creative Yoko opened joint venture flagship stores in New York. Chacott by Freed of London deals primarily in ballet and dance wear supplies, and Hannari & Mother Garden handles designer pet products, children's toys, and stationery.

February

J. Press, Inc.

New J. PRESS York Street Flagship Store Opened in New York

As a part of celebrations to mark the 110th anniversary of the J. PRESS brand in 2012, a flagship store with 150 sq.m. of floor space was opened in New York to showcase the debut of the new J. PRESS York Street line targeting the youth market.

Looking Ahead to Fiscal Year 2014

Note: Figures for sales and operating income in the Japan and Overseas segments are before eliminations.

Japan

In fiscal year 2014, ending February 28, 2014, sales in our domestic business are forecast to increase 3.7% compared with the previous fiscal year, to ¥235,653 million. Our operating income is projected to total ¥17,481 million, an increase of 16.8%.

Within these figures, at Onward Kashiyama we anticipate sales of ¥162,000 million, an increase of 3.7%, and operating income of ¥12,400 million, an increase of 12.2%. Our other domestic subsidiaries are expected to record sales totaling ¥73,653 million, an increase of 3.8%, and operating income amounting to ¥5,081 million, an increase of 29.7%, driven by a strengthened focus on profitability.

By commencing summer sales in mid-July 2013, as was the case in 2012, we aim to maintain appropriate sales periods for spring and summer fashion items sold at full prices. From August to mid-October, we plan to enhance product planning and merchandising to correspond with the midsummer and early-autumn season in preparation for a possible heat wave or lingering summer heat, while moving to further improve the gross profit margin. In addition, during the Autumn/Winter season, we will enhance our lineup of high-quality, high-price-tag items, such as cashmere coats, in anticipation of an improvement in the economy and heightened demand ahead of the scheduled hike in Japan's consumption tax rate.

With regard to our sales channels, at Onward Kashiyama we plan to enhance our presence in new distribution channels. To that end, we will increase the number of stores in train station complexes, urban fashion malls, and shopping centers, as well as the number of directly managed stores. At the same time, we will further expand e-commerce while maintaining our strengths in department stores.

We will further strengthen our competitiveness by providing high-quality products so that consumers feel that they are getting more value than the incremental price increases due to the impact of the weaker yen on product costs.

In addition, we are taking the following measures to reduce costs: promotion of low-cost production by conducting production at best-located sites, including within the ASEAN region and factories in Japan, and by reducing import costs; expansion and reinforcement of low-cost management through direct trading; and cost consolidation through logistics integration.

Among our other domestic subsidiaries, Onward Trading will maintain the earnings base of its existing businesses, while enhancing the school uniforms and medical uniforms businesses, which are expected to grow.

Chacott will develop new products, stores, and services geared to the yoga and wellness fields and promote overseas retail business enhancements.

In addition to the August 2013 refurbishment of its flagship store in Daikanyama, Tokyo, Island will aim to improve the sales performance at each of its stores.

As part of efforts to strengthen its fashion accessories business, our holding company, Onward Holdings, has established a joint venture with Charles & Keith, which is building a global fast-fashion business in shoes, bags, and accessories from its base in Singapore, and has begun opening Charles & Keith brand stores in Japan. Steady progress is being made in preparation for three store openings as of the end of August 2013, including a flagship store in Tokyo's Harajuku district.

Autumn/Winter 2013 Kumikyoku campaign

The new flagship store of Grace Continental in Tokyo

Charles & Keith flagship store in Tokyo

Overseas

Our overseas business is expected to account for sales of ¥54,419 million in the fiscal year ending February 28, 2014, a 16.2% increase compared with the previous fiscal year. Operating income is projected to total ¥133 million, compared with an operating loss in the previous fiscal year of ¥945 million.

Europe

At JIL SANDER, from the 2013 Spring/Summer collection Ms. Jil Sander returned as creative director to the eponymous brand she founded. Judging by the acclaim the collection has received, orders are expected to increase. In addition, to raise the profile of JIL SANDER Navy as an independent brand, at the Jil Sander Group we will open flagship stores in Milan and London. To continue building the value of the JIL SANDER brand, we plan to make ongoing investments that focus on strengthening product competitiveness as a top-class luxury brand.

JOSEPH will work to further improve merchandising of Essentials Line items while aiming to achieve a recovery in existing store sales. We also plan to boost the gross profit margin by improving the accuracy of production control systems and promoting the sale of previous-year products. In addition, we expect e-commerce sales via the directly managed website launched in the previous year to increase.

GIBO'Co expects to incur upfront costs due to added expenses for production of garment samples related to securing a contract for a new brand. However, we expect a profit increase, attributable to higher orders for 2013 Autumn/Winter items, as well as an anticipated upswing in our Iris shoe business, where we took steps to expand our plant production capacity during the previous year.

Asia

While maintaining sales through department store channels, at the Onward Group we are taking steps to bolster store openings within other distribution channels, centering on young casual brands. In production, we plan to focus our efforts on strengthening in-house production systems in the ASEAN region.

In response to a slowdown in the Chinese economy and adverse conditions in the luxury goods market, we will place particular emphasis on addressing various aspects of operational efficiency, including point-of-sale operations, item tracking management, and cost controls tailored to a harsh external environment.

United States

In addition to expanding new lines for the J. PRESS and ICB brands, at the Onward Group we will be making upfront investments in brand expansion and promotion expenses in our U.S. business.

While strengthening management systems relating to North American department store channels, we will work to develop the North American market by adding JOSEPH and JIL SANDER Navy to the aforementioned brands.

2013–2014 Autumn/Winter JIL SANDER campaign

JOSEPH 77 Fulham Road store in London

The new shoe factory of Iris in Venice

Summer window display of Nijyusanku GINZA,
the flagship store of the core brand Nijyusanku

Brand History

For more than 50 years, the business strategy of Onward has focused on our brands. As the foundation stones of our business, the strength and value of these brands have continuously enhanced our competitiveness.

Junzo Kashiyama

1927

Company founder Junzo Kashiyama establishes Kashiyama Trading.

1950s to 1960s

Commences production and sale of men's ready-to-wear apparel.

Grows during the 1960s to become Japan's largest manufacturer of men's apparel by introducing unique production techniques and distribution strategies.

Grading machine modifies and cuts basic sewing patterns to match each size

1970s

Develops overseas strategies and establishes local subsidiaries in the United States (1972), France (1973), and Italy (1974).

The popular Bus Stop store on Boulevard Saint-German in Paris, which was acquired in 1973

Onward Kashiyama's U.S. offices

The J. PRESS store in New York

Jean-Paul Gaultier's debut Paris fashion show, 1978

Jean-Paul Gaultier

1977

Interviews the then aged 24, newcomer designer Jean-Paul Gaultier in Paris; makes decision to invest in creative activities, including supporting his first fashion show in Paris in 1978.

U.S. President Gerald Ford presented with a J. PRESS blazer

1986

Acquires long-established U.S. brand J. PRESS, the birthplace of the quintessential Ivy League look.

1990

Acquires GIBO' S.p.A., which manufactures and sells luxury, ready-to-wear apparel in Italy.

Kumikyoku

1992

Launches Kumikyoku brand, targeting 25-year-old women with its "standard clothing that does not stand still" concept.

Launches Gotairiku brand, targeting men in the 30–45 age range. Reflected in this comfortable business wear collection is a seamless blending of contemporary and international fashion trends.

Gotairiku

Nijyusanku

1993

Launches Nijyusanku range for women in their 30s, a collection of high-quality, sophisticated casual wear.

2000

Launches Jiyuku brand under which it proposes high-quality everyday wear, primarily targeting women in their 40s.

1995

Launches women's wear brand ICB (International Concept Brand) in 17 cities across eight countries.

An ICB promotional event in New York

Jiyuku

In the 1990s, Japanese consumers came to value simple clothing that enabled them to deftly change their look to suit the time and occasion, clothing that lent itself well to mixing and matching and yet was also sophisticated.

The brands Onward Kashiyama launched in the 1990s embodied the concept of the norm for clothing originating from Tokyo with Japanese brand names. These have subsequently grown into the core brands of today.

2005

Acquires Joseph Group, which has popular London fashion brand JOSEPH.

JOSEPH

2008

Acquires German-based Jil Sander Group, which brought luxury brand JIL SANDER to global prominence.

2011

Opens Nijyusanku GINZA flagship store in Ginza, Tokyo, with an eye toward Asia.

Interior view of Nijyusanku GINZA flagship store

2012

Budding designer Prabal Gurung brought in as chief designer; ICB NY Exclusive Collection announced via Digital Fashion Show.

The ICB NY Exclusive Collection for Autumn/Winter 2012

2013

Founder of her eponymous brand, Ms. Jil Sander returns as creative director from 2013 Spring/Summer collection.

Onward at a Glance

Onward in Figures (As of February 28, 2013)

Consolidated Net Sales
¥258.4 billion
Japan: 83%
Overseas: 17%

In Business
for 86 years
founded in 1927

Employees
5,208
Group Companies Worldwide

Number of Stores
4,500 stores
in 19 countries

Core Brands

Nijyusanku: Launched in 1993, Nijyusanku is the leading brand of Onward Kashiyama. The brand's core target is working women in their 30s and 40s. Nijyusanku has over 200 stores throughout Japan, most of which are within department stores, and recorded sales of ¥27 billion for the fiscal year ended February 2013. The flagship store, Nijyusanku GINZA, was opened in 2011 in the Ginza district of Tokyo.

Jiyuku: Jiyuku is one of the original Onward Kashiyama brands and was launched in 2000. With a core target of active women aged between 35 and 45, Jiyuku offers modern clothing, perfect for any occasion. Most of the brand's stores are located within department stores, and it made sales of ¥9 billion for the fiscal year ended February 2013.

Kumikyoku: Launched in 1992, Kumikyoku is the second largest brand of Onward Kashiyama. With a target of working women aged around 30 years old, and with the concept of "standard clothing that does not stand still," Kumikyoku has over 150 stores throughout Japan, mostly within department stores, and recorded sales of ¥11 billion for the fiscal year ended February 2013.

ICB: One of Onward Kashiyama's original brands, ICB was launched in 1995 as an international concept brand. ICB targets sophisticated, urban working women in their 30s. Most of the brand's stores are located within department stores, with the brand having achieved sales of ¥9 billion for the fiscal year ended February 2013. The ICB NY Exclusive Collection was launched in 2012 in North America.

JIL SANDER: Launched in 1973 by Ms. Jil Sander in Germany, JIL SANDER is a luxury brand. JIL SANDER has more than 120 stores throughout Europe, Asia, and Japan, and also wholesales throughout the world. Onward Holdings acquired JIL SANDER in 2008. For the fiscal year ended February 2013, JIL SANDER made sales of ¥10.4 billion. In 2011, the brand launched the new casual line JIL SANDER Navy.

JOSEPH: JOSEPH is a London-based global brand with more than 100 stores located in major cities throughout the world. With a concept of "SLICK&CHIC," JOSEPH offers quality, comfortable casual clothing for sophisticated urban men and women. Onward Holdings acquired JOSEPH in 2005, and for the fiscal year ended February 2013, JOSEPH posted sales of ¥8.8 billion.

Main Subsidiaries

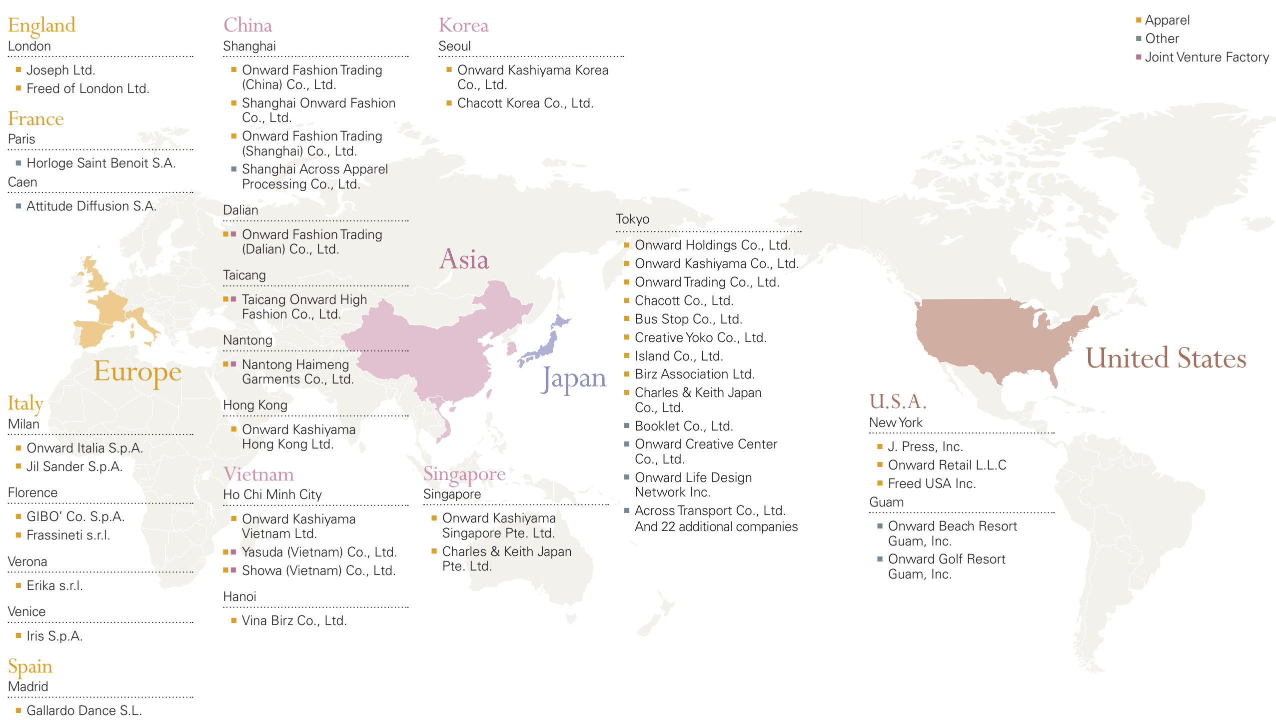
Japan

Company Name	Core Business	Core Brands / Items
Onward Kashiyama	Core company of the Group engaged in the manufacture and sale of men's, women's, and children's wear, kimonos, etc.	Nijyusanku, Kumikyoku, ICB, Jiyuku, J. PRESS, Gotairiku
Onward Trading	Manufacture and sale of uniforms and sales promotion goods.	Company, school, and medical-related uniforms and sales promotion goods
Chacott	Manufacture and sale of ballet and other dance wear, shoes, and related goods.	Chacott, Freed of London
Creative Yoko	Manufacture and sale of pet-fashion items, character accessories, etc.	PET PARADISE, Mother Garden
Island	Manufacture and sale of women's clothing and accessories.	Grace Continental

Overseas

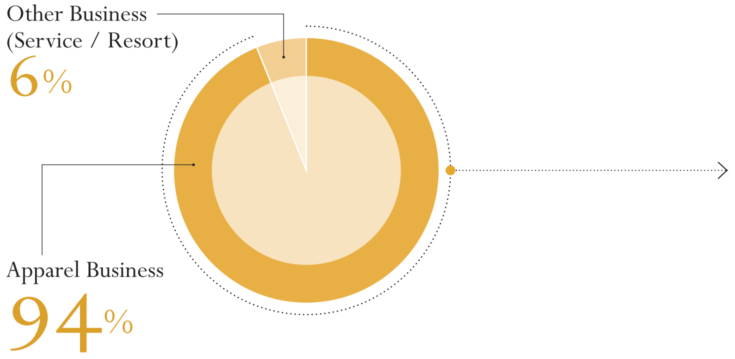
Company Name	Core Business	Core Brands / Items
GIBO'Co	OEM, production, and wholesale of European and American brands.	Designer clothing, knitwear, bags, shoes, etc. for luxury brands
Jil Sander	Manufacture and sale of luxury men's and women's clothing and accessories.	JIL SANDER, JIL SANDER Navy
Joseph	Manufacture and sale of men's and women's clothing and accessories as well as the operation of multi-brand stores.	JOSEPH

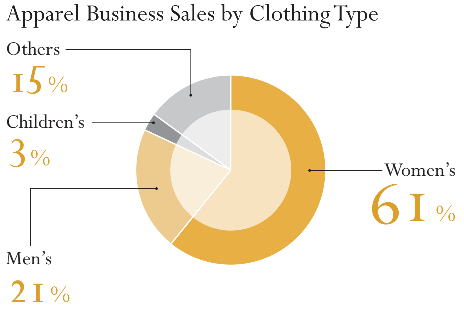
Global Network



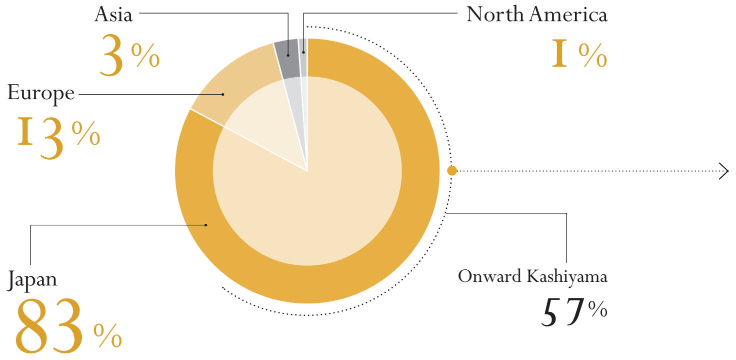
Our Business

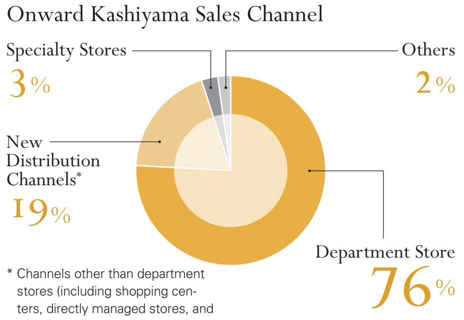
Sales by Business Segment





Sales by Geographic Segment





* Channels other than department stores (including shopping centers, directly managed stores, and e-commerce)

Manufacturing

Our manufacturing capability consists of joint venture and contracted facilities in China and Vietnam, and a manufacturing platform in Europe managed by GIBO'Co. Our manufacturing base is global but with a regional focus.

Onward Kashiyama

Onward Kashiyama employs over 600 professional staff in production planning teams looking after every aspect of the production process from plant selection and technical guidance, to quality control and fabric sourcing. Although we mainly conduct our manufacturing in cooperation with trading companies, we are planning to build our own production network in Japan, China, and the ASEAN region.

Table Showing Production Areas

China	70%
Japan	20%
ASEAN Region	10%

Europe

Italian subsidiary GIBO'Co Group, our production platform in Europe, is in charge of manufacturing and distribution of the full gamut of high-end apparel and accessories. Centered on apparel-maker GIBO'Co, the group comprises several manufacturing companies, such as Iris (shoes), Frassinetti (bags), and Erika (knitwear). In addition to manufacturing our own brands such as JIL SANDER Navy, the GIBO'Co Group is a contract manufacturer for numerous luxury brands.

Sales Channels

We develop our sales activities via a number of different sales channels. Maintaining our strength in department stores, we see new distribution channels as the key to domestic growth.

Department Stores

Department stores are Onward Kashiyama's main sales channel, with over 3,000 shops nationwide. Our Nijyusanku brand is the largest department store brand by revenue in Japan—sold in more than 200 such shops. We have been strategically relocating and redesigning our shops to maximize individual shop sales and their operational efficiency.

Note: when operating shops inside Japanese department stores, apparel manufacturers—while de facto acting as retailers and owning the inventory—would typically book revenues net of department store margin as "wholesales sales." Apart from owning the goods, manufacturers would own some store fixtures, provide their own staff, and be responsible for most merchandising decisions.

New Distribution Channels

Train Station Complexes / Fashion Malls

Centered on young casual brands, this is the fastest growing sales channel in Japan. Here we deploy fashionable and trendy products, such as those from Island and Birz Group, and multi-brand stores.

Directly Managed Stores

At Onward, our brand flagship stores serve as brand billboards, showcasing the brand's image though store design and by carrying the full product line.

Shopping Centers

For Onward, this channel is centered on casual lines and family apparel. We have also started offering a broader range of lifestyle merchandise such as interior design items, cosmetics, and accessories.

E-Commerce

While targeting overall e-commerce sales of ¥10 billion in fiscal year 2015, we plan to expand our Onward Crosset website, which was first launched in December 2009, alongside other initiatives.

Back stage at 2013–2014 Autumn / Winter
JIL SANDER collection

Environmental and Social Contribution Activities

Basic Philosophy

Onward works diligently to enrich people's lives in its role as a lifestyle culture enterprise and positions the preservation of the environment as a key management issue while being environmentally friendly and socially responsible.

Environmental Concept

Thinking of the Earth. Clothing Its People.

The world is evolving faster than ever with fashions and trends changing at a dizzying pace. In recent years, we have seen an increase in products touting low prices, and perhaps many of us feel, more than before, that clothing is becoming disposable. The disposal of clothing as trends change is slowly placing an increasing burden on the environment and may one day significantly affect our lives. The original role of fashion was to enrich and color people's lives while promoting and inspiring prosperity. Fashion should not be something that takes away from our planet's natural environment, nor should it detract from the infinite possibilities of our future.

Onward remains committed to taking on the challenge of achieving harmony with the planet and its people through its corporate activities and a range of products that include fashion items, in its role as a leading organization of the apparel industry that delivers fashion on a global scale.

Our Promise

1. Provide quality products that can be enjoyed over a long period of time.
2. Develop leading-edge technology, products, and services that reduce the burden on the environment.
3. Implement the Onward Green Campaign, which is designed to create an apparel life-cycle circulation system.
4. Implement various environmental conservation measures: enhance the energy efficiency of offices, introduce low-emission vehicles, and implement forest preservation initiatives at the "Tosayama Onward Rainbow Forest."

Our Promise is a reflection of our consideration for the planet's future and our desire to responsibly deliver fashion that enriches and colors people's lives. We are committed to developing strategies that fulfill Our Promise and our responsibilities as a good corporate citizen.

Onward Green Campaign

The Onward Green Campaign is designed to create an apparel life-cycle circulation system.

In comparison to other consumables, the recycling of textile goods is relatively undeveloped. Onward Kashiyama launched the Onward Green Campaign in 2009 with the objective of encouraging the circulation of apparel to promote the efficient utilization of limited resources and to ensure that our precious environment still exists for future generations to enjoy. Onward Kashiyama collects men's, women's, and children's clothing as well as sportswear and other items sold by Onward Kashiyama at Onward Green Campaign collection booths in department stores. These items are recycled and reused where possible. A portion of the collected garments are recycled as yarn, which is then used to create blankets, work gloves, and other recycled textile products that contribute to the organization's environmental and social contribution initiatives.

Tie-up with the Japanese Red Cross Society

Under the Onward Green Campaign, and utilizing the extensive Red Cross network that reaches 186 countries throughout the world, Onward in cooperation with the Japanese Red Cross Society is distributing blankets and work gloves to areas that have been affected by, and are in the process of recovery from, a natural disaster. Work gloves have also been donated domestically to individuals involved in forestry conservation efforts. These gloves have also been distributed and utilized as a part of an awareness building campaign.

Support Program Using Recycled Blankets

— Bangladesh

In May 2010, Onward donated 3,000 recycled blankets, made from garments collected in 2009, to a refugee camp in the Cox's Bazar district of Chittagong in South East Bangladesh. Blankets were also donated to the hospital that provides medical care in the area. The quality and color of the blankets were very much appreciated at each of the facilities. Onward has received letters of thanks from the hospital as well as from doctors and managers. Images of the blankets being distributed also featured in a local newspaper.

— Japan

In September 2011, Onward donated 1,000 recycled blankets to 31 community centers in Miyagi Prefecture that were affected by the March 11 earthquake disaster. In response to the Great East Japan Earthquake, Onward designated a number of affected areas in the Tohoku region as recipients of the recycled blankets and work gloves. In the spring 2012 campaign, Onward successfully collected 55,264 items of clothing from 11,389 customers.

— Kazakhstan

In February 2011, Onward donated 3,000 recycled blankets, made from garments collected in 2010, to refugees, orphans, other socially marginalized people, and communities in Almaty city, Kazakhstan (Central Asia). It has been reported that the recycled blankets have been used during Kazakhstan's harsh winter months, resulting in less cases of serious illness developing from the common cold.

— China

In March 2012, Onward donated 2,000 recycled blankets to a school and other facilities located in the mountainous regions of Sichuan Province that were affected by the earthquake in 2008. The Red Cross continues to work in the region to assist restoration. The recipient school lost both its main and branch campuses in the earthquake. Currently a dormitory is under construction on the main campus to enable those students who previously studied at the branch campus to relocate. The blankets will be used by the students who are to move into the new dormitory.

— Mongolia

In September 2012, Onward donated 2,000 blankets, made from recycled garments collected during spring 2012, in cooperation with the Japanese Red Cross Society. Mongolia is periodically afflicted by snow damage referred to locally as "Dzud." It is not uncommon for several people living in impoverished and other areas to share one blanket during this period. Thanks to this donation, a number of underprivileged people and children attending schools for the disabled received blankets to help them overcome the severity of Mongolia's winter.

Corporate Governance

Our Basic Approach to Corporate Governance

The Onward Group believes that responding promptly to changes in its business environment and ensuring a level of corporate governance that enhances the health, fairness, transparency, and compliance of its management and operations is one of its important responsibilities and integral to increasing corporate and shareholder value. On this basis, every effort is being made to build trusting relationships with all stakeholders including shareholders, and to strengthen the Group's management systems as well as the effectiveness of the Annual General Meeting, the Board of Directors, and the Audit & Supervisory Board. In this manner, the Onward Group is working diligently to bolster its corporate governance.

Directors and the Board of Directors

In order to further clarify the management responsibilities of directors, increase the ability and opportunity to gain the confidence of shareholders, and to put in place an optimal and agile management framework that is capable of responding to changes in the business environment in a timely manner, the Company has set the term of directors at one year. In addition, two of the seven-member Board of Directors are appointed from outside the Company and selected on the basis of their high level of independence. This initiative is aimed at reinforcing the supervisory function of the board.

Reasons for the Appointment of Outside Directors

Name	Reasons for Appointment as an Outside Director
Hachiro Honjo	We are expecting Mr. Honjo to use his business and management experience as a corporate officer to enhance the Company's management, based on his broad perspective, free from the industry to which the Company belongs.
Yoshihide Nakamura	We are expecting Mr. Nakamura to use his abundant experience and knowledge as a member of the management of other companies to enhance the Company's management.

Audit & Supervisory Board Members and the Audit & Supervisory Board

The Company has adopted a company with an Audit & Supervisory Board structure, under which the Company appoints four audit & supervisory board members, two of whom are outside audit & supervisory board members. Audit & supervisory board members have also assigned staff to assist them in carrying out their duties and to strengthen their supervisory function. Each member audits and monitors the performance of directors; their responsibilities include reviewing documentation of important decisions and attending important meetings, such as the Board of Directors' Meetings, Group financial account settlement meetings, and Group Business Management Meetings, in accordance with audit policies and the roles delegated by the Audit & Supervisory Board. In addition, the Internal Control Division and each department are under periodic monitoring in an effort to establish an effective and lawful corporate structure.

The Audit & Supervisory Board meets with the Representative Director and the Accounting Auditor on a regular basis to share and exchange information and opinions. This initiative is also designed to ensure that a structure is in place that is capable of conducting audits in an effective and lawful manner. Moreover, the Audit & Supervisory Board receives reports from each member in accordance with audit policies and the roles delegated by the board. Deliberations are undertaken and resolutions made based on this information as required.

Reasons for the Appointment of Outside Audit & Supervisory Board Members

Name	Reasons for Appointment as an Outside Audit & Supervisory Board Member
Jotaro Yabe	We are expecting Mr. Yabe to use his wide range of experience in government organizations and his deep insight to oversee the Company's operations.
Katsuaki Ohashi	We are expecting Mr. Ohashi to use his broad knowledge and deep insight as a former academic to oversee the Company's operations.

Business Execution Structure

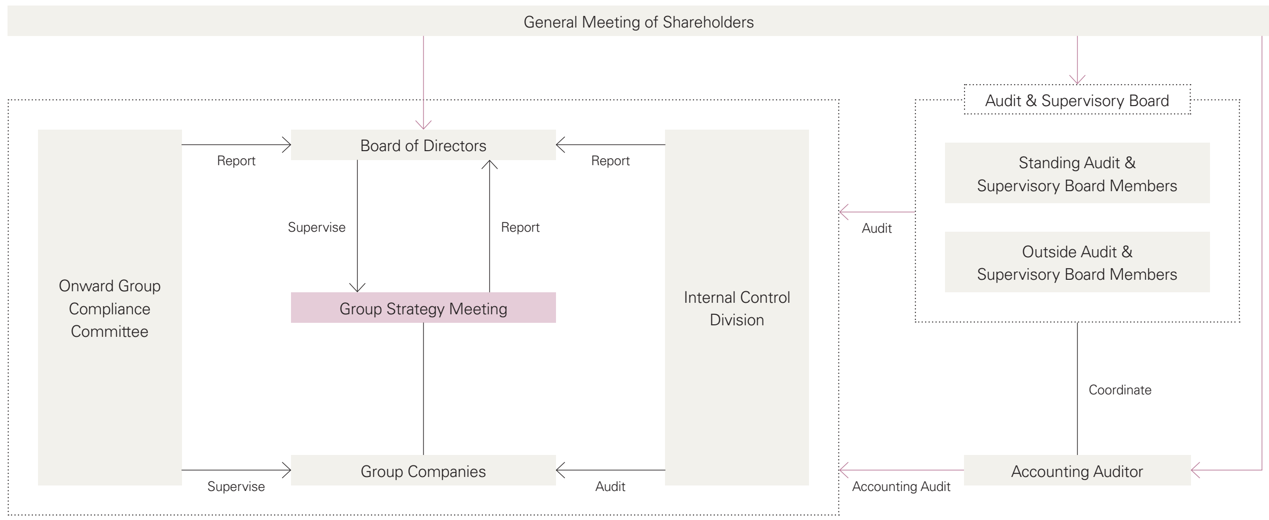
The Onward Group has adopted a holding company structure that allows the Company's Board of Directors to engage in strategic decision-making and supervise operating companies. At the same time, the Group has separated the supervisory and execution functions in order to clarify the responsibilities and authority of each operating company and to facilitate accelerated strategic decision-making.

When matters that require urgent attention arise, the Board of Directors convenes as necessary. In this manner, the Onward Group has a system in place that ensures a swift and appropriate response to rapid changes in the business environment.

Moreover, the Group has introduced an executive officer system with the aim of clarifying other management decision-making and business execution functions. In order to facilitate agile decision-making as a corporate group, the Onward Group Strategy Meeting and Group Business Management Meeting have been established. This is where management strategies and the important management matters of operating companies are debated and where the state of operations is reviewed.

The Onward Group also has advisory contracts with a number of attorneys to receive legal advice.

Corporate Governance Structure



Directors and Audit & Supervisory Board Members Compensation

Compensation paid to directors, excluding outside directors, is comprised of a basic compensation component, bonuses, and stock options.

(The total amounts of compensation paid by officer classification, the total amounts of compensation paid by type of compensation, and details of the number of eligible officers are presented as follows.)

Officer Classification	Total Amount of Compensation Paid (Millions of Yen)	Total Amount of Compensation Paid by Type of Compensation (Millions of Yen)			Number of Eligible Officers
		Basic Compensation	Bonus	Stock Options	
Directors (excluding outside directors)	410	222	120	67	7
Audit & Supervisory Board Members (excluding outside audit & supervisory board members)	36	36	—	—	2
Outside Officers	40	40	—	—	4

Payments of compensation to persons that exceed ¥100 million are disclosed on an individual basis and are presented as follows.

(Total amount of consolidated compensation by officer)

Name (by officer classification)	Total Amount of Consolidated Compensation Paid (Millions of Yen)	Company Classification	Total Amount of Consolidated Compensation Paid by Type of Compensation (Millions of Yen)		
			Basic Compensation	Bonus	Stock Options
Takeshi Hirouchi (Director)	164	Filing company	94	43	26

Compliance Structure

Recognizing that society as a whole is placing greater emphasis on efforts aimed at upgrading and expanding compliance structures, the Onward Group has positioned compliance as an important issue for management. In specific terms, the Group published the Compliance Manual to clearly outline the direction of compliance activities taking into consideration ethical concerns and social norms. Established by the Board of Directors, the Onward Group Compliance Committee takes the lead in conducting continuing educational activities including in-house training as a part of efforts to ensure widespread awareness and understanding. Moreover, the Compliance Division has been positioned to oversee compliance, with energies channeled toward building and promoting an Onward Group compliance structure that is underpinned by the Compliance Manual, which is in turn based on the Onward Compliance Regulations.

Risk Management Structure

The risk management structure has been developed and is operated in line with the Onward Risk Management Regulations. The Compliance Division is responsible for the development of a risk management structure, the identification of issues, and the development of risk management related plans. The division reports to the Board of Directors and works to establish an effective structure to address natural disaster risk, information systems risk, and other risks that may severely impact the continuation of business. Additionally, the Board of Directors works in cooperation with external specialists as the situation requires in order to respond appropriately to such risks.

Board of Directors, Audit & Supervisory Board Members, and Executive Officers

As of May 23, 2013

Board of Directors

Representative Director Chairman and President
Takeshi Hirouchi

Senior Managing Director
Masaaki Yoshizawa

Managing Director
Kenichi Iizuka

Directors
Akinori Baba
Hiroaki Yamada

Outside Directors
Hachiro Honjo
Yoshihide Nakamura

Audit & Supervisory Board Members

Standing Audit & Supervisory Board Members
Hitoshi Aoyama
Kenichiro Tamai

Outside Audit & Supervisory Board Members
Jotaro Yabe
Katsuaki Ohashi

Executive Officers

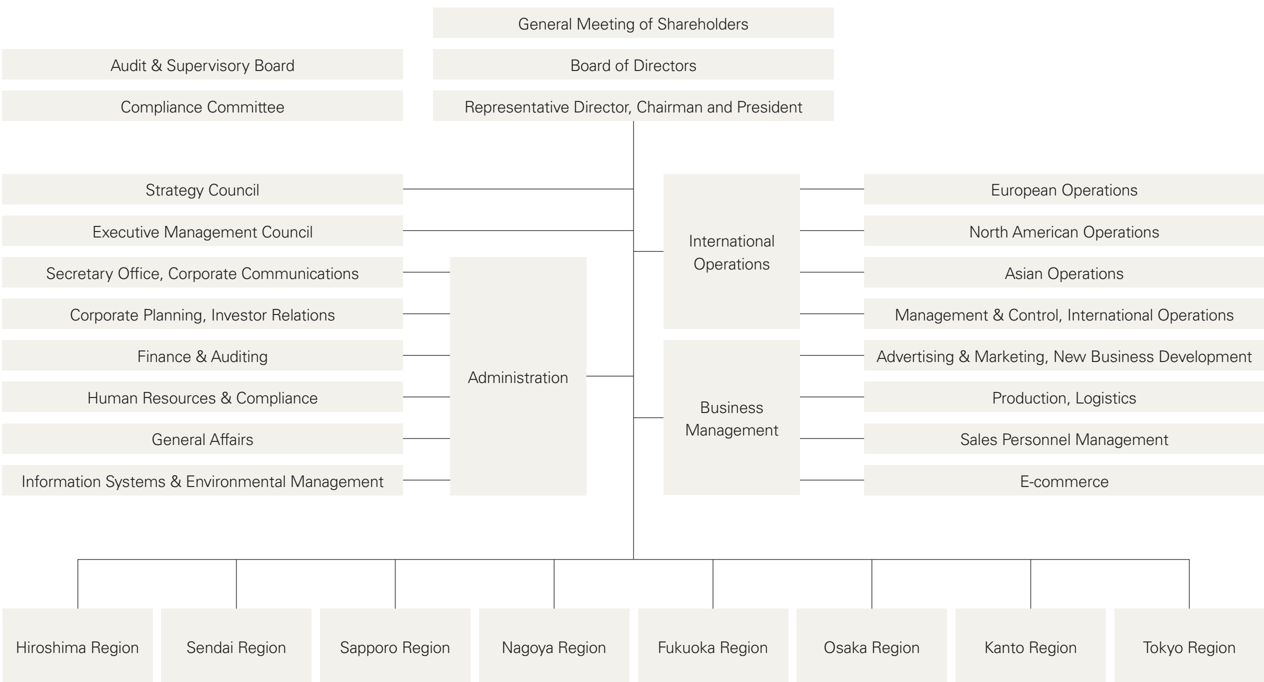
Senior Managing Executive Officer
Hiroshi Ishida

Managing Executive Officers
Michio Ohsawa
Hidenobu Tanaka
Hirokazu Yoshizato
Michinobu Yasumoto
Eihachiro Umemiya
Izumi Sugita
Hisayuki Ichinose

Executive Officers
Kazuyuki Suematsu
Yasuo Yokoyama
Takanobu Yamada
Tomohiko Sakamoto
Osamu Miwa
Masanori Shozu
Keiko Ueno

Organization Chart

As of March 1, 2013



Financial Section

Contents

Note: In the financial section, reporting is based on the Annual Securities Report (*Yukashoken-Houkokusho*) that is filed with the Financial Services Agency (FSA). As a result, information is presented in accordance with the reportable segments, Apparel Business and Other Business.

Six-Year Financial Summary

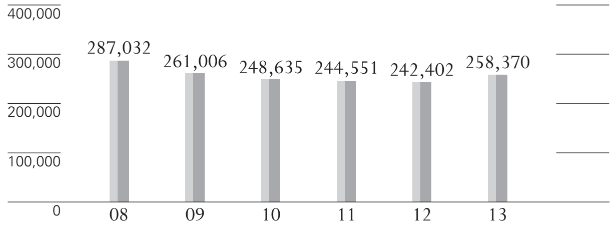
ONWARD HOLDINGS Co., Ltd. and Consolidated Subsidiaries
Years ended February 28 and 29

	Millions of yen						Thousands of U.S. dollars*1
	2008	2009	2010	2011	2012	2013	2013
For the year							
Net sales	¥287,032	¥261,006	¥248,635	¥244,551	¥242,402	¥258,370	$2,792,883
Cost of sales	156,842	142,676	134,459	128,726	127,288	133,879	1,447,180
Selling, general and administrative expenses	111,562	109,246	109,792	106,896	104,160	113,298	1,224,713
Operating income	18,628	9,084	4,384	8,929	10,954	11,193	120,990
Ordinary income	24,128	6,285	6,120	10,497	13,330	13,405	144,905
Income taxes, current	9,780	4,639	4,016	5,555	7,528	7,398	79,973
Net income (loss)	12,214	(30,895)	2,188	2,723	3,529	4,503	48,679
Cash flows							
Cash flows from operating activities	12,503	10,839	14,058	11,207	13,181	10,138	109,583
Cash flows from investing activities	(20,610)	(40,950)	(26)	(5,152)	(1,962)	(10,683)	(115,475)
Cash flows from financing activities	(12,583)	17,972	(4,890)	(9,272)	(7,449)	(7,848)	(84,837)
Free cash flow*2	(8,107)	(30,111)	14,032	6,055	11,219	(545)	(5,892)
Capital expenditures	9,566	4,178	5,794	5,405	6,230	8,949	96,731
Depreciation and amortization	7,340	5,986	5,747	5,642	5,478	5,721	61,842
At year-end							
Cash and time deposits	36,849	23,415	34,330	30,939	33,192	24,677	266,754
Total current assets	112,519	98,946	100,680	95,545	98,895	100,320	1,084,434
Total property, plant and equipment	95,008	90,175	89,742	86,623	82,988	86,862	938,947
Total assets	309,092	296,283	292,569	281,643	276,939	286,779	3,099,984
Total current liabilities	93,321	92,369	90,929	82,677	84,091	100,740	1,088,965
Total shareholders' equity	213,625	178,023	175,450	174,454	176,320	177,142	1,914,839
Total net assets	197,639	158,418	158,164	158,745	157,303	165,372	1,787,617

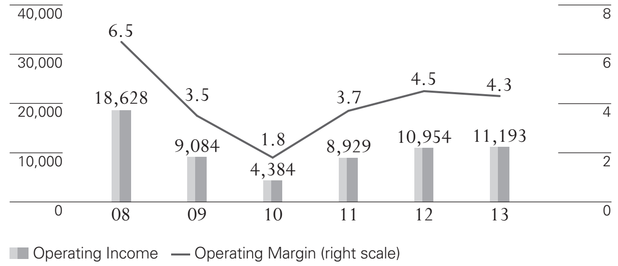
	Yen						U.S. dollars*1
Per share information							
Net income (EPS)	¥ 76.53	¥ (197.21)	¥ 13.97	¥ 17.38	¥ 22.52	¥ 28.71	$ 0.31
Net assets	1,243.80	1,001.36	998.98	1,002.34	995.11	1,043.64	11.28
Cash dividends	30.00	30.00	24.00	24.00	24.00	24.00	0.26
Payout ratio (%)	39.2	—	171.9	138.1	106.6	83.6	—
Ratios							
ROE (%)	6.1	(17.6)	1.4	1.7	2.3	2.8	—
ROA (%)	4.0	(10.4)	0.7	1.0	1.3	1.6	—
Operating margin (%)	6.5	3.5	1.8	3.7	4.5	4.3	—
Gross profit margin (%)	45.4	45.3	45.9	47.4	47.5	48.2	—
SGA / Sales (%)	38.9	41.9	44.2	43.7	43.0	43.9	—
Shareholders' equity ratio (%)	63.0	52.9	53.5	55.8	56.3	57.1	—
Other information							
Number of full-time employees	2,469	2,473	4,008	3,910	3,993	5,208	—

*1. Yen amounts have been translated, for convenience only, at ¥92.51=US$1, the approximate exchange rate on February 28, 2013.
*2. Free cash flow = Cash flows from operating activities + Cash flows from investing activities

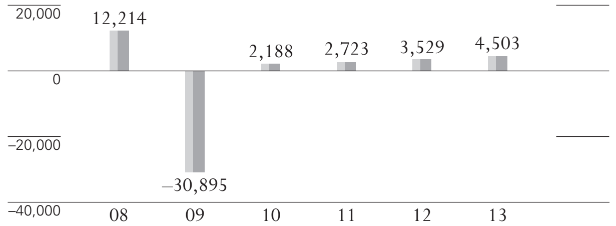
Net Sales
¥ million



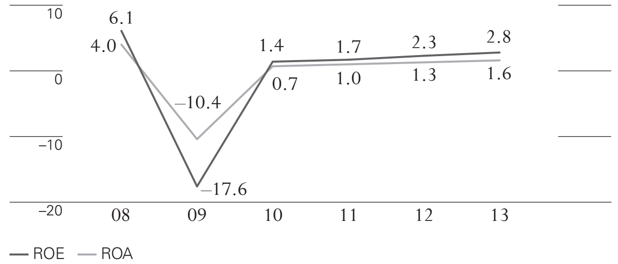
Operating Income and Operating Margin
¥ million/%



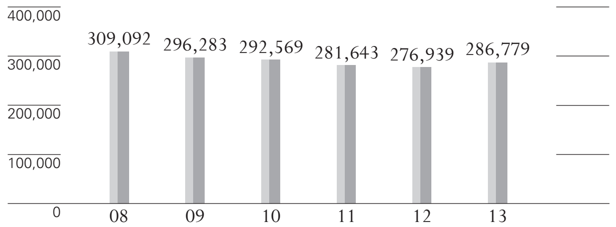
Net Income (Loss)
¥ million



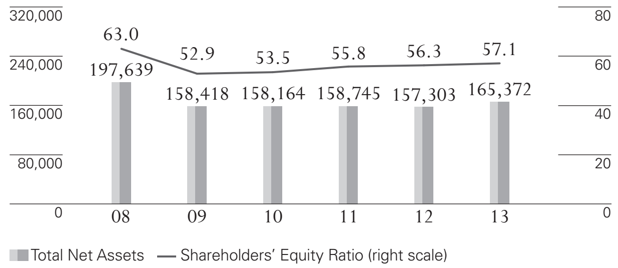
ROE and ROA
%



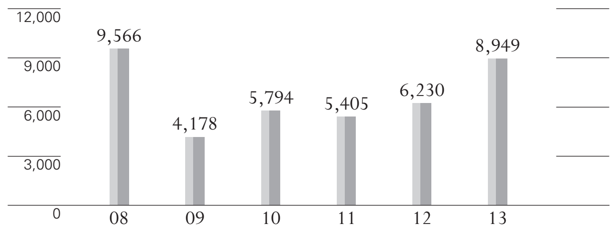
Total Assets
¥ million



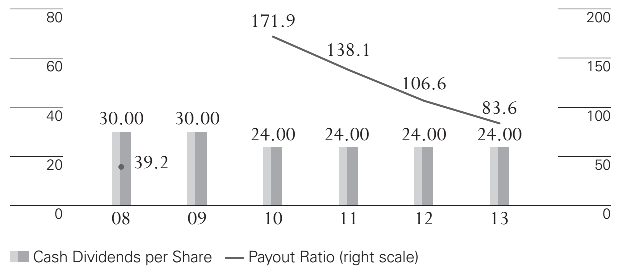
Total Net Assets and Shareholders' Equity Ratio
¥ million/%



Capital Expenditures
¥ million



Cash Dividends per Share and Payout Ratio
¥/%



Management's Discussion and Analysis

Overview of Operating Results

In fiscal year 2013, ended February 28, 2013, the Japanese economy exhibited signs of recovery, spurred on by such factors as reconstruction-related demand in the aftermath of the Great East Japan Earthquake, which devastated parts of the nation in March 2011. However, prospects remained uncertain, mainly due to impacts of the ongoing debt crisis in Europe and a slowdown in economic growth in emerging countries. On a positive note, there were expectations that stimulus measures announced by the new administration led by Prime Minister Shinzo Abe since December 2012 would help lift the country's economic performance. This in turn triggered a turnaround in stock prices and a correction of the yen.

In the domestic apparel and fashion industries, consumer sentiment rebounded after a period of weakness following the 2011 earthquake. This contributed to a modest recovery, particularly for spring items. Overall, however, market conditions remained somewhat harsh, reflecting such factors as lingering summer heat in early autumn 2012 and fluctuating consumer sentiment.

Against this backdrop, we at the Onward Group launched our new medium-term three-year plan, which clearly positions "fashion" as the main focus of our Group's activities, and includes steps to strengthen our domestic and overseas businesses.

In our domestic businesses, although sales at Onward Kashiyama were not as robust as we had anticipated, both sales and profits did increase substantially. Results in our other mainstay apparel businesses were essentially in line with our expectations.

In our overseas businesses, we carried out aggressive investments with the aim of moving our global business onto a sound growth trajectory. Despite such efforts, earnings slumped compared with the previous fiscal year. Overall, our Group's efforts did not lead to the expected growth in our businesses, with this outcome largely due to instability in global political and economic conditions.

While there may be several challenges remaining in our Group's overseas business activities, on a consolidated basis net sales and operating income have recovered from the downturn in the previous fiscal year as a result of the earnings growth in Japan.

Net Sales

Sales in our Apparel Business increased 6.7% compared with the previous fiscal year, to ¥242,676 million, while sales in our Other Business climbed 5.5%, to ¥15,694 million. As a result, our consolidated net sales grew ¥15,968 million, or 6.6%, compared with the previous fiscal year, to ¥258,370 million.

Gross Profit

While cost of sales climbed 5.2%, to ¥133,879 million, we achieved gross profit of ¥124,491 million, an increase of ¥9,377 million compared with the previous fiscal year. This was largely attributable to our growth in net sales. Our gross profit margin improved 0.7 of a percentage point, to 48.2% in fiscal year 2013, from 47.5% in fiscal year 2012, mainly due to an improvement in our domestic business, despite a slide in gross profit margins at our overseas subsidiaries.

Operating Income

Our selling, general and administrative (SG&A) expenses grew 8.8% over the previous fiscal year, to ¥113,298 million. Our SG&A expense-to-net sales ratio was 43.9%, up from 43.0% in the previous fiscal year. While at Onward Kashiyama we were successful in curtailing SG&A expenses by ¥1,600 million compared with our initial plan, the overall increase largely reflected the ¥2,500 million added SG&A expense following the consolidation of the Birz Group. As a result, our operating income margin contracted to 4.3% from 4.5%. However, bolstered by our strong net sales, operating income improved ¥239 million, or 2.2%, compared with the previous fiscal year, to ¥11,193 million.

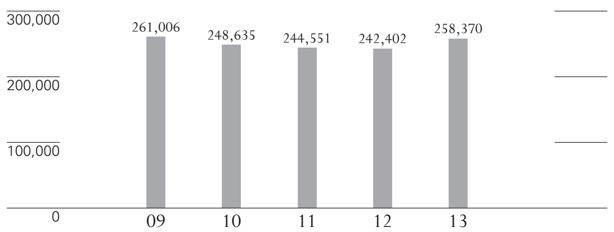
Other Income (Expenses)

Our other expenses, net, amounted to ¥3,444 million compared with other income, net, of ¥116 million in the previous year. Despite the absence of such items as loss on adjustment for changes of accounting standard for asset retirement obligations of ¥1,086 million and loss on reconstruction of ¥1,320 million incurred in the previous fiscal year, as well as a gain on transition of retirement benefit plan totaling ¥1,951 million, the reporting of other expenses, net, was mainly attributable to a loss on write-down of investments in securities of ¥415 million, which was ¥386 million higher than in the previous fiscal year, and an impairment loss on fixed assets of ¥6,919 million, which increased ¥6,567 million.

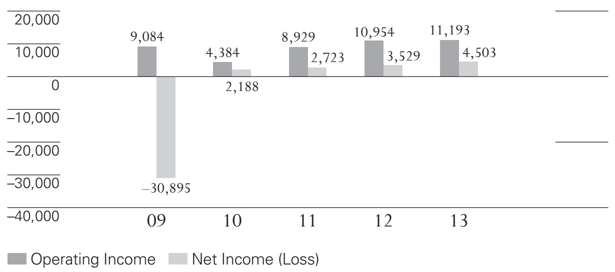
Income before Income Taxes and Minority Interests and Net Income

Our income before income taxes and minority interests was ¥7,749 million, a decrease of ¥3,321 million, or 30.0%, compared with the previous fiscal year. Income taxes declined ¥4,262 million, or 57.2%, to ¥3,189 million from ¥7,451 million in the previous fiscal year. Accounting for these factors, our net income was ¥4,503 million, an increase of ¥974 million, or a gain of 27.6% over the previous fiscal year.

Net Sales



Operating Income and Net Income (Loss)



Segment Information

Apparel Business

In the fiscal year ended February 28, 2013, sales in our Apparel Business segment climbed 6.7% compared with the previous fiscal year, to ¥242,676 million, and our operating income edged up 1.3%, to ¥14,489 million.

Domestic Business

Despite a shortfall in sales, we managed to achieve an improvement in our gross profit margin at Onward Kashiyama, mainly attributable to robust sales in our highly profitable core brands as well as favorable contributions from new distribution channels, including e-commerce. Earnings increased in line with our initial plans due to our successful efforts to control operating expenses in relation to sales. Earnings at our other domestic subsidiaries also increased as expected.

Overseas Business

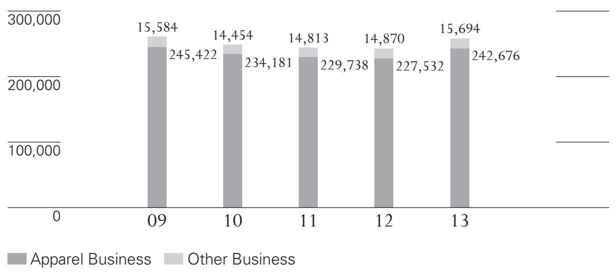
We at the Onward Group took aggressive steps to bolster our overseas business, which included investments and product launches in Europe and Asia in accordance with our business expansion plan. Despite such efforts, results fell somewhat short of our expectations, mainly owing to a downturn in economic conditions and political instability, which resulted in a sharp and dramatic drop in consumption. As a result, our Group recorded a decline in earnings, leaving us faced with several challenges in our overseas business growth strategy.

Other Business

In the fiscal year ended February 28, 2013, sales in our Other Business segment increased 5.5% compared with the previous fiscal year, to ¥15,694 million, and our operating income jumped 153.2%, to ¥333 million.

In our service-related businesses, Onward Creative Center, which designs and constructs commercial facilities, took steps to expand sales by cultivating new businesses. As a result, the company became profitable. Across Transport, which provides apparel logistics and transportation services, worked to boost logistics contracts for customers outside the Onward Group, and consequently achieved increases in both sales and profits. Our resort business posted higher sales and profits thanks largely to a substantial increase in visitors to our resort facilities, coupled with our efforts to enhance operating efficiency. As a result, our resort business achieved a turnaround and achieved operating income for the fiscal year under review.

Segment Sales



Outlook for the Fiscal Year Ending February 28, 2014

For the fiscal year ending February 28, 2014, we at the Onward Group forecast that our operating income will grow 15.3%, to ¥12,900 million, supported by a 5.7% gain on net sales of ¥273,000 million. We forecast that our net income will increase 11.0%, to ¥5,000 million.

Although prospects for the Japanese economy have begun to look brighter during the current modest recovery phase, various global economic issues—including the prolonged debt crisis in Europe and uncertainty created by a slowdown in China's rate of economic growth—leave little room for complacency. Personal consumption in Japan is likely to remain sluggish as consumers keep a tight rein on spending based on concerns over the weak employment market and rising living costs. Hence, market conditions are expected to remain difficult.

Under these circumstances, and guided by our medium-term three-year plan launched in March 2012, we at the Onward Group intend to continue strengthening our domestic and overseas businesses, while working to further enhance our growth potential. We plan to aggressively expand our sales efforts by focusing on our expertise, namely "fashion."

Domestic Business

Domestically, we at the Onward Group will focus on facilitating steady growth in our existing businesses while working to improve our profit margin. At the same time, our efforts will be focused on bolstering productivity by shifting personnel to new businesses and pursuing structural reforms, including management. In new businesses, we will promote the development of fields and markets that have significant growth potential. Taking advantage of our synergies in existing businesses, we will especially emphasize expanding profits in new business fields.

Overseas Business

We at the Onward Group have implemented several organizational and operational reform measures in our European and Asian subsidiaries, where several issues remain unresolved from the previous period. We expect our overseas earnings to substantially improve during the coming year, supported by a steady recovery in overseas markets. Looking ahead, we are committed to steadfastly growing our global business. In addition to effective investments, we will implement efforts to improve efficiency of our overseas business operations to achieve our yearly business targets.

We at the Onward Group will also pursue M&A opportunities in Japan and overseas, recognizing these activities as a potential means to enhance growth, and expand businesses in new fields, while significantly boosting synergies with our existing businesses.

Financial Position

Assets

As of February 28, 2013, our total assets increased ¥9,840 million from the previous fiscal year, to ¥286,779 million. Our current assets grew ¥1,425 million, mainly from an increase in inventories, as well as deferred tax assets. Fixed assets also increased ¥8,415 million, largely owing to increases in buildings and structures on the back of capital expenditure as well as an increase in investments in securities, reflecting higher market values of stockholdings.

Liabilities

Our total liabilities as of February 28, 2013, increased ¥1,771 million from the previous fiscal year, to ¥121,407 million. Despite a decrease in accrued income taxes, our current liabilities grew ¥16,649 million, mainly attributable to an increase in the current portion of long-term loans payable. Long-term liabilities declined ¥14,878 million, due to a decrease in long-term loans payable.

Net Assets

As of February 28, 2013, our net assets increased ¥8,069 million from the previous fiscal year, to ¥165,372 million. Our shareholders' equity increased ¥822 million, reflecting growth in retained earnings. Accumulated other comprehensive income expanded ¥6,907 million, mainly attributable to an increase in net unrealized gains on available-for-sale securities given the improvement in market values of our stockholdings.

Cash Flows

Cash Flows from Operating Activities

Our net cash provided by operating activities for fiscal year 2013, declined ¥3,043 million from the previous fiscal year, to ¥10,138 million, mainly related to an increase in income taxes paid of ¥3,316 million.

Cash Flows from Investing Activities

Our net cash used in investing activities for fiscal year 2013, totaled ¥10,683 million, an increase of ¥8,721 million over the previous fiscal year, mainly due to investments in sales facilities and the acquisition of shares in the Birz Group.

Cash Flows from Financing Activities

Our net cash used in financing activities for fiscal year 2013, increased ¥399 million, to ¥7,848 million, attributable to repayment of long-term loans and dividends paid.

Our cash and cash equivalents as of February 28, 2013, declined ¥7,543 million, to ¥24,545 million.

Capital Expenditure

We at the Onward Group undertake capital expenditure on a continuous basis in order to upgrade and expand our planning, production, sales, and logistics structures and systems. Our Group's capital expenditure is the wellspring that enables us to address the diverse needs of our customers. In the fiscal year ended February 28, 2013, our capital expenditure totaled ¥8,949 million.

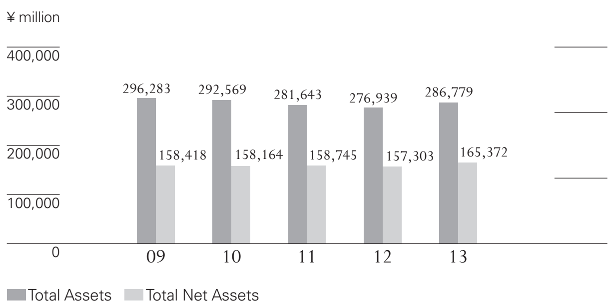
In the Apparel Business segment, capital expenditure totaled ¥6,258 million, the majority most of which was channeled to sales floors at department stores and directly managed stores with the aim of strengthening our Group's sales structure and systems. In the Other Business segment, we at the Onward Group invested ¥825 million to upgrade commercial facilities and enhance operational efficiency.

Profit Distribution Policy

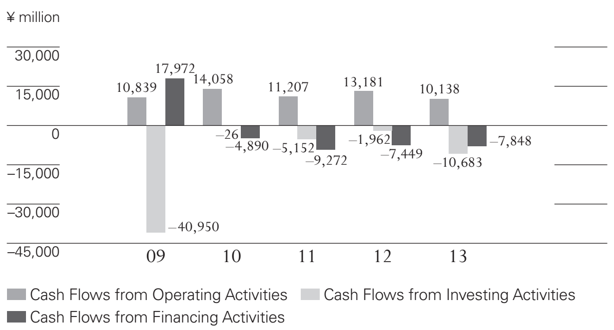
We at Onward Holdings recognize that the distribution of profits to shareholders is one of our top priorities. Our basic policy is to distribute regular and stable dividends to shareholders based on our business performance, and target a dividend payout ratio of at least 35%. Taking into consideration our business results and the future outlook for our Group's operating environment, we at Onward Holdings decided to distribute a cash dividend of ¥24.00 per share for the fiscal year ended February 28, 2013, the same payout as the previous fiscal year.

We intend to utilize our retained earnings flexibly and adopt a balanced approach to meet our funding requirements. Based on this policy, our retained earnings will be used for strategic investments to build a solid business foundation and strengthen our financial position as and when considered appropriate.

Total Assets and Total Net Assets



Cash Flows



Operating Risks

Risks that may have an impact on our Group's operations are outlined as follows. After determining the potential for these risks to materialize, we at the Onward Group will implement measures designed to mitigate these risks or to minimize their impact.

Forward-looking statements in this section are based on the Group's judgments in light of information available at the time this report was prepared.

Changes in Consumer Needs

To respond accurately to customer needs regarding fashion products, we work to develop original and competitive products through the implementation of our Brand-Leverage Management policy. However, our performance targets in our business plan may be challenging at times, due to a number of external factors, such as sluggish consumer spending as a result of fluctuations in economic conditions, increased competition, and sudden changes in fashion trends. Falling short of our targets may have an impact on our Group's performance.

Weather Conditions and Disasters

Sales of our Group's mainstay fashion products may be affected by the weather. Consequently, we as a Group have put in place, and continue to strengthen our systems for planning and production for a quick turnaround cycle. However, unseasonal weather over a prolonged period, such as cool weather in the summer or warm weather in the winter, or a series of typhoons, may result in the loss of sales opportunities during peak seasons. Such developments may have an adverse impact on our Group's business performance.

In addition, the occurrence of a natural disaster, such as an earthquake, a flood, a fire or an accident, or an outbreak of an epidemic, such as a new strain of influenza, may compel us at the Onward Group to suspend our business operations. Such an occurrence may have an adverse impact on our Group's business performance.

Product Liability

We at the Onward Group adhere to strict quality control of our products in accordance with established quality control standards. Despite the implementation of such quality control systems, a product liability incident may still occur as a result of matters relating to our Group or business partners, which may undermine the image of both our Group and brands, leading to a substantial cost burden. Such an outcome may have an adverse impact on our Group's business performance.

Business Partners

We at the Onward Group have put in place and are strengthening internal systems for periodically assessing the operating conditions and creditworthiness of our business partners. However, we may still incur losses due to bad debts if a business partner fails to fulfill its financial obligations, or as a result of an unexpected bankruptcy of a large retail complex. Such an occurrence may have an adverse impact on our Group's business performance as well.

Intellectual Property

We at the Onward Group own trademarks and other intellectual properties in Japan and overseas. We strive to safeguard the rights relating to such property in accordance with laws and regulations. However, in the event of an infringement of such rights by a third party, both the image of our Group and brand image may be undermined, resulting in impairment of our Group's product development activities. Such an occurrence may have an adverse impact on our Group's business performance.

Moreover, we at the Onward Group are actively engaged in licensed brand business activities. In undertaking these activities, we as a Group secure rights to use intellectual property owned by our overseas partners. For unexpected reasons, the relevant contracts may be cancelled or the terms and conditions may become unfavorable upon renewal. Such an outcome may have an adverse impact on our Group's business performance.

Legal Procedures and Compliance

In doing business, the Onward Group pays careful attention to laws and regulations—including those concerning antitrust, the treatment of subcontractors, labeling, consumer product safety, as well as environment- and recycling-related laws—and strives to ensure compliance. The Onward Group Compliance Committee spearheads the Group's efforts to raise awareness about the importance of ensuring legal compliance and maintaining internal control procedures. Despite the implementation of such control systems, an issue may arise as a result of the illegal acts of an employee or a business partner and may undermine the trust placed in the Company by society, leading to a substantial cost burden, such as the payment of indemnities. Such an eventuality may have an adverse impact on our Group's business performance.

Information Security

We at the Onward Group have implemented comprehensive measures aimed at ensuring the security of our information systems. Regarding the treatment of personal information, we have established "Guidelines concerning the Personal Information Protection Law" and strive to enhance information security awareness among all officers and employees. Although we as a Group are strengthening our information management systems, an issue may arise as a result of an information leak due to unauthorized access in our Group's computer systems or criminal behavior that may undermine the trust placed in us by society, leading to an increased cost burden. Such an occurrence may have an adverse impact on our Group's business performance.

Overseas Business Operations

Our overseas business operations of the Onward Group are exposed to a range of risks, including natural disasters, political turmoil, changes in social and economic conditions, terrorism, war, fluctuations in foreign currency exchange rates, lawsuits related to intellectual property, and infectious diseases. In the event that such a risk materializes, it may become difficult for us to continue our business operations in the affected region. Such an occurrence may have an adverse impact on our Group's business performance.

Business and Capital Tie-ups

As a part of our growth strategies, we at the Onward Group undertake a variety of investments in Japan and internationally through a broad spectrum of vehicles, including M&A transactions. In the event of deterioration in business performance and financial position owing to a change in the business environment that exceeds expectations, we may record a loss on impairment of goodwill. Such an occurrence may have an adverse impact on our Group's business performance.

Consolidated Balance Sheets

ONWARD HOLDINGS Co., Ltd. and Consolidated Subsidiaries
February 29, 2012 and February 28, 2013

ASSETS	Millions of yen 2012	Millions of yen 2013	Thousands of U.S. dollars (Note 2. (22)) 2013
Current assets:			
Cash and time deposits (Notes 3 and 10)	¥ 33,192	¥ 24,677	$ 266,754
Accounts and notes receivable (Note 3)	25,257	25,864	279,577
Inventories (Note 2. (4))	31,445	34,476	372,686
Deferred tax assets (Note 12)	3,821	7,932	85,737
Other current assets	5,567	7,823	84,568
Less: Allowance for bad debt	(387)	(452)	(4,888)
Total current assets	98,895	100,320	1,084,434
Property, plant and equipment (Note 6):			
Buildings and structures	76,491	78,572	849,338
Other depreciable property	27,563	30,798	332,915
Less: Accumulated depreciation	(70,479)	(72,570)	(784,455)
	33,575	36,800	397,798
Land (Note 13)	49,413	50,062	541,149
Total property, plant and equipment	82,988	86,862	938,947
Intangible assets, net:			
Goodwill	40,794	32,770	354,227
Other	2,701	2,688	29,058
Total intangible assets, net	43,495	35,458	383,285
Investments and other assets:			
Investments in securities (Notes 3 and 4)	35,179	42,730	461,898
Long-term loans receivable	5,029	5,276	57,029
Long-term prepaid expenses	743	1,212	13,103
Deferred tax assets (Note 12)	4,495	3,601	38,921
Other investments	8,916	13,862	149,845
Less: Allowance for bad debt	(2,801)	(2,542)	(27,478)
Total investments and other assets	51,561	64,139	693,318
Total assets	¥276,939	¥286,779	$3,099,984

LIABILITIES AND NET ASSETS	Millions of yen 2012	Millions of yen 2013	Thousands of U.S. dollars (Note 2. (22)) 2013
Current liabilities:			
Accounts and notes payable (Note 3)	¥ 33,238	¥ 33,513	$ 362,262
Short-term loans payable (Notes 3 and 15)	26,427	28,614	309,308
Current portion of long-term loans payable (Notes 3 and 15)	3,439	18,967	205,029
Accrued income taxes	5,700	4,830	52,205
Accrued bonuses to employees	1,266	1,290	13,942
Accrued bonuses to directors	267	252	2,726
Allowance for sales returns	514	528	5,712
Provision for point program	202	249	2,695
Allowance for losses on reconstruction	1,320	—	—
Other current liabilities	11,718	12,497	135,086
Total current liabilities	84,091	100,740	1,088,965
Long-term liabilities:			
Bonds (Note 15)	90	250	2,702
Long-term loans payable (Notes 3 and 15)	19,640	1,324	14,312
Deferred tax liabilities—revaluation of land (Notes 12 and 13)	3,966	3,966	42,875
Accrued retirement benefits (Note 8)	4,123	3,058	33,057
Accrued retirement benefits for directors and corporate auditors	140	153	1,648
Other	7,586	11,916	128,808
Total long-term liabilities	35,545	20,667	223,402
Total liabilities	119,636	121,407	1,312,367
Commitments and contingent liabilities (Notes 11 and 14)			
Net assets:			
Shareholders' equity (Note 16):			
Common stock:			
Authorized—400,000,000 shares			
Issued—172,921,669 shares at February 29, 2012 and February 28, 2013, respectively	30,080	30,080	325,150
Capital surplus	50,043	50,043	540,950
Retained earnings	119,524	120,165	1,298,939
Less: Treasury stock, at cost, 16,162,243 shares and 16,046,184 shares at February 29, 2012 and February 28, 2013, respectively	(23,327)	(23,146)	(250,200)
Total shareholders' equity	176,320	177,142	1,914,839
Accumulated other comprehensive income:			
Net unrealized gain (loss) on available-for-sale securities (Note 4)	(3,792)	1,532	16,559
Deferred gain on hedging instruments	10	34	370
Net revaluation loss of land (Note 13)	(12,503)	(12,503)	(135,148)
Foreign currency translation adjustments	(4,043)	(2,484)	(26,851)
Total accumulated other comprehensive income	(20,328)	(13,421)	(145,070)
Stock acquisition rights	653	724	7,829
Minority interests in consolidated subsidiaries	658	927	10,019
Total net assets	157,303	165,372	1,787,617
Total liabilities and net assets	¥276,939	¥286,779	$3,099,984

PER SHARE:	Yen		U.S. dollars (Note 2. (22))
Net assets per share	¥995.11	¥1,043.64	$11.28

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

ONWARD HOLDINGS Co., Ltd. and Consolidated Subsidiaries
February 29, 2012 and February 28, 2013

	Millions of yen		Thousands of U.S. dollars (Note 2. (22))
	2012	2013	2013
Net sales	¥242,402	¥258,370	$2,792,883
Cost of sales	127,288	133,879	1,447,180
Gross profit	115,114	124,491	1,345,703
Selling, general and administrative expenses	104,160	113,298	1,224,713
Operating income	10,954	11,193	120,990
Other income (expenses):			
Interest income	110	119	1,285
Dividend income	388	417	4,504
Land and house rent received	595	623	6,733
Interest expenses	(651)	(636)	(6,875)
Royalty income	802	730	7,892
Equity in earnings of investees	715	251	2,708
Foreign currency exchange loss	(182)	(238)	(2,569)
Gain on sale of investments in securities, net (Note 4)	14	—	—
Loss on write-down of investments in securities (Note 4)	(29)	(415)	(4,483)
Provision for allowance for bad debt	(350)	—	—
Gain (loss) on disposal of fixed assets, net	936	(106)	(1,149)
Impairment loss on fixed assets (Note 7)	(352)	(6,919)	(74,789)
Gain on transition of retirement benefit plan	—	1,951	21,093
Loss on adjustment for changes of accounting standard for asset retirement obligations	(1,086)	—	—
Loss on reconstruction	(1,320)	—	—
Other, net	526	779	8,420
Income before income taxes and minority interests	11,070	7,749	83,760
Income taxes (Note 12):			
Current	7,528	7,398	79,973
Deferred	(77)	(4,209)	(45,508)
Income before minority interests	3,619	4,560	49,295
Minority interests in subsidiaries	(90)	(57)	(616)
Net income	¥ 3,529	¥ 4,503	$ 48,679

PER SHARE (Notes 16, 17 and 19):	Yen		U.S. dollars (Note 2. (22))
Net income—basic	¥22.52	¥28.71	$0.31
Diluted net income per share	22.35	28.46	0.31
Cash dividends	24.00	24.00	0.26

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

ONWARD HOLDINGS Co., Ltd. and Consolidated Subsidiaries
February 29, 2012 and February 28, 2013

	Millions of yen		Thousands of U.S. dollars (Note 2. (22))
	2012	2013	2013
Income before minority interests	¥3,619	¥ 4,560	$ 49,295
Other comprehensive income			
Net unrealized gain (loss) on available-for-sale securities	(920)	4,954	53,553
Deferred gain on hedging instruments	15	24	263
Foreign currency translation adjustments	(447)	1,599	17,275
Share of other comprehensive income of associates accounted for using the equity method	(87)	387	4,184
Total other comprehensive income (Note 9)	(1,439)	6,964	75,275
Comprehensive income	¥2,180	¥11,524	$124,570
Comprehensive income attributable to:			
Owners of the parent	¥2,105	¥11,411	$123,346
Minority interests	75	113	1,224

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

ONWARD HOLDINGS Co., Ltd. and Consolidated Subsidiaries
February 29, 2012 and February 28, 2013

		Millions of yen					
		Shareholders' equity					
	Number of shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings (Note 16)	Treasury stock	Total
Balance as at March 1, 2011	172,922	¥30,080	¥50,043	¥117,777	¥(23,446)	¥174,454
Cash dividends	—	—	—	(3,760)	—	(3,760)
Net income	—	—	—	3,529	—	3,529
Purchase of treasury stock	—	—	—	—	(2)	(2)
Reissuance of treasury stock	—	—	—	(83)	121	38
Reversal of net revaluation loss of land	—	—	—	2,061	—	2,061
Net changes other than shareholders' equity	—	—	—	—	—	—
Total changes during the year	—	—	—	1,747	119	1,866
Balance as at February 29, 2012	172,922	30,080	50,043	119,524	(23,327)	176,320
Cash dividends	—	—	—	(3,762)	—	(3,762)
Net income	—	—	—	4,503	—	4,503
Purchase of treasury stock	—	—	—	—	(3)	(3)
Reissuance of treasury stock	—	—	—	(100)	184	84
Reversal of net revaluation loss of land	—	—	—	—	—	—
Net changes other than shareholders' equity	—	—	—	—	—	—
Total changes during the year	—	—	—	641	181	822
Balance as at February 28, 2013	172,922	¥30,080	¥50,043	¥120,165	¥(23,146)	¥177,142

	Thousands of U.S. dollars (Note 2. (22))				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings (Note 16)	Treasury stock	Total
Balance as at February 29, 2012	$325,150	$540,950	$1,292,014	$(252,155)	$1,905,959
Cash dividends	—	—	(40,668)	—	(40,668)
Net income	—	—	48,679	—	48,679
Purchase of treasury stock	—	—	—	(38)	(38)
Reissuance of treasury stock	—	—	(1,086)	1,993	907
Reversal of net revaluation loss of land	—	—	—	—	—
Net changes other than shareholders' equity	—	—	—	—	—
Total changes during the year	—	—	6,925	1,955	8,880
Balance as at February 28, 2013	$325,150	$540,950	$1,298,939	$(250,200)	$1,914,839

See accompanying notes to consolidated financial statements.

(Continued)

	Millions of yen							
	Accumulated other comprehensive income							
	Net unrealized gain (loss) on available-for-sale securities (Note 4)	Deferred gain (loss) on hedging instruments	Net revaluation loss of land (Note 13)	Foreign currency translation adjustments	Total	Stock acquisition rights	Minority interests in consolidated subsidiaries	Total net assets
Balance as at March 1, 2011	¥(2,838)	¥ (5)	¥(11,004)	¥(3,558)	¥(17,405)	¥532	¥1,164	¥158,745
Cash dividends	—	—	—	—	—	—	—	(3,760)
Net income	—	—	—	—	—	—	—	3,529
Purchase of treasury stock	—	—	—	—	—	—	—	(2)
Reissuance of treasury stock	—	—	—	—	—	—	—	38
Reversal of net revaluation loss of land	—	—	—	—	—	—	—	2,061
Net changes other than shareholders' equity	(954)	15	(1,499)	(485)	(2,923)	121	(506)	(3,308)
Total changes during the year	(954)	15	(1,499)	(485)	(2,923)	121	(506)	(1,442)
Balance as at February 29, 2012	(3,792)	10	(12,503)	(4,043)	(20,328)	653	658	157,303
Cash dividends	—	—	—	—	—	—	—	(3,762)
Net income	—	—	—	—	—	—	—	4,503
Purchase of treasury stock	—	—	—	—	—	—	—	(3)
Reissuance of treasury stock	—	—	—	—	—	—	—	84
Reversal of net revaluation loss of land	—	—	—	—	—	—	—	—
Net changes other than shareholders' equity	5,324	24	—	1,559	6,907	71	269	7,247
Total changes during the year	5,324	24	—	1,559	6,907	71	269	8,069
Balance as at February 28, 2013	¥ 1,532	¥34	¥(12,503)	¥(2,484)	¥(13,421)	¥724	¥ 927	¥165,372

	Thousands of U.S. dollars (Note 2. (22))							
	Accumulated other comprehensive income							
	Net unrealized gain (loss) on available-for-sale securities (Note 4)	Deferred gain (loss) on hedging instruments	Net revaluation loss of land (Note 13)	Foreign currency translation adjustments	Total	Stock acquisition rights	Minority interests in consolidated subsidiaries	Total net assets
Balance as at February 29, 2012	$(40,994)	$107	$(135,148)	$(43,700)	$(219,735)	$7,063	$ 7,101	$1,700,388
Cash dividends	—	—	—	—	—	—	—	(40,668)
Net income	—	—	—	—	—	—	—	48,679
Purchase of treasury stock	—	—	—	—	—	—	—	(38)
Reissuance of treasury stock	—	—	—	—	—	—	—	907
Reversal of net revaluation loss of land	—	—	—	—	—	—	—	—
Net changes other than shareholders' equity	57,553	263	—	16,849	74,665	766	2,918	78,349
Total changes during the year	57,553	263	—	16,849	74,665	766	2,918	87,229
Balance as at February 28, 2013	$ 16,559	$370	$(135,148)	$(26,851)	$(145,070)	$7,829	$10,019	$1,787,617

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

ONWARD HOLDINGS Co., Ltd. and Consolidated Subsidiaries
February 29, 2012 and February 28, 2013

	Millions of yen		Thousands of U.S. dollars (Note 2. (22))
	2012	2013	2013
Cash flows from operating activities:			
Income before income taxes and minority interests	¥11,070	¥ 7,749	$ 83,760
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	5,478	5,721	61,842
Impairment loss on fixed assets	352	6,919	74,789
Net amortization of goodwill on consolidation	3,665	3,938	42,563
Increase (decrease) in provision for allowance for bad debt	138	(285)	(3,081)
Increase (decrease) in provision for accrued retirement benefits	686	(5,419)	(58,582)
Interest and dividend income	(498)	(536)	(5,789)
Interest expense	651	636	6,875
Equity in earnings of investees	(715)	(251)	(2,708)
(Gain) loss on disposal of fixed assets, net	(936)	106	1,149
(Gain) loss on sale of investments in securities, net	(13)	—	—
Loss on write-down of investments in securities	29	415	4,483
(Increase) decrease in trade receivables	(188)	455	4,915
(Increase) decrease in inventories	(1,444)	(2,094)	(22,638)
Increase (decrease) in trade payables	761	(655)	(7,076)
Other, net	(1,187)	894	9,668
Subtotal	17,849	17,593	190,170
Interest and dividends received	746	769	8,311
Interest paid	(674)	(647)	(6,994)
Income taxes paid	(5,973)	(9,289)	(100,410)
Refunded income taxes	1,233	1,712	18,506
Net cash provided by operating activities	13,181	10,138	109,583
Cash flows from investing activities:			
Increase in time deposits	(1,021)	(68)	(739)
Decrease in time deposits	2,243	1,087	11,756
Acquisition of property, plant and equipment	(4,163)	(6,411)	(69,300)
Proceeds from sale of property, plant and equipment	4,754	23	251
Acquisition of investments in securities	(1,138)	(994)	(10,740)
Proceeds from sale of investments in securities	14	—	—
Payments for long-term prepaid expenses	(642)	(635)	(6,868)
Payments for security deposits	(510)	(1,001)	(10,823)
Proceeds from security deposits	800	769	8,312
Purchase of investments in subsidiaries resulting in change in scope of consolidation	—	(1,940)	(20,969)
Payment for additional acquisition of shares of consolidated subsidiaries	(1,396)	(16)	(173)
Other, net	(903)	(1,497)	(16,182)
Net cash used in investing activities	(1,962)	(10,683)	(115,475)

(Continued)

	Millions of yen		Thousands of U.S. dollars (Note 2. (22))
	2012	2013	2013
Cash flows from financing activities:			
Increase (decrease) in short-term loans payable	(330)	(368)	(3,973)
Proceeds from long-term loans payable	833	2,205	23,834
Repayments of long-term loans payable	(3,586)	(5,038)	(54,456)
Acquisition of treasury stock	(2)	(3)	(38)
Dividends paid by the parent company	(3,760)	(3,762)	(40,668)
Dividends paid to minority shareholders	(55)	(54)	(584)
Other, net	(549)	(828)	(8,952)
Net cash used in financing activities	(7,449)	(7,848)	(84,837)
Effect of exchange rate changes on cash and cash equivalents	(316)	850	9,193
Net increase (decrease) in cash and cash equivalents	3,454	(7,543)	(81,536)
Cash and cash equivalents at beginning of year	28,634	32,088	346,859
Cash and cash equivalents at end of year (Note 10)	¥32,088	¥24,545	$265,323

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

ONWARD HOLDINGS Co., Ltd. and Subsidiaries
For the years ended February 29, 2012 and February 28, 2013

1. Basis of Presentation of the Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared from the accounts maintained by ONWARD HOLDINGS Co., Ltd. (the "Company"), and its consolidated subsidiaries in accordance with the provisions set forth in the Corporation Law of Japan (the "Corporation Law") and the Financial Instruments and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards.

Certain items presented in the consolidated financial statements submitted to the Director of the Kanto Finance Bureau in Japan have been reclassified for the convenience of readers outside Japan.

The accompanying consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows of the Company and its consolidated subsidiaries in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

2. Summary of Significant Accounting Policies

(1) Scope of Consolidation

The Company had 86 subsidiaries as at February 28, 2013 (76 as at February 29, 2012). The accompanying consolidated financial statements include the accounts of the Company and 73 of its subsidiaries (65 for 2012). 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
Birz Association 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
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 Co.,Ltd.	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

Vertigo S.r.l., Onward Fashion Trading (Shanghai) Co., Ltd., Freed USA Inc., Charles & Keith Japan Pte. Ltd. and Charles & Keith Japan Co., Ltd. were established during the year ended February 28, 2013; therefore, these companies became consolidated subsidiaries of the Company.

Birz Association Co., Ltd., Birth Village Ltd. (Presently, Birth Village Co., Ltd.), Naima Co., Ltd., Vina Birz Co., Ltd., LaLa Plan Co., Ltd., Sakula Co., Ltd., Jitensya Shokunin Co., Ltd. and Vintage Co., Ltd. were acquired during the year ended February 28, 2013; therefore, these companies became consolidated subsidiaries of the Company.

Also, O.K.N. Amsterdam B.V. merged with Violin S.à r.l.

In the Gibo' Co. Group, Iris S.p.a. merged with Red Iris S.r.l., Gibo France S.a.r.l. (Presently, Onward Luxury Group S.a.r.l.) merged with Iris France S.a.r.l. and Gibo USA Inc. (Presently Onward Luxury Group Inc.) merged with Iris North America Inc.

In the Jil Sander AG Group, Viola S.à r.l. was liquidated and removed from the scope of consolidation.

The financial statements of the aforementioned subsidiaries with fiscal year-ends of December 31 or November 30 have been used for consolidation and the fiscal year-end date at Vintage Co., Ltd. is July 31 and the fiscal year-end date at Jitensya Shokunin Co., Ltd. is August 31. Significant adjustments considered necessary due to different closing date from 2/28 have be made with consolidation.

The remaining 13 subsidiaries (11 for 2012) 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 years.

(3) Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates are accounted for by the equity method. A total of 19 companies (20 companies for 2012) are accounted for by the equity method for the year ended February 28, 2013.

The Company did not apply the equity method to Onward Italia S.p.A. and others 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 Daidoh Limited, which has a fiscal year-end of March 31, prepared on a basis similar to that for year-end closing, were used for consolidation purposes.

(4) Inventories

Inventories held for sale in the ordinary course of business are measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses, determined principally by the specific identification method. For the year ended February 28, 2013, the recorded write-downs were ¥10,769 million ($116,414 thousand). For the year ended February 29, 2012, the recorded write-downs were ¥9,494 million.

(5) Investments in Securities

Debt securities and equity securities classified as available-for-sale securities whose fair values are readily determinable are carried at the fair values prevailing at the fiscal year-end date with unrealized gains or losses included as a component of net assets, net of applicable taxes. Available-for-sale securities whose fair values cannot readily be determined are stated principally at cost.

In cases where declines in the fair values of individual securities are assessed to be other than temporary, the cost of the security is reduced to net realizable value and the impairment loss is charged to income. Realized gains and losses are determined using the moving-average method and are reflected in income.

(6) Derivative Transactions

All derivatives are stated at fair value, and changes in fair value are included in income for the period in which they arise, except for derivatives that are designated as "hedging instruments" (see "(7) Hedge Accounting" below).

(7) Hedge Accounting

All gains or losses arising from changes in the fair values of the derivatives are designated as "hedging instruments," which are deferred as a component of net assets, net of applicable taxes. The gains or losses on the hedging instruments are included in net income in the same period during which the gains and losses on the hedge items or transactions are recognized. For foreign exchange forward contracts, if they meet conditions for hedge accounting, the difference between the contract rate and spot rate at the date of the contract is recognized over the period from the contract date to the settlement date.

The derivatives designated as hedging instruments are principally foreign exchange forward contracts. The related hedged items are trade accounts payable and trade accounts receivable denominated in foreign currencies and scheduled transactions.

The Company has a policy of utilizing hedging instruments in order to reduce the exposure to the risk of foreign currency exchange rate fluctuation.

(8) Property, Plant and Equipment

The Company and its domestic consolidated subsidiaries provide depreciation by the declining-balance method at rates based on the estimated useful lives of assets which are prescribed by Japanese income tax regulations, except for certain buildings (other than improvements) acquired on and after April 1998, which are depreciated by the straight-line method pursuant to an amendment to Japanese income tax law.

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

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

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

(9) Intangible Assets and Long-term Prepaid Expenses

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

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

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

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

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

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

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

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

(15) Accounting for Leases
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 February 28, 2009, the Company and its domestic consolidated subsidiaries have continued to recognize lease payments as expenses.

(16) Accounting for Japanese Consumption Taxes
The Japanese consumption taxes withheld upon sale of goods and services and the consumption taxes paid by the Companies on the purchase of goods and services are not included in the accompanying consolidated statements of operations.

(17) Cash and Cash Equivalents
Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand, bank deposits which can be withdrawn on demand, and short-term investments which are readily convertible into cash or with an original maturity of three months or less, which represent insignificant risk of changes in value.

(18) Impairment of Long-Lived Assets
The standard of impairment of long-lived assets requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to be generated from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

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

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

(21) Allowances for Losses on Reconstruction
An allowance is provided for the estimated losses to be incurred with the reconstruction of the Head Office building of the Company.

(22) United States Dollar Amounts
Amounts in U.S. dollars are included solely for the convenience of readers outside of Japan. The rate of ¥92.51=US$1, the rate of exchange as of February 28, 2013, 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.

(23) 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, 2013.

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

(25) Accounting Changes and Error Corrections
For accounting changes and corrections of prior periods errors which have been made from the beginning of the fiscal year ended February 28, 2013, the Company and its subsidiaries have adopted the "Accounting Standard for Accounting Changes and Error Corrections" (the Accounting Standard Board of Japan (ASBJ) Statement No.24, December 4, 2009) and the "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No.24, December 4, 2009)

3. Financial Instruments

1. Matters pertaining to the status of financial instruments
(1) Policy on financial instruments
The Company and its subsidiaries invest their funds in short-term deposits and meet their financing needs through bank loans. The Company and its subsidiaries utilize derivatives to hedge various risks as described in detail below and do not enter into derivatives for trading or speculative purposes.

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

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

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

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

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

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

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

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

(c) Monitoring of liquidity risk related to fund procurement (the risk that the Company and its consolidated subsidiaries may not be able to meet their obligations on scheduled due dates)
In order to manage liquidity risk, the Company and its consolidated subsidiaries timely prepare and update the cash flow plans based upon the report and maintain fund liquidity.

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

2. Matters related to fair values of financial instruments
The following are the consolidated balance sheet amounts, the fair values and the differences between them as of February 28, 2013 and February 29, 2012 (the closing dates of the consolidated account).

	Millions of yen		
February 28, 2013	Book value	Fair value	Difference
(a) Cash and time deposits	¥ 24,677	¥ 24,677	¥ —
(b) Accounts and notes receivable	25,864	25,864	—
(c) Investment in securities			
Available-for-sale securities	33,099	33,099	—
Investment to affiliates	8,852	5,092	(3,760)
(d) Accounts and notes payable	(33,513)	(33,513)	—
(e) Short-term loans payable	(28,614)	(28,614)	—
(f) Long-term loans payable (Cover current portion of long-term loans payable)	(20,291)	(20,409)	118
(g) Derivative transactions	37	37	—

	Thousands of U.S. dollars		
February 28, 2013	Book value	Fair value	Difference
(a) Cash and time deposits	$ 266,754	$ 266,754	$ —
(b) Accounts and notes receivable	279,577	279,577	—
(c) Investment in securities			
Available-for-sale securities	357,791	357,791	—
Investment to affiliates	95,685	55,043	(40,642)
(d) Accounts and notes payable	(362,262)	(362,262)	—
(e) Short-term loans payable	(309,308)	(309,308)	—
(f) Long-term loans payable (Cover current portion of long-term loans payable)	(219,341)	(220,617)	1,276
(g) Derivative transactions	401	401	—

	Millions of yen		
February 29, 2012	Book value	Fair value	Difference
(a) Cash and time deposits	¥ 33,192	¥ 33,192	¥ —
(b) Accounts and notes receivable	25,257	25,257	—
(c) Investment in securities			
Available-for-sale securities	25,923	25,923	—
Investment to affiliates	8,464	5,411	(3,053)
(d) Accounts and notes payable	(33,238)	(33,238)	—
(e) Short-term loans payable	(26,427)	(26,427)	—
(f) Long-term loans payable (Cover current portion of long-term loans payable)	(23,079)	(23,169)	90
(g) Derivative transactions	(990)	(990)	—

Notes:
1. Fair value measurement of financial instruments, including securities and derivatives
(a) Cash and time deposits and (b) Accounts and notes receivable
Since these items are settled in a short period of time, their book value approximates fair value.

(c) Investment in securities
The fair value of equity securities is calculated by the quoted market price.

(d) Accounts and notes payable and (e) Short-term loans payable
Since these items are settled in a short period of time, their book value approximates fair value.

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

(g) Derivative transactions
The fair value is calculated on the basis of the price quoted by the financial institutions.

2. Book values of financial instruments deemed extremely difficult to determine their fair value as of February 29, 2012 and February 28, 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
Classification	February 29, 2012	February 28, 2013	February 28, 2013
Investment securities			
Unlisted equity securities	¥792	¥779	$8,422

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

3. The redemption schedule for monetary receivables and marketable securities with maturities as of February 28, 2013 and February 29, 2012 is as follows:

	Millions of yen			
February 28, 2013	Due within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and time deposits	¥24,677	¥—	¥—	¥ —
Accounts and notes receivable	25,863	1	—	—
Marketable and investment securities				
Available for sale securities with maturities	—	58	—	600
Total	¥50,540	¥59	¥—	¥600

	Thousands of U.S. dollars			
February 28, 2013	Due within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and time deposits	$266,754	$ —	$—	$ —
Accounts and notes receivable	279,569	8	—	—
Marketable and investment securities				
Available for sale securities with maturities	—	635	—	6,486
Total	$546,323	$643	$—	$6,486

	Millions of yen			
February 29, 2012	Due within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and time deposits	¥33,192	¥—	¥—	¥ —
Accounts and notes receivable	25,256	1	—	—
Marketable and investment securities				
Available for sale securities with maturities	—	58	—	600
Total	¥58,448	¥59	¥—	¥600

4. Expected repayment amounts of long-term loans payable subsequent to the balance sheet date
See Note 15. "Short-Term Loans payable and Long-Term Loans payable."

4. Investments in Securities

(1) Information as of and for the Year Ended February 28, 2013

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

Investments in securities whose fair values were readily determinable at February 28, 2013 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities with unrealized gain:						
Equity securities	¥25,786	¥20,149	¥5,637	$278,739	$217,806	$60,933
Other	254	194	60	2,746	2,100	646
Total	26,040	20,343	5,697	281,485	219,906	61,579
Securities with unrealized loss:						
Equity securities	6,934	7,918	(984)	74,956	85,587	(10,631)
Other	125	131	(6)	1,350	1,419	(69)
Total	7,059	8,049	(990)	76,306	87,006	(10,700)
Total	¥33,099	¥28,392	¥4,707	$357,791	$306,912	$50,879

Note: Non-Marketable equity securities of ¥338 million ($3,655 thousand) are not included in the above table because there were no quoted market prices available and they are extremely difficult to determine the fair value.

(b) Available-for-sale securities sold during the year ended February 28, 2013:
Not applicable

(c) Losses on impairment of available-for-sale securities recognized to reflect declines in market value considered to be other than temporary were ¥415 million ($4,483 thousand) for the year ended February 28, 2013.

(d) The aggregate carrying amount of investments in unconsolidated subsidiaries and affiliates as of February 28, 2013 was ¥9,293 million ($100,452 thousand).

(2) Information as of and for the Year Ended February 29, 2012

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

Investments in securities whose fair values were readily determinable at February 29, 2012 are summarized as follows:

	Millions of yen		
	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities with unrealized gain:			
Equity securities	¥ 8,561	¥ 7,059	¥ 1,502
Other	14	13	1
Total	8,575	7,072	1,503
Securities with unrealized loss:			
Equity securities	17,080	20,443	(3,363)
Other	268	312	(44)
Total	17,348	20,755	(3,407)
Total	¥25,923	¥27,827	¥(1,904)

Note: Non-Marketable equity securities of ¥338 million are not included in the above table because there were no quoted market prices available and they are extremely difficult to determine the fair value.

(b) Available-for-sale securities sold during the year ended February 29, 2012:

	Millions of yen
Proceeds from sale of securities	¥15
Realized gain on sale of securities	14
Realized loss on sale of securities	1

(c) Losses on impairment of available-for-sale securities recognized to reflect declines in market value considered to be other than temporary were ¥29 million for the year ended February 29, 2012.

(d) The aggregate carrying amount of investments in unconsolidated subsidiaries and affiliates as of February 29, 2012 was ¥8,918 million.

5. Derivative Transactions

The contract or notional amounts and fair value of derivative financial instruments held as of February 28, 2013 and February 29, 2012 are summarized as follows:

(1) Derivative transactions not subject to hedge accounting:

	Millions of yen		
February 28, 2013	Contract or notional amounts	Fair value	Valuation gain (loss)
Currency option contracts:			
Buy: U.S. dollar call	¥ 312	¥ 5	¥ 5
Sell: U.S. dollar put	680	(68)	(68)
Buy: Euro call	68	4	4
Sell: Euro put	137	(2)	(2)
	¥1,197	¥(61)	¥(61)
Interest rate swap agreements:			
Variable rate received for variable rate	¥ 300	¥ 4	¥ 4
Variable rate received for fixed rate	57	(0)	(0)
Fixed rate received for variable rate	100	1	1
	¥ 457	¥ 5	¥ 5

	Thousands of U.S. dollars		
February 28, 2013	Contract or notional amounts	Fair value	Valuation gain (loss)
Currency option contracts:			
Buy: U.S. dollar call	$ 3,367	$ 58	$ 58
Sell: U.S. dollar put	7,354	(730)	(730)
Buy: Euro call	738	39	39
Sell: Euro put	1,476	(23)	(23)
	$12,935	$(656)	$(656)
Interest rate swap agreements:			
Variable rate received for variable rate	$ 3,243	$ 42	$ 42
Variable rate received for fixed rate	613	(3)	(3)
Fixed rate received for variable rate	1,081	14	14
	$ 4,937	$ 53	$ 53

	Millions of yen		
February 29, 2012	Contract or notional amounts	Fair value	Valuation gain (loss)
Forward exchange contracts:			
To buy foreign currency:			
U.S. dollar	¥2,744	¥ (354)	¥ (354)
To sell foreign currency:			
U.S. dollar	38	(1)	(1)
Currency swap agreements:			
U.S. dollars received for Japanese yen	1,361	(173)	(173)
Currency option contracts:			
Buy: U.S. dollar call	2,253	67	67
Sell: U.S. dollar put	2,782	(538)	(538)
Buy: Euro call	102	2	2
Sell: Euro put	205	(17)	(17)
	¥9,485	¥(1,014)	¥(1,014)
Interest rate swap agreements:			
Variable rate received for variable rate	¥ 300	¥ 4	¥ 4
Variable rate received for fixed rate	79	(1)	(1)
Fixed rate received for variable rate	100	(0)	(0)
	¥ 479	¥ 3	¥ 3

(2) Derivative transactions processed by hedge accounting:

	Millions of yen		
February 28, 2013	Hedged Items	Contract or notional amounts	Fair value
Forward exchange contracts:			
To buy foreign currency:			
U.S. dollar	Accounts payable	¥1,315	¥27
Euro	Accounts payable	1,701	64
Pound	Accounts payable	127	0
Chinese Yuan	Accounts payable	0	0
To sell foreign currency:			
U.S. dollar	Accounts receivable	578	2
		¥3,721	¥93

February 28, 2013	Hedged Items	Contract or notional amounts	Fair value
		Thousands of U.S. dollars	
Forward exchange contracts:			
To buy foreign currency:			
U.S. dollar	Accounts payable	$14,216	$ 291
Euro	Accounts payable	18,386	687
Pound	Accounts payable	1,371	2
Chinese Yuan	Accounts payable	0	0
To sell foreign currency:			
U.S. dollar	Accounts receivable	6,252	24
		$40,225	$1,004

February 29, 2012	Hedged Items	Contract or notional amounts	Fair value
		Millions of yen	
Forward exchange contracts:			
To buy foreign currency:			
U.S. dollar	Accounts payable	¥ 695	¥ 33
Euro	Accounts payable	1,355	3
Pound	Accounts payable	72	6
To sell foreign currency:			
U.S. dollar	Accounts receivable	682	(20)
		¥2,804	¥ 22

6. Property, Plant and Equipment

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

Property, plant and equipment at February 29, 2012 and February 28, 2013 were reduced by ¥8,127 million and ¥8,079 million ($87,331 thousand), respectively, representing accumulated deferred gains from eligible sales.

7. Impairment Loss on Fixed Assets

For the years ended February 29, 2012 and February 28, 2013, the Company reviewed its long-lived assets for impairment and, as a result, recognized an impairment loss as follows:

February 28, 2013

Location	Usage	Description	Millions of yen	Thousands of U.S. dollars
Tokyo metropolitan area and other	Business assets	Buildings and structures	¥ 79	$ 848
		Other intangible assets	1	9
		Other	135	1,459
		Goodwill	6,704	72,473

February 29, 2012

Location	Usage	Description	Millions of yen
Tokyo metropolitan area and other	Business assets	Buildings and structures	¥200
		Other intangible assets	1
		Other	150

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

The impairment loss on long-lived assets for the years ended February 29, 2012 and February 28, 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	February 29, 2012	February 28, 2013	February 28, 2013
Buildings and structures	¥200	¥ 79	$ 848
Other intangible assets	2	1	9
Other	150	135	1,459
Goodwill	—	6,704	72,473
Total	¥352	¥6,919	$74,789

Based on the result of future cash flow analysis that the recoverable amount of goodwill on Project Sloane Ltd., which is the considered subsidiary of the Company was less than the carrying amount, the Company recognized impairment loss of ¥6,704 million ($72,473 thousand) on the remaining unamortized portion of the goodwill.

The net realizable value for these assets is based on their net selling price or their value in use. The net selling price is estimated by using their estimated disposal price. The value in use is calculated by discounting the future cash flow with 6.8% and 4.6% discount rates for the years ended February 29, 2012 and February 28, 2013, respectively.

8. Retirement Plan and Retirement Benefits

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

Regarding certain part of the plan which is governed by the regulations of the Japanese Welfare Pension Insurance Law, the Company and its certain subsidiaries have started to adopt defined contribution retirement plans from March 2013.

The reserve for retirement benefits as of February 29, 2012 and February 28, 2013 is analyzed as follows:

	Millions of yen		Thousands of U.S. dollars
	February 29, 2012	February 28, 2013	February 28, 2013
Projected benefit obligations	¥(36,940)	¥(28,122)	$(303,986)
Plan assets (including employee retirement benefit fund)	25,642	25,801	278,902
Funded status	(11,298)	(2,321)	(25,084)
Unrecognized prior service costs	(451)	(427)	(4,615)
Unrecognized actuarial differences	7,638	4,042	43,684
Subtotal	(4,111)	1,294	13,985
Prepaid pension cost	12	4,352	47,042
Accrued retirement benefits	¥ (4,123)	¥ (3,058)	$ (33,057)

The net periodic pension expenses for the years ended February 29, 2012 and February 28, 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Service cost	¥1,524	¥1,550	$16,756
Interest cost	524	515	5,568
Expected return on plan assets	(160)	(207)	(2,243)
Amortization of unrecognized prior service costs	(57)	(57)	(614)
Amortization of unrecognized actuarial differences	1,273	949	10,265
Net periodic pension expenses	¥3,104	¥2,750	$29,732

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

	As of February 29, 2012	As of February 28, 2013
Method of attributing the projected benefits to periods of service	Straight-line basis	Straight-line basis
Discount rate	1.5%	1.5%
Expected rate of return on plan assets	0.2~1.5%	0.2~1.5%
Amortization of unrecognized prior service costs	5~10 years	5~10 years
Amortization of unrecognized actuarial differences	5~10 years	5~10 years

(Note) Partial adoption of a defined contribution retirement plans has the following impact on the balance sheet as of February 28, 2013.

	Millions of yen	Thousands of U.S. dollars
Decrease in projected benefit obligations	¥ 8,625	$ 93,230
Transfer of plan assets	(1,965)	(21,239)
Unrecognized actuarial differences	(719)	(7,776)
Decrease in accrued retirement benefits	¥ 5,941	$ 64,215

9. Notes to Consolidated Statements of Comprehensive Income

Other Comprehensive income for the year ended February 28, 2013 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	February 28, 2013	February 28, 2013
Net unrealized gain on available-for-sales securities:		
Amount arising during the year	¥ 6,196	$ 66,980
Reclassification adjustment for gain and loss	415	4,483
Amount before income tax effect	6,611	71,463
Income tax effect	(1,657)	(17,910)
Total	4,954	53,553
Deferred gain on hedging instruments:		
Amount arising during the year	70	757
Reclassification adjustment for gain and loss	(22)	(236)
Amount before income tax effect	48	521
Income tax effect	(24)	(258)
Total	24	263
Foreign currency translation adjustments:		
Amount arising during the year	1,599	17,275
Total	1,599	17,275
Share of other comprehensive income of associates accounted for using the equity-method:		
Amount arising during the year	387	4,184
Total	387	4,184
Total other comprehensive income	¥ 6,964	$ 75,275

The corresponding information for the year ended February 29, 2012 was not required under the accounting standard for presentation of comprehensive income as an exemption for the first year of adopting that standard and not disclosed herein.

10. Notes to Consolidated Statements of Cash Flows

Cash and cash equivalents at February 29, 2012 and February 28, 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	February 29, 2012	February 28, 2013	February 28, 2013
Cash and time deposits	¥33,192	¥24,677	$266,754
Time deposits with maturities of more than three months	(1,104)	(132)	(1,431)
Cash and cash equivalents	¥32,088	¥24,545	$265,323

11. 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 29, 2012 and February 28, 2013 are as follows:

(Lessee)

Assumed data as to acquisition cost, accumulated depreciation, accumulated impairment loss and net book value of the leased assets, which included the portion of interest thereon, as of February 29, 2012 and February 28, 2013 are summarized as follows:

	Millions of yen						Thousands of U.S. dollars		
	February 29, 2012			February 28, 2013			February 28, 2013		
	Tools, furniture, and fixtures	Other	Total	Tools, furniture, and fixtures	Other	Total	Tools, furniture, and fixtures	Other	Total
Acquisition cost	¥ 606	¥ 487	¥1,093	¥ 353	¥ 258	¥ 611	$ 3,816	$ 2,781	$ 6,597
Accumulated depreciation	(505)	(389)	(894)	(334)	(242)	(576)	(3,610)	(2,613)	(6,223)
Net book value	¥ 101	¥ 98	¥ 199	¥ 19	¥ 16	¥ 35	$ 206	$ 168	$ 374

The scheduled maturities of future lease payments on such lease contracts as of February 29, 2012 and February 28, 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	February 29, 2012	February 28, 2013	February 28, 2013
Scheduled maturities of future leases:			
Due within one year	¥151	¥32	$346
Due over one year	48	3	28
	¥199	¥35	$374

Lease expenses, reversal of impairment loss of leased assets, depreciation and impairment loss for the years ended February 29, 2012 and February 28, 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	February 29, 2012	February 28, 2013	February 28, 2013
Lease expenses for the year	¥212	¥145	$1,570
Depreciation	212	145	1,570

The Companies' operating lease contracts:

The scheduled maturities of future lease payments on operating lease contracts as of February 29, 2012 and February 28, 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	February 29, 2012	February 28, 2013	February 28, 2013
Scheduled maturities of future leases:			
Due within one year	¥80	¥64	$692
Due over one year	91	27	288
	¥171	¥91	$980

(Lessor)

The scheduled maturities of future lease income on such lease contracts as of February 29, 2012 and February 28, 2013 are as follows:

	Millions of yen
	February 29, 2012
Scheduled maturities of future leases:	
Due within one year	¥20
Due over one year	3
	¥23

The scheduled maturities of future lease income on such lease contracts as of February 29, 2013 have not been disclosed because the amount is immaterial.

12. Income Taxes

The tax effects of temporary differences that give rise to significant components of the deferred tax assets and liabilities as at February 29, 2012 and February 28, 2013 consisted of the following elements:

	Millions of yen		Thousands of U.S. dollars
	February 29, 2012	February 28, 2013	February 28, 2013
Deferred tax assets:			
Loss on write-down of inventories	¥ 2,015	¥ 2,127	$ 22,989
Loss on write-down of investments in unconsolidated subsidiaries	141	192	2,076
Accrued bonuses to employees	515	490	5,297
Accrued retirement benefits	3,494	3,698	39,974
Accrued retirement benefits for directors and corporate auditors	54	58	627
Allowance for bad debt	1,040	937	10,128
Tax loss carry forwards	8,519	12,518	135,319
Impairment loss on fixed assets	6,372	6,284	67,930
Investments in securities	397	433	4,675
Net unrealized loss on available-for-sale securities	694	1	14
Other	4,880	5,381	58,168
Subtotal	28,121	32,119	347,197
Less: Valuation allowance	(18,473)	(16,544)	(178,836)
Total deferred tax assets	9,648	15,575	168,361
Deferred tax liabilities:			
Prepaid pension cost	—	(1,653)	(17,871)
Gain on securities contributed to an employee retirement benefit trust	(141)	(141)	(1,528)
Provision for deferred capital gain on real property for tax purposes	(18)	(18)	(188)
Net unrealized gain on available-for-sale securities	(16)	(1,657)	(17,915)
Other	(1,370)	(1,451)	(15,687)
Total deferred tax liabilities	(1,545)	(4,920)	(53,189)
Net deferred tax assets	¥ 8,103	¥ 10,655	$ 115,172

The reconciliation of the difference between the statutory tax rate and the effective tax rate for the years ended February 29, 2012 and February 28, 2013 is as follows:

	%	
	2012	2013
Statutory tax rate	40.7	—
Reconciliation:		
Permanently non-deductible expenses (entertainment expenses, etc.)	3.2	—
Income not taxable for tax purposes (dividends received, etc.)	(1.4)	—
Amortization of goodwill	9.6	—
Effect of tax rate changes	5.5	—
Other	9.7	—
Effective tax rate	67.3	—

The reconciliation of the difference between the statutory tax rate and the effective tax rate for the year ended February 28, 2013 has not been disclosed because such a difference is immaterial.

(Application of consolidated taxation system)
The Company and its certain subsidiaries have been approved by the Commission of the National Tax Agency regarding the application of the consolidated taxation system from the year ending February 28, 2014. Therefore, effective the fiscal year ended February 28, 2013, related accounting procedures have been based on the "Practical Solution on Tentative Treatment of Tax Effect Accounting under Consolidated Taxation System (Part 1)" (Practical Issues Task Force (PITF) No.5 of March 18, 2011) and the "Practical Solution on Tentative Treatment of Tax Effect Accounting under Consolidated Taxation System (Part 2)" (PITF No.7 of June 30, 2010).

13. 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, 2013, the net accumulated revaluation loss amounted to ¥12,503 million ($135,148 thousand), which is presented as a separate component of net assets as "Net revaluation loss of land." Related deferred tax liabilities of ¥3,966 million ($42,875 thousand) are recognized.

As of February 29, 2012, the net accumulated revaluation loss amounted to ¥12,503 million, which is presented as a separate component of net assets as "Net revaluation loss of land." Related deferred tax liabilities of ¥3,966 million are recognized.

The difference between the market value of land subject to the revaluation and the book value as at February 28, 2012 and 2013 was ¥2,660 million and ¥3,467 million ($37,476 thousand), respectively.

14. Commitments and Contingent Liabilities

The Company was contingently liable as a guarantor for certain affiliates' bank loans. The outstanding balance of such bank loans guaranteed as at February 29, 2012 and February 28, 2013 aggregated to ¥22 million and ¥39 million ($420 thousand), respectively.

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

Short-term loans payable at February 29, 2012 and February 28, 2013 represented loans, principally from banks. The weighted-average interest rate on these loans was 1.3% in 2012 and 0.8% in 2013.

Long-term loans payable at February 29, 2012 and February 28, 2013 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	February 29, 2012	February 28, 2013	February 28, 2013
Unsecured loans, principally from banks, maturing in installments through 2019 with weighted average interest of 3.0% at February 28, 2013	¥23,079	¥20,291	$219,341
Less current portion	3,439	18,967	205,029
	¥19,640	¥ 1,324	$ 14,312

Lease obligations at February 29, 2012 and February 28, 2013 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	February 29, 2012	February 28, 2013	February 28, 2013
Lease obligations	¥1,332	¥1,644	$17,772
Less current portion of lease obligations	458	585	6,320
	¥ 874	¥1,059	$11,452

The aggregate annual maturities of long-term loans payable after February 28, 2014 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending February 28 or 29:		
2015	¥165	$ 1,780
2016	148	1,601
2017	987	10,675
2018	24	256

The aggregate annual maturities of lease obligations after February 28, 2014 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending February 28 or 29:		
2015	¥486	$5,257
2016	339	3,664
2017	186	2,006
2018	46	496

Bonds at February 29, 2012 and February 28, 2013 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	February 29, 2012	February 28, 2013	February 28, 2013
1.73% unsecured yen bonds issued by a subsidiary, due 2012	¥150	¥ —	$ —
0.56% unsecured yen bonds issued by a subsidiary, due 2013	30	10	108
0.82% unsecured yen bonds issued by a subsidiary, due 2012	34	—	—
0.72% unsecured yen bonds issued by a subsidiary, due 2012	33	—	—
0.90% unsecured yen bonds issued by a subsidiary, due 2014	120	80	865
0.45% unsecured yen bonds issued by a subsidiary, due 2018	—	250	2,702
0.45% unsecured yen bonds issued by a subsidiary, due 2013	—	20	216
0.99% unsecured yen bonds issued by a subsidiary, due 2014	—	20	216
0.40% unsecured yen bonds issued by a subsidiary, due 2013	—	33	359
	367	413	4,466
Less current portion	277	163	1,764
	¥ 90	¥250	$2,702

The aggregate annual maturities of bonds after February 28, 2014 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending February 28 or 29:		
2015	¥100	$1,082
2016	50	540
2017	50	540
2018	50	540

16. Shareholders' Equity

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

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

Cash dividends charged to retained earnings for the years ended February 29, 2012 and February 28, 2013 represent dividends paid out during those years. The amount available for dividends is based on the amount recorded in the Company's non-consolidated books of account in accordance with the Corporation Law of Japan.

Dividends to be paid after the balance sheet date, which were approved by the general meeting of shareholders held on May 23, 2013, are as follows:

(a) Total dividends	¥3,765 million ($40,698 thousand)
(b) Source of dividends	Retained earnings
(c) Cash dividends per common share	¥24 ($0.26)
(d) Date to determine which shareholders receive the dividends	February 28, 2013
(e) Effective date	May 24, 2013

17. Per Share Information

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

The basis for the calculation of basic and diluted net income per share for the years ended February 29, 2012 and February 28, 2013 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Net income	¥ 3,529	¥ 4,503	$48,679
Less: Components not pertaining to common shareholders	—	—	—
Net income pertaining to common stock	¥ 3,529	¥ 4,503	$48,679
Average outstanding shares of common stock (thousand shares)	156,715	156,836	
Effect of dilutive stock options (thousand shares)	1,178	1,390	

18. Related-Party Transactions

Year Ended February 28, 2013

The Company leased land from Takeshi Hirouchi, Representative Director, Chairman and President 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 ($176 thousand) to the Company for a house. The rental fees were determined by the average market prices.

Year Ended February 29, 2012

The Company leased land from Takeshi Hirouchi, Representative Director, Chairman and President 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.

19. Stock Options

The cost recognized for the stock options for the years ended February 29, 2012 and February 28, 2013 was ¥162 million and ¥171 million ($1,851 thousand), respectively, which is included in selling, general and administrative expenses.

2012 Stock Option Plan (No. 12)

Under the 2012 stock option plan (No. 12), stock options were granted to 5 directors of the Company on June 20, 2012. They are exercisable in the period from June 21, 2012 to June 20, 2042. 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	¥458 ($4.95)
Number of stock options granted	141,400 shares

A summary of the scale and movement of the stock option plan for the year ended February 28, 2013 is as follows:

	2012 stock option plan (No. 12)
Non-vested:	
Outstanding at February 29, 2012	—
Granted	141,400
Forfeited	—
Vested	—
Outstanding at February 28, 2013	141,400

The fair value of the 2012 stock options (No. 12) was estimated using the Black-Scholes option-valuation model with the following assumptions:

Expected volatility	32.00%
Expected lives	7 years and 8 months
Expected dividend	¥24 per share
Risk-free interest rate	0.510%

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.

2012 Stock Option Plan (No. 11)

Under the 2012 stock option plan (No. 11), stock options were granted to 1 executive officer of the Company, 9 directors and 18 executive officers of the Company's subsidiary on March 19, 2012. They are exercisable in the period from March 20, 2012 to February 28, 2042. 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 executive officer of the Company, 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	¥444 ($4.80)
Number of stock options granted	234,700 shares

A summary of the scale and movement of the stock option plan for the year ended February 28, 2013 is as follows:

	2012 stock option plan (No. 11)
Non-vested:	
Outstanding at February 29, 2012	—
Granted	234,700
Forfeited	37,400
Vested	—
Outstanding at February 28, 2013	197,300

The fair value of the 2012 stock options (No. 11) was estimated using the Black-Scholes option-valuation model with the following assumptions:

Expected volatility	31.57%
Expected lives	9 years and 3 months
Expected dividend	¥24 per share
Risk-free interest rate	0.971%

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.

2011 Stock Option Plan (No. 10)

Under the 2011 stock option plan (No. 10), stock options were granted to 5 directors of the Company on June 20, 2011. They are exercisable in the period from June 21, 2011 to June 20, 2041. 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	¥510 ($5.51)
Number of stock options granted	144,800 shares

A summary of the scale and movement of the stock option plan for the year ended February 28, 2013 is as follows:

	2011 stock option plan (No. 10)
Non-vested:	
Outstanding at February 29, 2012	144,800
Granted	—
Forfeited	—
Vested	—
Outstanding at February 28, 2013	144,800

The fair value of the 2011 stock options (No. 10) was estimated using the Black-Scholes option-valuation model with the following assumptions:

Expected volatility	34.28%
Expected lives	5 years and 8 months
Expected dividend	¥24 per share
Risk-free interest rate	0.50%

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.

2011 Stock Option Plan (No. 9)

Under the 2011 stock option plan (No. 9), stock options were granted to 1 executive officer of the Company, 12 directors and 18 executive officers of the Company's subsidiary on March 18, 2011. They are exercisable in the period from March 19, 2011 to February 28, 2041. 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 executive officer of the Company, 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	¥444 ($4.80)
Number of stock options granted	199,900 shares

A summary of the scale and movement of the stock option plan for the year ended February 28, 2013 is as follows:

	2011 stock option plan (No. 9)
Non-vested:	
Outstanding at February 29, 2012	181,500
Granted	—
Forfeited	—
Vested	—
Outstanding at February 28, 2013	181,500

The fair value of the 2011 stock options (No. 9) was estimated using the Black-Scholes option-valuation model with the following assumptions:

Expected volatility	32.09%
Expected lives	9 years and 1 month
Expected dividend	¥24 per share
Risk-free interest rate	1.10%

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

2010 Stock Option Plan (No. 8)

Under the 2010 stock option plan (No. 8), stock options were granted to 5 directors of the Company on June 18, 2010. They are exercisable in the period from June 19, 2010 to June 18, 2040. The terms of the options include certain limitations on the exercisability under which grantees can exercise their options during a five-year period starting a year after they lose their positions as directors of the Company.

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

Exercise price	¥1 ($0.01)
Average stock price on the date the option was exercised	¥645 ($6.97)
Fair value at the grant date	¥613 ($6.63)
Number of stock options granted	115,800 shares

A summary of the scale and movement of the stock option plan for the year ended February 28, 2013 is as follows:

	2010 stock option plan (No. 8)
Non-vested:	
Outstanding at February 29, 2012	113,100
Granted	—
Forfeited	—
Vested	8,300
Outstanding at February 28, 2013	104,800
Vested:	
Outstanding at February 29, 2012	—
Vested	8,300
Exercised	8,300
Forfeited	—
Outstanding at February 28, 2013	—

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

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

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

2010 Stock Option Plan (No. 7)

Under the 2010 stock option plan (No. 7), stock options were granted to 8 directors and 22 executive officers of the Company's subsidiary on March 19, 2010. They are exercisable in the period from March 20, 2010 to February 29, 2040. The terms of the options include certain limitations on the exercisability under which grantees can exercise their options during a five-year period starting a year after they lose their positions as directors or executive officers of the Company's subsidiary.

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

Exercise price	¥1 ($0.01)
Average stock price on the date the option was exercised	¥640 ($6.92)
Fair value at the grant date	¥475 ($5.13)
Number of stock options granted	194,600 shares

A summary of the scale and movement of the stock option plan for the year ended February 28, 2013 is as follows:

	2010 stock option plan (No. 7)
Non-vested:	
Outstanding at February 29, 2012	181,500
Granted	—
Forfeited	—
Vested	29,000
Outstanding at February 28, 2013	152,500
Vested:	
Outstanding at February 29, 2012	1,000
Vested	29,000
Exercised	20,600
Forfeited	—
Outstanding at February 28, 2013	9,400

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

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

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

2009 Stock Option Plan (No. 6)

Under the 2009 stock option plan (No. 6), stock options were granted to 5 directors of the Company on June 19, 2009. They are exercisable in the period from June 20, 2009 to June 19, 2039. The terms of the options include certain limitations on the exercisability under which grantees can exercise their options during a five-year period starting a year after they lose their positions as directors of the Company.

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

Exercise price	¥1 ($0.01)
Average stock price on the date the option was exercised	¥645 ($6.97)
Fair value at the grant date	¥432 ($4.67)
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, 2013 is as follows:

	2009 stock option plan (No. 6)
Non-vested:	
Outstanding at February 29, 2012	155,000
Granted	—
Forfeited	—
Vested	13,500
Outstanding at February 28, 2013	141,500
Vested:	
Outstanding at February 29, 2012	—
Vested	13,500
Exercised	13,500
Forfeited	—
Outstanding at February 28, 2013	—

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)
Average stock price on the date the option was exercised	¥607 ($6.56)
Fair value at the grant date	¥362 ($3.91)
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, 2013 is as follows:

	2009 stock option plan (No. 5)
Non-vested:	
Outstanding at February 29, 2012	197,300
Granted	—
Forfeited	—
Vested	32,200
Outstanding at February 28, 2013	165,100
Vested:	
Outstanding at February 29, 2012	14,800
Vested	32,200
Exercised	39,200
Forfeited	—
Outstanding at February 28, 2013	7,800

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

2008 Stock Option Plan (No. 4)

Under the 2008 stock option plan (No. 4), stock options were granted to 12 directors and 21 executive officers of the Company's subsidiary on June 20, 2008. They are exercisable in the period from June 21, 2008 to February 28, 2038. The terms of the options include certain limitations on the exercisability under which grantees can exercise their options during a five-year period starting a year after they lose their positions as directors or executive officers of the Company's subsidiary.

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

Exercise price	¥1 ($0.01)
Average stock price on the date the option was exercised	¥621 ($6.71)
Fair value at the grant date	¥905 ($9.78)
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, 2013 is as follows:

	2008 stock option plan (No. 4)
Non-vested:	
Outstanding at February 29, 2012	49,900
Granted	—
Forfeited	—
Vested	5,000
Outstanding at February 28, 2013	44,900
Vested:	
Outstanding at February 29, 2012	11,900
Vested	5,000
Exercised	15,300
Forfeited	—
Outstanding at February 28, 2013	1,600

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

2008 Stock Option Plan (No. 3)

Under the 2008 stock option plan (No. 3), stock options were granted to 5 directors 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)
Average stock price on the date the option was exercised	¥615 ($6.65)
Fair value at the grant date	¥944 ($10.20)
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, 2013 is as follows:

	2008 stock option plan (No. 3)
Non-vested:	
Outstanding at February 29, 2012	65,000
Granted	—
Forfeited	—
Vested	—
Outstanding at February 28, 2013	65,000
Vested:	
Outstanding at February 29, 2012	3,800
Vested	—
Exercised	3,800
Forfeited	—
Outstanding at February 28, 2013	—

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

2007 Stock Option Plan (No. 2)

Under the 2007 stock option plan (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	¥643 ($6.95)
Fair value at the grant date	¥1,284 ($13.88)
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, 2013 is as follows:

	2007 stock option plan (No. 2)
Non-vested:	
Outstanding at February 29, 2012	23,300
Granted	—
Forfeited	—
Vested	—
Outstanding at February 28, 2013	23,300
Vested:	
Outstanding at February 29, 2012	4,700
Vested	—
Exercised	4,700
Forfeited	—
Outstanding at February 28, 2013	—

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	¥616 ($6.66)
Fair value at the grant date	¥1,541 ($16.66)
Number of stock options granted	63,000 shares

A summary of the scale and movement of the stock option plan for the year ended February 28, 2013 is as follows:

	2006 stock option plan (No. 1)
Non-vested:	
Outstanding at February 29, 2012	20,000
Granted	—
Forfeited	—
Vested	—
Outstanding at February 28, 2013	20,000
Vested:	
Outstanding at February 29, 2012	19,500
Vested	—
Exercised	16,500
Forfeited	—
Outstanding at February 28, 2013	3,000

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

20. Segment Information

(1) Summary of reportable segments

The Onward Group's reportable segments are components for which separate financial information is available and regular evaluation by the Board of Directors is being performed to decide how management resources are allocated and to assess performance.

The principal business of the Onward Group is the apparel business (planning, production and sales of textile products, including men's and women's clothing). Additionally, the Onward Group also operates service and resort businesses.

The reportable segments of the Onward Group comprise the "Apparel Business," which has been divided geographically into "Japan," "Europe," "Asia/North America," and "Other Business."

The "Apparel Business (Japan)" operates the apparel business in Japan; the "Apparel Business (Europe)" operates the apparel business in Europe; and the "Apparel Business (Asia/North America)" operates the apparel business in Asia and North America. "Other Business" operates the logistics, sports facilities and resort facilities businesses.

(2) Method of calculating sales, profit or loss, assets, liabilities and other items by reportable segment

Accounting methods for reportable segments are mostly the same as the accounting methods described in "Basis of Presentation of the Consolidated Financial Statements."

Income by reportable segment refers to operating income. Intersegment sales and transfers are based on market values.

(3) Information on sales, profit or loss, assets, liabilities and other items by reportable segment for the years ended February 28, 2013 and February 29, 2012 are as follows:

Millions of yen

	Apparel							
For the year ended February 28, 2013	Japan	Europe	Asia/North America	Total	Other	Total	Adjustments (Note 1)	Consolidated total (Note 3)
Sale to outside customers	¥202,353	¥33,215	¥7,108	¥242,676	¥15,694	¥258,370	¥ —	¥258,370
Intersegment sales	1,714	426	403	2,543	7,792	10,335	(10,335)	—
Total	¥204,067	¥33,641	¥7,511	¥245,219	¥23,486	¥268,705	¥(10,335)	¥258,370
Segment income (loss)	¥ 15,499	¥ (438)	¥ (572)	¥ 14,489	¥ 333	¥ 14,822	¥ (3,629)	¥ 11,193
Segment assets	¥135,336	¥25,905	¥5,911	¥167,152	¥32,440	¥199,592	¥ 87,187	¥286,779
Depreciation and amortization (Note 2)	¥ 3,549	¥ 726	¥ 284	¥ 4,559	¥ 796	¥ 5,355	¥ 366	¥ 5,721
Investments in equity-method affiliates	8,852	13	—	8,865	16	8,881	—	8,881
Increases in property, plant and equipment, and intangible assets (Note 2)	4,224	1,447	587	6,258	825	7,083	1,866	8,949

Thousands of U.S. dollars

	Apparel							
For the year ended February 28, 2013	Japan	Europe	Asia/North America	Total	Other	Total	Adjustments (Note 1)	Consolidated total (Note 3)
Sale to outside customers	$2,187,364	$359,039	$76,835	$2,623,238	$169,645	$2,792,883	$ —	$2,792,883
Intersegment sales	18,532	4,602	4,354	27,488	84,233	111,721	(111,721)	—
Total	$2,205,896	$363,641	$81,189	$2,650,726	$253,878	$2,904,604	$(111,721)	$2,792,883
Segment income (loss)	$ 167,537	$ (4,736)	$ (6,178)	$ 156,623	$ 3,598	$ 160,221	$ (39,231)	$ 120,990
Segment assets	$1,462,937	$280,023	$63,898	$1,806,858	$350,663	$2,157,521	$ 942,463	$3,099,984
Depreciation and amortization (Note 2)	$ 38,361	$ 7,844	$ 3,073	$ 49,278	$ 8,603	$ 57,881	$ 3,961	$ 61,842
Investments in equity-method affiliates	95,685	142	—	95,827	167	95,994	—	95,994
Increases in property, plant and equipment, and intangible assets (Note 2)	45,663	15,638	6,341	67,642	8,917	76,559	20,172	96,731

(Notes) 1. Adjustments consist of the following:

(1) The adjustment amount for segment income (loss) of ¥(3,629) million ($(39,231) thousand) includes amortization of goodwill of ¥(3,938) million ($(42,563) thousand), elimination of intersegment sales of ¥3,869 million ($41,815 thousand), and corporate expenses not allocated to reportable segments of ¥(3,560) million ($(38,483) thousand). Corporate expenses are mainly general administrative expenses not allocated to reportable segments.

(2) The adjustment amount for segment assets of ¥87,187 million ($942,463 thousand) includes the unamortized balance of goodwill of ¥32,770 million ($354,227 thousand), elimination of intersegment sales of ¥(139,931) million ($(1,512,600) thousand), and corporate assets not allocated to reportable segments of ¥194,348 million ($2,100,836 thousand). Corporate assets are mainly assets held by the Company, a pure holding company.

2. Depreciation and amortization, and increases in property, plant and equipment, and intangible assets include long-term prepaid expenses (furniture and fixtures).

3. Segment income (loss) coincides with the amount of operating income in the Consolidated Statements of Operations.

Millions of yen

	Apparel							
For the year ended February 29, 2012	Japan	Europe	Asia/North America	Total	Other	Total	Adjustments (Note 1)	Consolidated total (Note 3)
Sale to outside customers	¥189,112	¥31,879	¥6,541	¥227,532	¥14,870	¥242,402	¥ —	¥242,402
Intersegment sales	1,880	397	212	2,489	6,702	9,191	(9,191)	—
Total	¥190,992	¥32,276	¥6,753	¥230,021	¥21,572	¥251,593	¥ (9,191)	¥242,402
Segment income	¥ 13,271	¥ 944	¥ 88	¥ 14,303	¥ 131	¥ 14,434	¥ (3,480)	¥ 10,954
Segment assets	¥127,481	¥23,550	¥4,249	¥155,280	¥30,574	¥185,854	¥91,085	¥276,939
Depreciation and amortization (Note 2)	¥ 3,500	¥ 759	¥ 204	¥ 4,463	¥ 604	¥ 5,067	¥ 411	¥ 5,478
Investments in equity-method affiliates	8,464	12	—	8,476	10	8,486	—	8,486
Increases in property, plant and equipment, and intangible assets (Note 2)	3,699	1,209	339	5,247	896	6,143	87	6,230

(Notes) 1. Adjustments consist of the following:

(1) The adjustment amount for segment income of ¥(3,480) million includes amortization of goodwill of ¥(3,664) million, elimination of intersegment sales of ¥3,847 million, and corporate expenses not allocated to reportable segments of ¥(3,663) million. Corporate expenses are mainly general administrative expenses not allocated to reportable segments.

(2) The adjustment amount for segment assets of ¥91,085 million includes the unamortized balance of goodwill of ¥40,794 million, elimination of intersegment sales of ¥(133,464) million, and corporate assets not allocated to reportable segments of ¥183,755 million. Corporate assets are mainly assets held by the Company, a pure holding company.

2. Depreciation and amortization, and increases in property, plant and equipment, and intangible assets include long-term prepaid expenses (furniture and fixtures).

3. Segment income coincides with the amount of operating income in the Consolidated Statements of Operations.

(4) Segment information by geographical areas for the year ended February 28, 2013 and February 29, 2012 are as follows:

(a) Sales

For the year ended February 28, 2013		Millions of yen	
Japan	Europe	Other	Total
¥218,018	¥18,813	¥21,539	¥258,370

For the year ended February 28, 2013		Thousands of U.S. dollars	
Japan	Europe	Other	Total
$2,356,693	$203,357	$232,833	$2,792,883

For the year ended February 29, 2012		Millions of yen	
Japan	Europe	Other	Total
¥204,656	¥19,635	¥18,111	¥242,402

(b) Property, plant and equipment

For the year ended February 28, 2013		Millions of yen	
Japan	Europe	Other	Total
¥70,915	¥7,664	¥8,283	¥86,862

For the year ended February 28, 2013		Thousands of U.S. dollars	
Japan	Europe	Other	Total
$766,563	$82,843	$89,541	$938,947

For the year ended February 29, 2012		Millions of yen	
Japan	Europe	Other	Total
¥68,753	¥6,777	¥7,458	¥82,988

(5) Segment information on impairment losses on property, plant and equipment by reportable segment for the year ended February 28, 2013 and February 29, 2012 are as follows:

	Millions of yen						
	Apparel						
For the year ended February 28, 2013	Japan	Europe	Asia/North America	Total	Other	Elimination of intersegment amounts	Total
Impairment loss	¥172	¥—	¥42	¥214	¥—	¥6,705	¥6,919

	Thousands of U.S. dollars						
	Apparel						
For the year ended February 28, 2013	Japan	Europe	Asia/North America	Total	Other	Elimination of intersegment amounts	Total
Impairment loss	$1,864	$—	$452	$2,316	$—	$72,473	$74,789

	Millions of yen						
	Apparel						
For the year ended February 29, 2012	Japan	Europe	Asia/North America	Total	Other	Elimination of intersegment amounts	Total
Impairment loss	¥351	¥—	¥1	¥352	¥—	¥—	¥352

Independent Auditor's Report

ERNST & YOUNG

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Independent Auditor's Report

The Board of Directors
ONWARD HOLDINGS Co., Ltd.

We have audited the accompanying consolidated financial statements of ONWARD HOLDINGS Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at February 28, 2013, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ONWARD HOLDINGS Co., Ltd. and its consolidated subsidiaries as at February 28, 2013, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 2(22).

Ernst & Young ShinNihon LLC

May 27, 2013

Main Subsidiaries

Onward Group engages in business activities through a network that is made up of 86 subsidiaries and 23 affiliates for a total of 110 Group companies. The Group operates in the four geographic segments of Japan, Europe, Asia, and the United States.

Japan

Onward Kashiyama Co., Ltd.
Toda Building, 1-7-1 Kyobashi, Chuo-ku,
Tokyo 104-8329, Japan
Tel: (81) 3-4512-1020

Onward Trading Co., Ltd.
6-3-2 Kiba, Koto-ku, Tokyo 135-8508, Japan
Tel: (81) 3-3649-3111

Chacott Co., Ltd.
1-20-8 Jinnan, Shibuya-ku, Tokyo 150-0041, Japan
Tel: (81) 3-3476-1311

Bus Stop Co., Ltd.
Onden Imaizumi Building, 5-7-4 Jingumae,
Shibuya-ku, Tokyo 150-0001, Japan
Tel: (81) 3-5778-2391

Charles & Keith Japan Co., Ltd.
4-31-10 Jingumae, Shibuya-ku,
Tokyo 150-0001, Japan
Tel: (81) 3-5785-1873

Jil Sander Japan K.K.
Minami-Aoyama Building, 3-13-18 Minami-Aoyama, Minato-ku, Tokyo 107-0062, Japan
Tel: (81) 3-6406-0350

Fusion Co., Ltd.
Onden Imaizumi Building, 5-7-4 Jingumae,
Shibuya-ku, Tokyo 150-0001, Japan
Tel: (81) 3-5778-2391

Creative Yoko Co., Ltd.
667-16 Takada, Nagano City,
Nagano Prefecture 381-8545, Japan
Tel: (81) 26-226-2001

Island Co., Ltd.
Fiore Daikanyama Building, 6-6 Daikanyama-cho,
Shibuya-ku, Tokyo 150-0034, Japan
Tel: (81) 3-3780-6805

Candela International Co., Ltd.
Onden Imaizumi Building, 5-7-4 Jingumae,
Shibuya-ku, Tokyo 150-0001, Japan
Tel: (81) 3-5766-3507

J. Direction Co., Ltd.
401, Parkvilla Yakumo Building, 3-12-10 Yakumo,
Meguro-ku, Tokyo 152-0023, Japan
Tel: (81) 3-5731-6239

Birz Association Ltd.
BIRZ Building, 3-26-8 Sendagaya, Shibuya-ku,
Tokyo 151-0051, Japan
Tel: (81) 3-5786-3655

Across Transport Co., Ltd.
3-9-32 Kaigan, Minato-ku, Tokyo 108-0022, Japan
Tel: (81) 3-3455-2311

O & K Co., Ltd.
Toda Building, 1-7-1 Kyobashi, Chuo-ku,
Tokyo 104-8329, Japan
Tel: (81) 3-4512-1130

Onward Resort & Golf Co., Ltd.
Toda Building, 1-7-1 Kyobashi, Chuo-ku,
Tokyo 104-8329, Japan
Tel: (81) 3-4512-1130

Onward Creative Center Co., Ltd.
3-11-6 Kaigan, Minato-ku, Tokyo 108-8439, Japan
Tel: (81) 3-5476-5590

Booklet Co., Ltd.
1-5-26, Shinkita, Joto-ku, Osaka City,
Osaka 536-0015, Japan
Tel: (81) 6-6939-3345

Onward Life Design Network Inc.
Toda Building, 1-7-1 Kyobashi, Chuo-ku,
Tokyo 104-8329, Japan
Tel: (81) 3-4512-1133

Bien Co., Ltd.
Toda Building, 1-7-1 Kyobashi, Chuo-ku,
Tokyo 104-8329, Japan
Tel: (81) 3-4512-1120

O.P.S. Co., Ltd.
3-11-6 Kaigan, Minato-ku, Tokyo 108-8439, Japan
Tel: (81) 3-5476-6131

Overseas

Europe

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

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

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Via Pampagnina, 42 30032 FIESSO D'ART ICO (Venezia), Italy
Tel: (39) 041-516-9911

Erika s.r.l.
Via Boschi n.,42bis 37060
Maccacari di Veronese-(VR), Italy
Tel: (39) 0442-56666

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

Jil Sander S.p.A.
Piazza Castello 1 20121 Milano, Italy
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Joseph Ltd.
Unit 11, 50 Carnwath Road,
London SW6 3JX, U.K.
Tel: (44) 20-7736-2522

Freed of London Ltd.
94 St. Martin's Lane, London WC2N 4AT, U.K.
Tel: (44) 20-7240-0432

Horloge Saint Benoit S.A.
22, Rue Saint Benoit, 75006 Paris, France
Tel: (33) 1-4544-1118

Asia

Onward Fashion Trading (China) Co., Ltd.
12/F, Onward Building, No.1238,
Danba Road, Putuo District of Shanghai,
People's Republic of China
Tel: (86) 21-6472-3660

Shanghai Onward Fashion Co., Ltd.
13/F, Onward Building, No.1238,
Danba Road, Putuo District of Shanghai,
People's Republic of China
Tel: (86) 21-6466-6466

Onward Fashion Trading (Shanghai) Co., Ltd.
14/F, Onward Building, No.1238,
Danba Road, Putuo District of Shanghai,
People's Republic of China
Tel: (86) 21-6271-3535

Taicang Onward High Fashion Co., Ltd.
28 group of Taixi Village, Shaxi Town, Taicang City,
Jiangsu Province, People's Republic of China
Tel: (86) 512-5325-4297

Onward Kashiyama Hong Kong Ltd.
Unit 1208-9, Lippo Sun Plaza,
28 Canton Road, T.S.T., Kowloon, Hong Kong,
People's Republic of China
Tel: (852) 2367-2055

Onward Kashiyama Korea Co., Ltd.
GF, HwanKyoung B/D, 1-118,
Jang Chung-Dong, Chung-ku, Seoul 100-391,
Republic of Korea
Tel: (82) 2-548-5841

Onward Kashiyama Singapore Pte. Ltd.
1 Scotts Road, #17-7 Shaw Centre,
Singapore 228208, Republic of Singapore
Tel: (65) 6838-0690

Onward Kashiyama Vietnam Ltd.
11th Floor, 60 Nguyen Dinh Chieu St.,
Dist.1 Ho Chi Minh City, Vietnam
Tel: (84) 8-3911-8857

Vina Birz Co., Ltd.
C6,C7, Dinh Tram Industrial Zone,
Bac Giang, Vietnam
Tel: (84) 240-366-1410

Shanghai Across Apparel Processing Co., Ltd.
Building 6, No 258 Jinglian Road, Minhang,
Shanghai, People's Republic of China
Tel : (86) 21-6434-3099

United States

J. Press, Inc.
530 7th Ave 29th Floor, New York,
NY 10018, U.S.A.
Tel: (1) 212-997-3600

Onward Retail L.L.C
530 7th Ave 29th Floor, New York,
NY 10018, U.S.A.
Tel: (1) 212-997-3600

Onward Beach Resort Guam, Inc.
445 Governor Carlos G.Camacho Road,
Tamuning, Guam 96913, U.S.A.
Tel: (1) 671-647-7777

Onward Golf Resort Guam, Inc.
825, Route 4A, Talofofo, Guam 96915, U.S.A.
Tel: (1) 671-789-5555

Corporate / Investor Information

As of February 28, 2013

Head Office	Toda Building, 7-1, Kyobashi 1-chome, Chuo-ku, Tokyo 104-8329, Japan Tel: (81) 3-4512-1020 Fax: (81) 3-4512-1021 URL: http://www.onward-hd.co.jp/
Established	September 1947
Capital	¥30,079 million
Common Stock	Authorized—400,000,000 shares Issued—172,921,669 shares Note: The total number of issued and outstanding shares included 16,046,000 shares of treasury stock.
Number of Shareholders	11,608
Stock Exchange Listings	Tokyo, Osaka, and Nagoya
Transfer Agent	Mitsubishi UFJ Trust & Banking Co., Ltd. 10-11, Higashisuna 7-chome, Koto-ku, Tokyo 137-8081, Japan
Number of Employees (Consolidated)	5,208

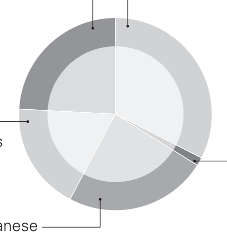
Major Shareholders

	Number of Shares Held (thousands)	Percentage of Total Shares Issued (%)
Kashiyama Scholarship Foundation	8,710	5.5
Japan Trustee Services Bank, Ltd. (Trust account)	6,759	4.3
Nippon Life Insurance Company	6,227	3.9
The Master Trust Bank of Japan, Ltd. (Trust account)	5,911	3.7
Isetan Mitsukoshi, Ltd.	5,001	3.1
The Dai-ichi Mutual Life Insurance Company Ltd.	4,200	2.6
Japan Trustee Services Bank, Ltd. (Trust account nine)	3,919	2.4
Onward Holdings Customers' Shareholding Association	3,513	2.2
MARUI GROUP CO., LTD.	3,417	2.1
Northern Trust Co. AVFC Re U.S. Tax Exempted Pension Funds	2,948	1.8

Notes:
1. The Company holds 16,046,000 shares of treasury stock. Treasury stock is not included in the above Major Shareholders information.
2. Percentage of total shares issued are calculated after deducting 16,046,000 shares of treasury stock.

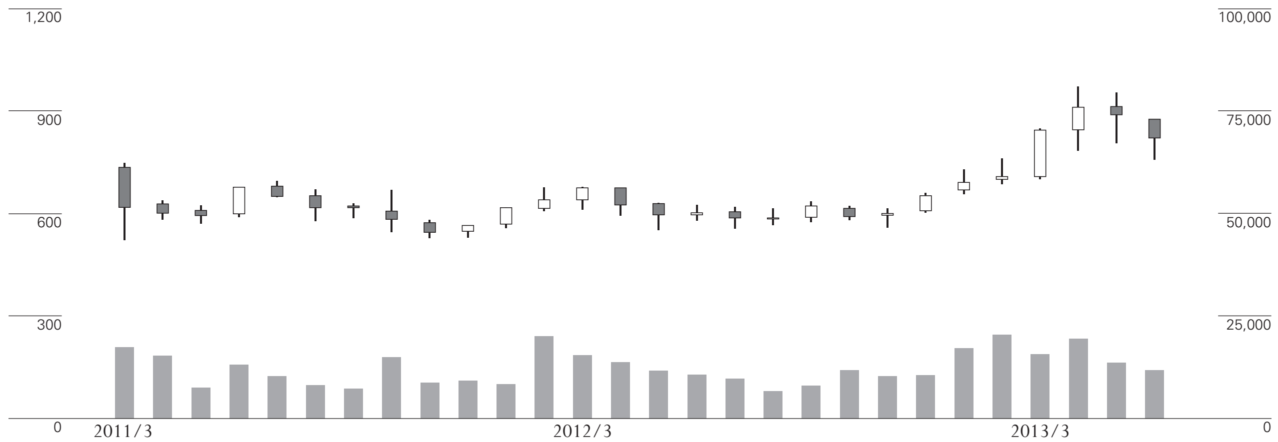
Distribution of Ownership among Shareholders

(On a number of shares basis)



Note: Japanese individuals and others data include treasury stock.

Stock Price Range and Trading Volume



History

1927	February	Junzo Kashiyama established Kashiyama Trading.
1947	September	Established Kashiyama Co., Ltd., in Oimatsu-cho, Kita-ku, Osaka City, Osaka (later relocated to Honmachi, Higashi-ku in 1952).
1960	October	Listed on the second sections of the Tokyo, Osaka, and Nagoya stock exchanges.
1962	April	Established Onward Sales Co., Ltd. (formerly Oak Co., Ltd., currently Onward Trading Co., Ltd.).
1964	July	Listing was transferred to the first sections of the Tokyo, Osaka, and Nagoya stock exchanges.
1966	September	Transferred head office from Honmachi, Kita-ku, Osaka to Nihonbashi, Chuo-ku, Tokyo.
1972	July	Established Onward Transport Co., Ltd. (currently Across Transport Co., Ltd.).
	September	Established Onward Kashiyama U.S.A. INC.
1973	February	Established Onward Kashiyama France S.A.
1974	February	Established Onward Kashiyama Italia S.p.A. (currently Onward Italia S.p.A.).
1986	October	Acquired J. Press, Inc.
1988	February	Established Onward Kashiyama Hong Kong Ltd.
	September	Company name changed to Onward Kashiyama Co., Ltd. (currently Onward Holdings Co., Ltd.).
1989	December	Established Onward Kashiyama U.K. Ltd.
1990	January	Acquired GIBO' S.p.A. (name was changed to GIBO' Co. S.p.A. in April 1994).
	July	Acquired Chacott Co., Ltd.
1991	February	Launched Onward Research and Development Institute.
1992	May	Opened Onward Agana Beach Hotel in Guam (currently Onward Beach Resort).
1994	May	Established Bus Stop Co., Ltd.
1995	June	Established Shanghai Onward Fashion Co., Ltd.
1997	June	Established Onward Kashiyama Korea Co., Ltd.
2004	January	Acquired Erika s.r.l.
2005	May	Acquired Project Sloane Ltd. (Joseph Group).
	July	Acquired Iris S.p.A.
2006	October	Acquired Mangilao Golf Club (currently Onward Mangilao Golf Club).
2007	April	Onward Fashion Trading (Shanghai) Co., Ltd., increased its capital and changed its name to Onward Fashion Trading (China) Co., Ltd.
	May	Acquired Frassineti s.r.l.
	June	Established J. Direction Co., Ltd.
	September	Changed to a holding company structure through corporate restructuring under the new company name, Onward Holdings Co., Ltd.
		Established new companies, Onward Kashiyama Co., Ltd., and Onward Trading Co., Ltd.
	October	Acquired Corporate s.r.l.
2008	October	Acquired Creative Yoko Co., Ltd.
		Acquired Jil Sander A.G.
2009	December	Acquired a controlling interest in Island Co., Ltd.
2010	June	Established Onward Kashiyama Singapore Pte. Ltd.
2011	August	Established Onward Kashiyama Vietnam Ltd.
2012	April	Acquired a controlling interest in Birz Group including Birz Association Ltd.
	May	Established Onward Fashion Trading (China) Co., Ltd.
	December	Established Charles & Keith Japan Co., Ltd.

ONWARD HOLDINGS CO., LTD.

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Chuo-ku, Tokyo 104-8329, Japan
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