ANNUAL REPORT 2016

Year Ended February 29, 2016

Onward Holdings Co., Ltd.

JIL SANDER 2016 spring/summer billboard advertising campaign in Quai Voltaire, Paris

Prospects

In fiscal year 2016, we continued to face many challenges characterized by economic stagnancy and unstable market conditions both in Japan and overseas. Amid such adversity, the Onward Group proceeded to reorganize assets and businesses to create foundations in preparation for the launch of the new medium-term management plan.

We then cut a fresh start in March 2016 on the path toward the acceleration of our Omni-channel retailing strategy and our expansion in global markets, both representing business opportunities for future growth. These two business opportunities will be central to our efforts to provide new value and services to realize higher levels of customer satisfaction and thereby expand our customer base on a global scale.

We are also pushing forward with the development of a manufacturing platform that can provide a stable supply of impeccable quality products. To this end, we have introduced the Onward-Approved Factory System and are promoting CSR procurement to enhance partnerships with factories exhibiting excellence in realizing sustainable growth.

Priding ourselves on being a leading company in the apparel industry and valuing the strengths cultivated over our almost 90-year history, we will pursue sustainable growth for both the Group and the apparel industry as a whole. Staying on this path, we will continue to tackle the challenges that lie between us and prospects three years down the line.

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 the 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 on not only the efforts of the Company but also the conditions facing the industry as a whole, and we ask for understanding in this regard.

Our History

1927

Founding

Onward Kashiyama begins as Kashiyama Trading, established in Osaka by its founder Junzo Kashiyama.

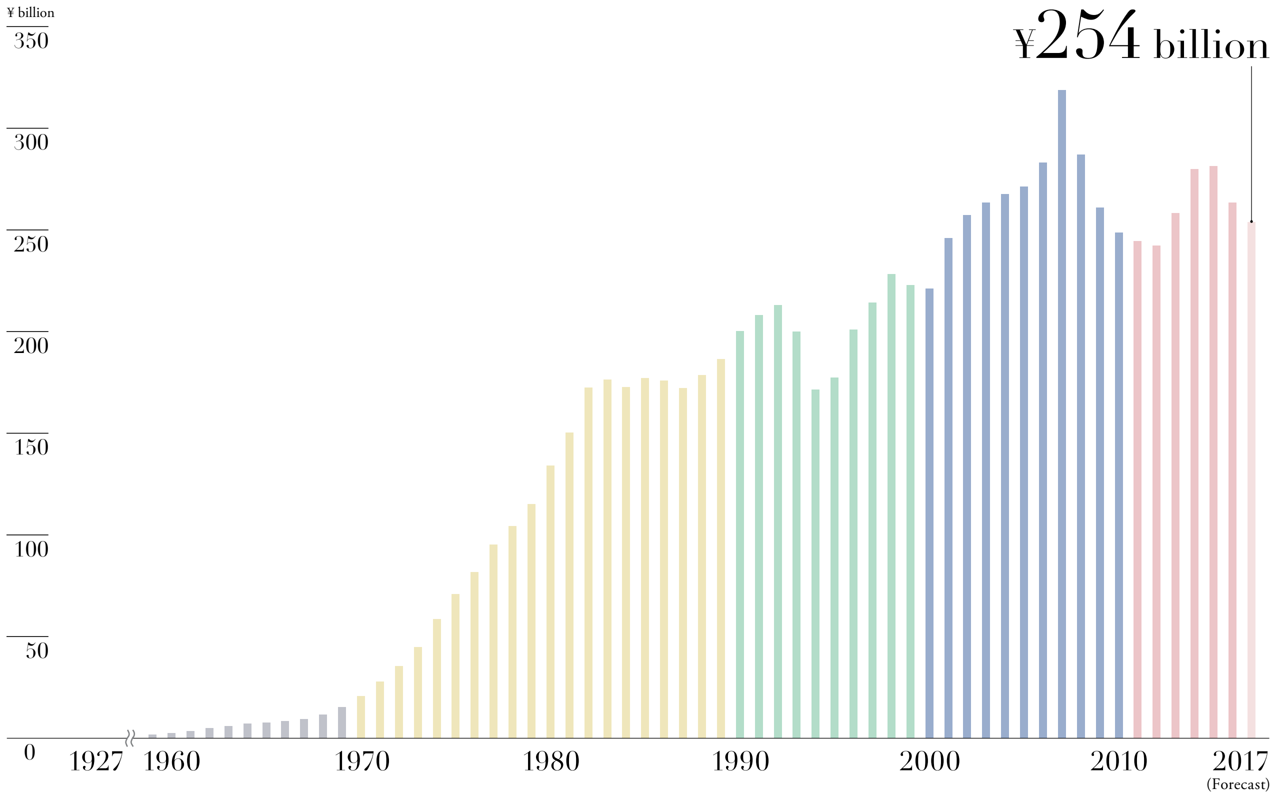
1 Company founder Junzo Kashiyama
2 Grading machine modifies and cuts basic sewing patterns

1950s–1960s

Ready-Made Clothing Revolution

In the 1950s, Onward begins the production and sale of ready-made menswear. Taking its cue from apparel manufacturing in the United States, the Company adopts an assembly-line production system and introduces such advanced equipment as Hoffman steam press machines. These efforts result in substantial improvements in productivity and the quality of ready-made clothing. Along with this success, the Company develops a business format for transactions between apparel companies and department stores that is now widely used in the business operations of department stores. In the 1960s, driven by Japan's economic expansion, Onward grows rapidly to become a leading menswear manufacturer in Japan.

Net Sales



1970s–1980s

Overseas Expansion

In keeping a step ahead of other Japanese apparel manufacturers, during the 1970s Onward develops its global strategy and establishes subsidiaries in New York in 1972, Paris in 1973, and Milan in 1974. By establishing local subsidiaries in three major fashion cities in a short period of time, Onward succeeded in organizing the foundation of the overseas business, drawing on the most updated information on the global fashion business. In 1977, after an interview with up-and-coming designer Jean-Paul Gaultier, then 24, the Company decides to sponsor his brand creation. His first fashion show is held in Paris in 1978 with the support of the Company.

3 Bus Stop store on Boulevard Saint-Germain in Paris
4 Onward Kashiyama's U.S. offices
5 Jean-Paul Gaultier's debut Paris fashion show, 1978

1990s–2000

Launch of Core Brands

The womenswear business dramatically expands in the 1990s with the launch of core brands, beginning with Kumikyoku in 1992 and followed by Nijyusanku in 1993, ICB in 1995, and Jiyuku in 2000. The luxury brand boom driven by Japan's bubble economy comes to an end in the 1990s, and consumers start to look for more simple and practical clothing, and they are able to find this style in Japanese brands. Department stores begin expanding womenswear floor spaces and emphasizing new brands from Japanese makers. Thanks to this trend, Onward Kashiyama's store numbers grow rapidly after the launch of the new brands, and this impressive growth forms the foundations for future advancement.

6 Launches Kumikyoku, 1992
7 Launches Nijyusanku, 1993
8 Launches ICB (International Concept Brand), 1995

2001–2010

Launch of Global Apparel Group

Maintaining its focus on the department store channel in the domestic market, Onward turns its eyes abroad at the turn of the century. By accelerating global strategies, the Company begins its advance into the Chinese market, establishes a manufacturing platform in Italy, and acquires prominent European brands JOSEPH in 2005 and JIL SANDER in 2008.

The transition to a holding company system is made in 2007. In the years that follow, the Company continues to draw uniquely powerful brands under its umbrella in Japan as well as overseas, acquiring pet fashion pioneer Creative Yoko in 2008 and Island, the maker of the trusted Grace Continental brand for discerning women, in 2009. It was at this time that Onward truly makes a new start as a global apparel group that undertakes various types of fashion businesses all over the world.

10

9

11

9 Acquires Joseph Group, 2005
10 Acquires Jil Sander Group, 2008
11 Acquires Island Co., Ltd., 2009

12

2011–Today

Road to Ongoing Growth

After the global financial crisis of 2008, the landscape of the fashion business and subsequently the structure of the apparel supply chain undergo a drastic transformation. The emergence of so-called fast fashion, the increase of production costs in Asia, the reorganization of domestic department stores, and the rise of e-commerce can all be seen as indicators of this transformation.

Signaling its participation in the e-commerce field, the Onward Group cuts the ribbon for Onward Crosset, its directly managed e-commerce website, in December 2009.

The Onward Members' loyalty point card system, applicable to all Onward Kashiyama brands, launches in 2014, expanding our customer base. The Omni-channel retailing strategy, which forms an organic union between online stores and physical stores, also kicks off.

Seeking to tap into demand from inbound travelers to Japan and expand operations in the Asian market, the Company partners with Laox, the operator of Japan's largest network of duty-free stores, to establish joint venture Onward J Bridge in 2015.

The Onward Group continues to increase its global competitiveness while tackling challenges on the road to ongoing growth in both domestic and overseas operations.

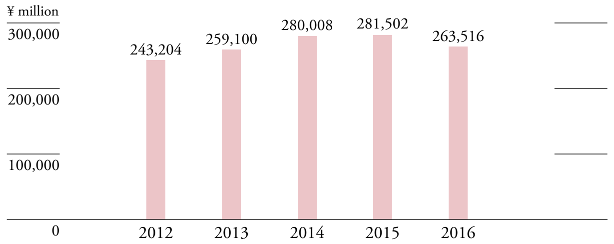
13

12 Nijyusanku GINZA store opened in Tokyo in 2011
13 Onward Crosset launched in 2009

Key Performance Trends

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

Net Sales

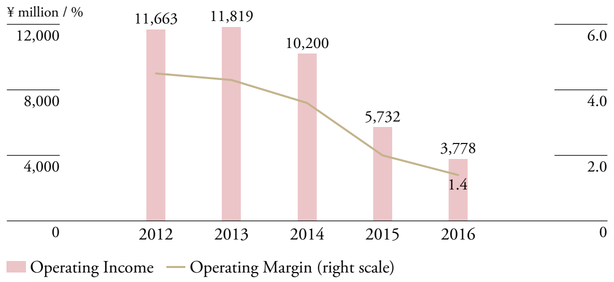


¥263.5 billion –6.4% (YoY)

Net Sales

In the domestic business, we were unable to realize a recovery in sales during the second half of the fiscal year as a result of low sales of winter clothing. In the overseas business, earnings improvement was pursued in North America and Asia; however, operations in Europe continued to face difficult conditions. Consequently, net sales decreased 6.4% year on year, to ¥263.5 billion.

Operating Income and Operating Margin

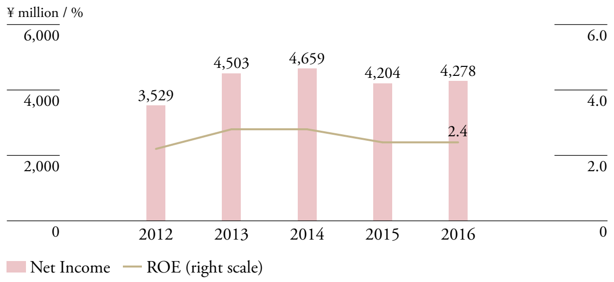


¥3.8 billion –34.1% (YoY)

Operating Income

The gross profit margin declined in the domestic business following reduced sales of full-price items at Onward Kashiyama, stemming from sales downturns in March 2015 and from November through to the end of the fiscal year. The overseas business, meanwhile, was able to secure income in North America and Asia through business reorganizations and store enhancements. However, income in Europe fell below targets due to upfront investments conducted in certain brands. As a result, operating income was down 34.1%, to ¥3.8 billion.

Net Income and ROE

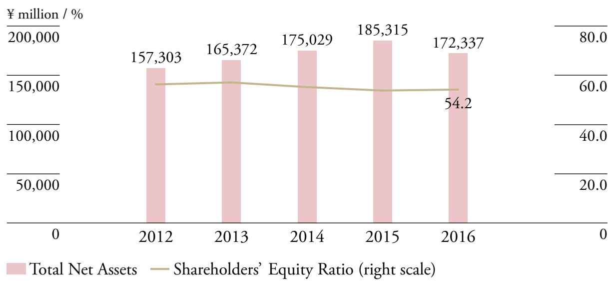


¥4.3 billion +1.8% (YoY)

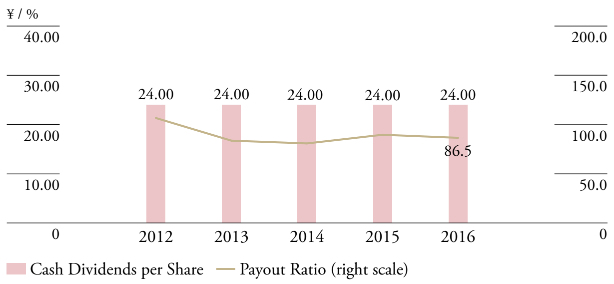
Net Income

Net income increased 1.8%, to ¥4.3 billion, and return on equity (ROE) was unchanged year on year at 2.4%.

Total Net Assets and Shareholders' Equity Ratio



Cash Dividends per Share and Payout Ratio



The Year in Brief

2015

April

Onward Global Fashion

PENDULE VIA BUS STOP Opens

Based on a new concept combining womenswear, shoes, books, and flowers with a café, PENDULE VIA BUS STOP was opened in the Minami Aoyama district of Tokyo.

August

Onward Kashiyama

Onward Crosset Is Renovated

Our directly managed e-commerce website, Onward Crosset, was renovated to feature new functions and services.

September

Onward Kashiyama

Nijyusanku Advertising Campaign Features Work of Renowned Peter Lindbergh

To celebrate the 23rd anniversary of the Nijyusanku brand, an advertising campaign was launched featuring a collaboration between renowned fashion photographer Peter Lindbergh and globe-trotting model Mona Matsuoka.

October

Onward Holdings

Blankets Created from Recycled Clothes Are Donated to Vietnam

Clothing items collected through the Onward Green Campaign were recycled to create 2,000 blankets, which were donated to Vietnam through the Japanese Red Cross Society.

2016

February

Onward Kashiyama

Operations Are Relocated to Onward Bay Park Building

Operations were relocated to a new environment in the recently completed Onward Bay Park Building in Shibaura, Tokyo. Serving as the new central office for Onward Kashiyama, this building houses the company's planning, production, and staffing departments as well as the functions of its Tokyo Office.

February

Onward J Bridge

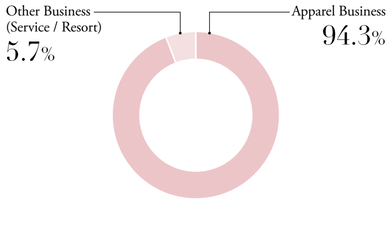
First Onward J Bridge Global Store Opens

The first Onward J Bridge duty-free store was opened inside the Laox Daimaru Shinsaibashi Store in Osaka. This new-age global store aims to offer one-stop shopping for inbound tourists while transmitting fashion steeped in Japanese aesthetic taste.

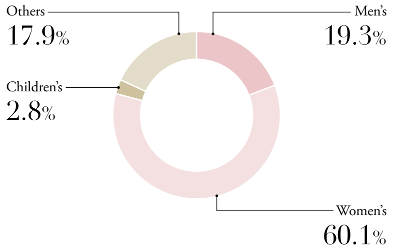
Review of Operations

Sales Breakdown

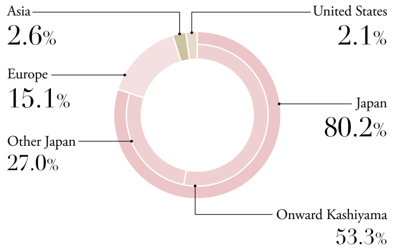
Sales by Business Segment



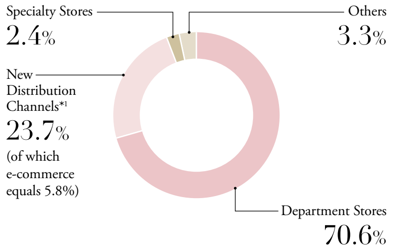
Apparel Business Sales by Clothing Type



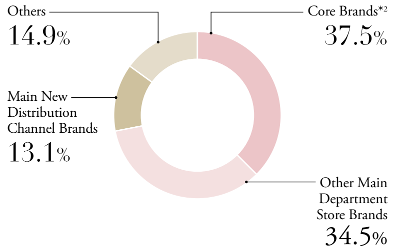
Sales by Geographic Segment



Onward Kashiyama Sales by Channel



Onward Kashiyama Sales by Brand



*1. Channels other than department stores (including shopping centers, directly managed stores, and e-commerce)
*2. Nijyusanku, Kumikyoku, ICB, and Jiyuku

Main Subsidiaries

Japan

Onward Kashiyama

Core company of the Group engaged in the manufacture and sale of womenswear, menswear, and children's clothing, accessories, and other items

Core brands
Nijyusanku, Kumikyoku, ICB, Jiyuku, Gotairiku, J.PRESS

Onward Trading

Manufacture and sale of uniforms and sales promotion goods

Items
Company, school, and medical-related uniforms and sales promotion goods

Creative Yoko

Manufacture and sale of pet-fashion items, character accessories, and other goods

Core brands
PET PARADISE, Mother Garden

Chacott

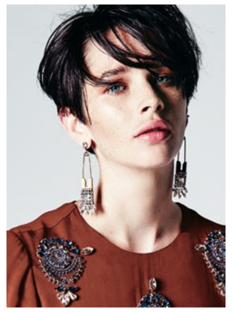
Manufacture and sale of ballet and other dance wear, shoes, and related goods

Core brands
Chacott, Freed of London

Island

Manufacture and sale of women's clothing and accessories

Core brand
Grace Continental



Overseas

Onward Luxury Group

OEM, production, and wholesale of European and U.S. brands

Manufacture and sale of luxury men's and women's clothing and accessories

Items / Core brands
Designer clothing, knitwear, bags, shoes, and other items for luxury brands

JIL SANDER, JIL SANDER Navy

Joseph

Manufacture and sale of men's and women's clothing and accessories as well as operation of multi-brand stores

Core brand
JOSEPH

A Letter to Our Shareholders

Takeshi Hirouchi
Representative Director, Chairman

Dear Shareholders,

In this modern world of technology, everything links through the Internet and the Internet of Things (IoT) has been called the fourth industrial revolution; IoT has the potential to impact all businesses and industries, and the "border" between each industry will likely fade further.

Amid such great change, the apparel business continues to face a harsh operating environment. In the domestic market, for example, we are witnessing an ongoing trend toward frugal purchasing habits centered on middle-to-high-end womenswear in the so-called moderate zone.

Such factors have created a situation in which overcoming current challenges and grasping hold of the successes that lie beyond will be more important than ever. In March 2015, Michinobu Yasumoto became president and representative director of Onward Holdings, joining Onward Kashiyama President Akinori Baba as a leader of management. With this new leadership, we are now poised to tackle challenges focused on both physical stores and e-commerce.

Furthermore, April 2016 saw the launch of our new medium-term management plan, under which we will implement growth strategies guided by the basic policies of providing a diverse sense of value and broadening our customer base. Among the measures described in the plan, we will accelerate our Omni-channel retailing strategy, which combines the strengths of our e-commerce and store operations, and forge ahead with our expansion in global markets, with our eyes turned, in particular, to the future growth of the Asian market. These measures will be advanced as we boost managerial efficiency in accordance with capital measures, thereby targeting improvements in corporate value and shareholder value.

I would like to express my gratitude to all our shareholders for their continuing support, cooperation, and trust.

August 2016

Takeshi Hirouchi
Representative Director, Chairman

A Message from the President

Provide a diverse sense of value and broaden our customer base, confronting challenges and exploiting opportunities in Japan and overseas

In April 2016, the Onward Group unveiled its new medium-term management plan, which covers the period leading up to fiscal year 2019. In this section, President Michinobu Yasumoto gives an overview of this plan before discussing several of its specific strategies.

Michinobu Yasumoto
Representative Director, President

Overview of Business Opportunities and the Medium-Term Management Plan

In fiscal year 2019, we will target net sales of ¥280.0 billion, operating income of ¥10.0 billion, and return on equity of 5%.

In fiscal year 2016, ended February 29, 2016, net sales and operating income both declined, amounting to ¥263.5 billion and ¥3.8 billion, respectively. The primary reason behind the decreases was the significant structural changes that occurred in the operating environment surrounding the apparel market. Looking ahead, we can expect the operating environment to continue to feel the adverse impacts of a myriad of factors. These factors will include the dwindling of our target customer group in conjunction with the continued decline of Japan's population as well as sluggish consumption trends attributable to consumption tax hikes and the rising price of durable goods. At the same time, customer values and lifestyles are diversifying, and we have witnessed the amounts consumers spend on physical goods decline as they allocate more of their free income to Internet and other services. Structural issues are compounding this difficult operating environment. For example, faced with highly competitive markets, we are unable to easily adjust product selling prices to reflect hikes in business expenses, such as increases in production costs accompanying economic growth in Asia.

Turning to a more positive topic, there are currently two major opportunities that have been placed before the Onward Group—namely, to accelerate its Omni-channel retailing strategy and to expand in global markets. The new medium-term management plan was designed with the aim of ensuring the Group can take hold of these opportunities. Accordingly, we have defined the basic policies of this plan as to provide a diverse sense of value and to broaden our customer base.

The policy of provide a diverse sense of value signifies our intent to increase the value of our fashion and apparel products, which are our core competence, in addition to developing new products and services in a wider range of fields centered around fashion. To broaden our customer base, meanwhile, we will expand contact points with domestic customers in our various sales channels, specifically increasing the amount of time and number of opportunities for contact with these customers. We will pursue growth through such efforts as well as by broadening our customer base overseas.

In short, the medium-term management plan will position the acceleration of our Omni-channel retailing strategy and our expansion in global markets as business opportunities and guide us to growth through the basic policies of provide a diverse sense of value and broaden our customer base. Through these efforts, we will target net sales of ¥280.0 billion and operating income of ¥10.0 billion along with an operating margin of 3.6% in fiscal year 2019, three years from now. We will then work toward our targets for fiscal year 2021, which are net sales of ¥300.0 billion, operating income of ¥15.0 billion, and an operating margin of 5.0%.

Business Opportunities and Performance Targets

By fiscal year 2019, we aim to grow sales from e-commerce and overseas operations to represent 12% and 24% of total net sales, respectively.

To take advantage of the business opportunity created by the acceleration of our Omni-channel retailing strategy, we aim to expand sales in our e-commerce operations, which have high profitability and significant growth potential. Advances in information and communication technologies, or ICT, have presented us with a greater range of opportunities to develop new customer contact points that have never been seen before. The Group is currently in the process of constructing diverse e-commerce platforms, of which between 60% and 70% have been completed. With these platforms, we will work to grow our e-commerce operations into a business capable of generating net sales of about ¥36.0 billion three years from now, with ¥31.0 billion in Japan and ¥5.0 billion in overseas markets, such as China and other parts of Asia. By achieving this growth, we anticipate that the portion of total net sales attributable to e-commerce operations will increase from the current 4% to 12% by fiscal year 2019. At present, there is a bit of a disparity in e-commerce initiatives between specific brands and subsidiaries. Nevertheless, we will endeavor to realize rapid expansion in our e-commerce operations through a two-pronged approach. This approach will entail, first, increasing the portion of the Group that is engaged in e-commerce and, second, utilizing the Group's e-commerce platforms to advance the evolution of collaborations with various companies and industries to create fresh, new e-businesses. With regard to brick-and-mortar stores, we will move forward with selection and concentration measures in Japan while increasing the number of stores overseas.

With regard to the business opportunity of expansion in global markets, we will work to grow overseas sales from fiscal year 2016's ¥55.1 billion to ¥71.0 billion in fiscal year 2019. This figure should result in overseas sales accounting for 24% of total net sales.

Key Strategies Driven by Basic Policies

Provide a diverse sense of value: We will advance measures emphasizing activities and services as well as products.

In seeking to provide a diverse sense of value, we will expand the range of offerings through which we supply value to customers. For example, while continuing to increase the value of our apparel products, we will develop operations in a wide variety of fields in which we can expect synergies with the Group's operations, such as accessories and items that provide enrichment to people's lives.

In increasing the value of apparel products, we will leverage the Onward Group's strengths in planning, development, and manufacturing technologies. Specifically, steps will be taken to expand high-value-added production in Europe; to bolster Made in Japan production of J∞QUALITY certified products; to collaborate with creators outside the Group; and to balance production costs and quality. We will also work to expand operations in the lifestyle field, which includes accessories. To this end, we will deploy a new jewelry brand through Onward Kashiyama and otherwise augment our lineups of bags, jewelry, and other items.

In addition to enhancing our product lineups, we will also need to refine strengths that lie outside our traditional domain, such as our ability to offer services and events that inspire emotions within our customers. We recognize that today's consumer market is such that quality products are not enough to catch the eye of our customers, let alone get them to purchase these products. Based on this realization, we aim to evolve our stores to make time spent shopping more fulfilling, a commodity in itself. Through our Aurora Strategy, we will strive to make our stores more than just places where arrays of products are lined up on shelves, transforming them into places that can be enjoyed in and of themselves and encouraging customers to spend time in them as a result.

Another issue needing to be addressed is the sluggish growth of sales at department stores outside major cities. Our answer to this situation is the development of a new type of "omni-store." Faced with a decline in customer numbers in such areas, we have found it becoming less feasible to allocate large quantities of products to department stores in these areas. However, not providing stores with an ample supply of stock decreases the number of opportunities customers have to encounter our products and therefore could be seen as actively discouraging the purchase of our products, which will no doubt lead to lost sales opportunities. The omni-store concept we are using to address this issue entails utilizing the information transmission capacities of e-commerce and the convenience of our logistics functions. By combining these strengths with the customer service we provide at our stores, we are focusing on this approach with the hopes of expanding contact points with customers away from major cities.

Another type of store aimed at making time spent itself a commodity can be seen in the Shirotan Friends Museum and Pet Paradise DX stores developed by Creative Yoko. These multipurpose stores are oriented toward children and provide spaces in which families can enjoy not only shopping but also engaging in fun activities together. We aim to develop more such stores in the future. Another area in which we are pursuing innovation is through customizable products and services. In this area, we aim to utilize ICT to foster innovation the likes of which has never been seen before in order to provide customized products matched to individual customer needs at reasonable prices as much as possible.

Broaden our customer base: We will advance measures targeting both new and existing customers.

A primary measure among initiatives to expand our existing customer base is increasing the number of users of the Onward Members' loyalty point card system. In April 2016, we completed the integration of the user base of our directly managed e-commerce website Onward Crosset and the Onward Members users saved at physical stores to create a database of 1.2 million customers. Going forward, we will proceed with the consolidation of the customer bases of domestic Group companies while also encouraging overseas customers to enroll in the Onward Members' system. We thereby aim to build a user base of 3.0 million customers over the next three years. In addition, we began linking e-commerce inventory data in April 2016, which will be an important measure in promoting our Omni-channel retailing strategy. As a result, we are now able to provide customers using various e-commerce sites with the same inventory information, an achievement that has stimulated a rapid increase in sales of Onward products through various websites, including those not associated with the Group. In the future, our focus will remain on our own e-commerce sites, but we will still engage in various collaborative ventures to accelerate growth of our e-commerce operations. Another forward-looking initiative is the development of a system for providing personal concierge services. Rather than simply waiting for customers to visit our stores, we will actively pursue "storeless" sales by catering to the various needs of individual customers and corporate customers through such services. In this way, we aim to increase business opportunities by sharing time with customers.

Meanwhile, measures to capture new customers will include creating more contact points with potential customers by actively using social networking sites and collaborating with affiliates and members of other industries. In attracting new customers overseas, we will step up global advertising for core brands Nijyusanku and JOSEPH and we will also be devoted to bolstering our range of global flagship stores for these brands. However, as we realize that there is a limit to the extent we can increase store numbers, we will also advance our Omni-channel retailing strategy worldwide through the deployment of global e-commerce sites. These measures will also be employed to tap into consumption demand from inbound tourists. In addition, mergers and acquisitions will be used as an option for acquiring customers as was done through the April 2016 acquisition of Tiaclasse Inc., an apparel supplier that develops brands exclusively through e-commerce. Despite operating entirely online, Tiaclasse boasts a solid base of extremely satisfied customers. By working with this company, we hope to develop new businesses that leverage the Onward Group's strengths. As we move forward, our operations will remain centered on the fashion and apparel field; however, we will also turn our eyes toward products in other fields.

Investment to Support Key Strategies

We will actively invest in implementing our personnel strategy and ICT strategy.

Our personnel strategy will be an essential part of advancing the various measures described in the medium-term management plan. We realize that, without globally competent human resources in areas ranging from product creation to sales and customer service, the Onward Group will be unable to grow on a global scale. Based on that recognition, we proactively invest in human resources.

At the same time, our ICT strategy will be crucial to ensuring that we are able to operate our business in an efficient manner that ensures profitability. Specific areas of focus will include utilizing cutting-edge ICT to establish more efficient and faster moving supply chains and to create new business models.

Financial Strategy

We will institute various measures to improve return on equity.

We recognize that the distribution of profits to shareholders is one of our top priorities. Our basic policy is to stably distribute appropriate dividends to shareholders based on the Company's business performance, and we target a dividend payout ratio of 35% or more. We also strive to mitigate financial risks through increased total shareholders' equity and flexible fund procurement and thereby maintain a consistent shareholders' equity ratio.

Based on these policies, we have set a target of 5% for return on equity in fiscal year 2019, which we will pursue while implementing such measures as the sale of shareholdings, effective use of existing assets, and the continued issuance of stable dividends linked to business performance.

Strengthening of CSR Activities

We will strengthen CSR activities from the perspectives of ecology, ethics, and diversity.

The Onward Group conducts environmental management in accordance with its environmental concept of "Thinking of the Earth. Clothing Its People." We thus strive to coexist with the Earth and people worldwide while growing our apparel and other businesses. From the perspective of ecology, we are continually advancing initiatives, including the Onward Green Campaign, forest preservation activities at the Tosayama Onward Rainbow Forest, and clothing reuse activities through Onward Reuse Park. In relation to ethics, we have instituted a factory certification system*, the goal of which is to improve worker benefits and work environments at partner factories by thoroughly entrenching CSR and QC guidelines that stipulate measures, including stringent legal compliance. Through this system, we hope to reinforce socially responsible production activities. In promoting CSR activities from the perspective of diversity, we actively provide opportunities for female, differently abled, and non-Japanese employees while seeking to create motivating work environments.

* For details, please refer to "Special Feature: Onward-Approved Factory System" on pages 30 to 32.

August 2016

Michinobu Yasumoto
Representative Director, President

A Message from the President

Core Brands

LAUNCHED
1993

ANNUAL SALES
¥26.8 billion

NUMBER OF STORES
Over 200

Nijyusanku is the leading brand of Onward Kashiyama. The core target of this brand is working women in their 30s and 40s. The brand is available in department stores across the country as well as in its flagship store, Nijyusanku GINZA, which was opened in the Ginza district of Tokyo in 2011.

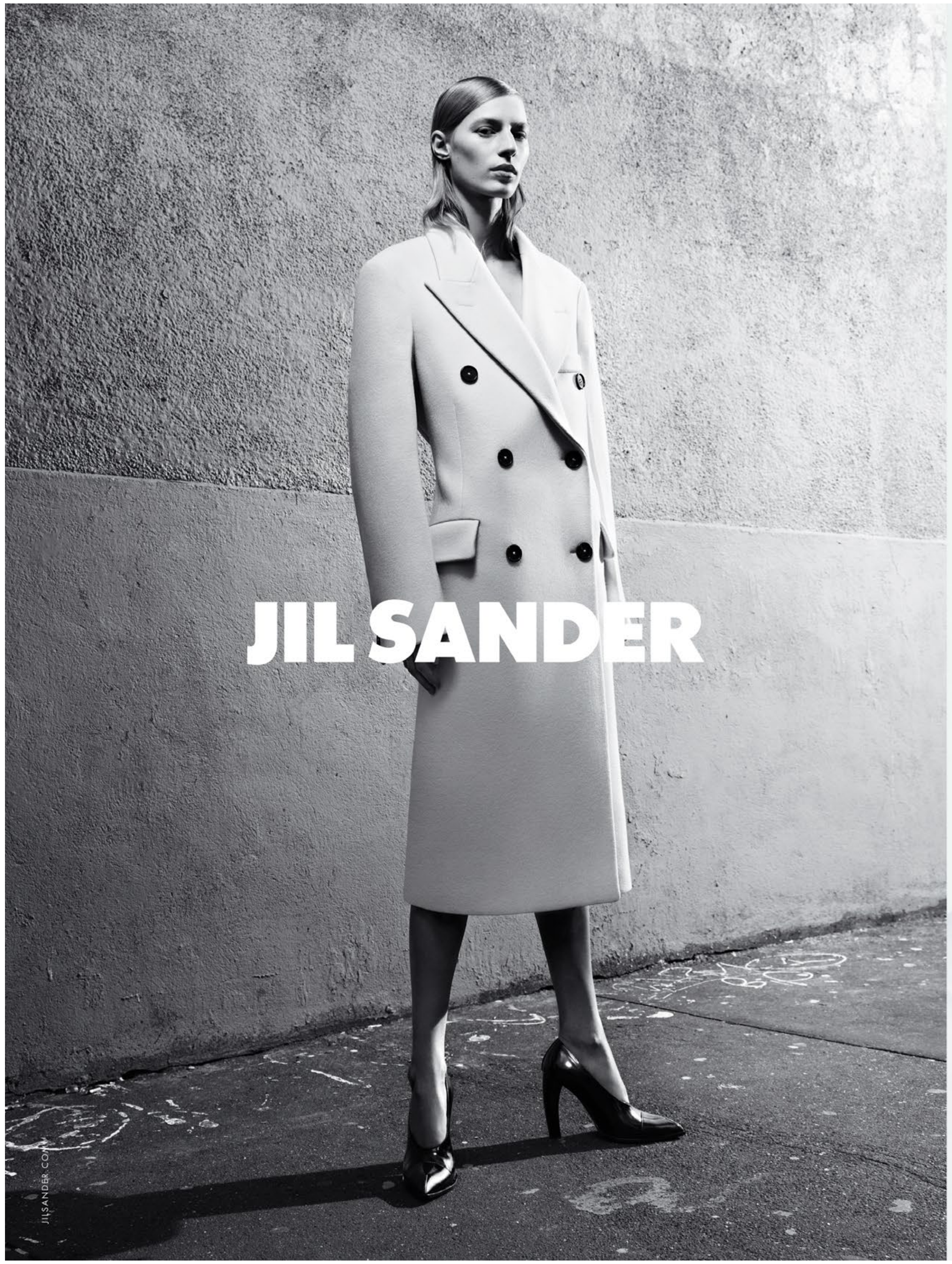
gotairiku
五　大　陸

LAUNCHED
1992

ANNUAL SALES
¥4.7 billion

NUMBER OF STORES
120

Gotairiku is Onward Kashiyama's core men's brand. Based on the concept of providing a "gentlemanly wardrobe that represents Japan," this brand primarily features suits aimed at businessmen in their 40s. The brand continues to be promoted through the *Gotairiku Gonin Otoko* campaign, which features a quintet of Kabuki actors as spokesmen.



JIL SANDER

LAUNCHED
1973

ANNUAL SALES
¥10.4 billion

NUMBER OF STORES
80

Founded by Ms. Jil Sander in Germany, JIL SANDER is a luxury brand that is featured periodically in Milan Fashion Week. Onward Holdings acquired JIL SANDER in 2008. The casual line JIL SANDER Navy was launched in 2011. In 2014, Italian designer Rodolfo Paglialunga was appointed the creative director of JIL SANDER.

JOSEPH

LAUNCHED
1972

ANNUAL SALES
¥18.6 billion

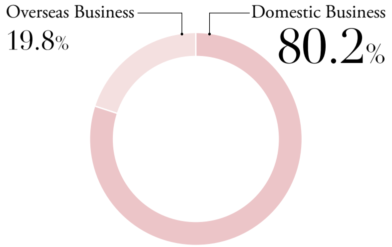
NUMBER OF STORES
180

The JOSEPH brand grew from a small multi-brand store owned by Joseph Ettedgui in London. After the original label JOSEPH was launched with the concept of "SLICK&CHIC," Onward Holdings acquired JOSEPH in 2005. The development of this brand in Japan is being undertaken by Onward Kashiyama.

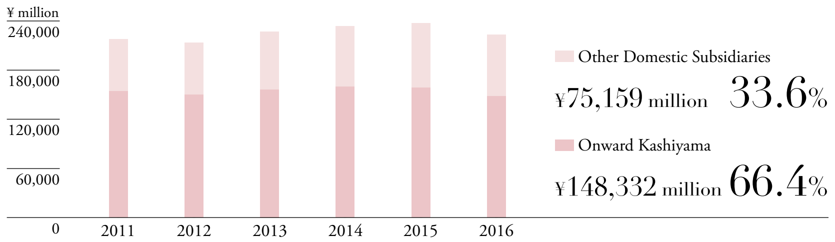
Domestic Business

The domestic business is our mainstay business, generating 80.2% of consolidated net sales. This business consists of 33 companies: core operating company Onward Kashiyama as well as other domestic subsidiaries that make fashion proposals in a wide range of fields.

Contribution to Total Sales



Net Sales by Domestic Business Segment



Note: The figures shown reflect net sales prior to the elimination of internal transactions.

Onward Kashiyama

Business Overview

Onward Kashiyama is the Group's core operating company, generating 53% of consolidated net sales. Onward Kashiyama manufactures and sells womenswear, menswear, children's clothing, and accessories, and 71% of its sales come from its main sales channel, department stores. Core womenswear brands Nijyusanku, Kumikyoku, ICB, and Jiyuku account for 38% of net sales. Similarly, mainstay menswear brands Gotairiku and Personal Order are posting solid performances by capitalizing on their high-quality suits.

Future growth strategies will include reinforcing our e-commerce operations centering on our directly managed e-commerce website Onward Crosset. In conjunction with these efforts, we will accelerate our Omni-channel retailing strategy* by integrating the inventory information, customer management, and service functions of our 3,000 physical stores in Japan with online stores.

* Please refer to "A Message from the President" on pages 11 to 13 for more information on our Omni-channel retailing strategy.

Performance and Outlook

In fiscal year 2016, certain successes were seen due to the benefits of enhanced sales promotions of core brands, such as Nijyusanku and Gotairiku, as well as progress in our Omni-channel retailing strategy linking inventory information for physical and online stores.

However, performance suffered due to lower March sales, which fell from the previous year when sales were buoyed by the demand rush preceding the consumption tax hike, as well as the adverse impact of the warm winter beginning in November.

In fiscal year 2017, we will strengthen key brands, reinforce our e-commerce operations, and proceed with the development of large-scale shops in key department stores. At the same time, we will pursue improved profitability through the closure of unprofitable stores.

Other Domestic Subsidiaries

Business Overview

Other domestic subsidiaries leverage the product development and sales capabilities of the Onward Group to create new values and lifestyles by making fashion proposals in a wide range of fields.

Chacott, a manufacturer and retailer of ballet and other dance wear, is working to improve brand value and increase sales by accelerating openings of new types of directly managed stores. Meanwhile, Island, which has Grace Continental as its core brand, is providing fashion items with a distinctive aesthetic that is proving immensely popular among women with refined tastes. Creative Yoko is pursuing the differentiation of its core pet fashion business by opening large-scale stores dealing in products and services for pets.

At Onward Trading, a leading domestic manufacturer of uniforms and sales promotion goods, the apparel expertise that pervades the Group is used to provide uniforms to suit any environment while striking the best balance between style and usability.

Performance and Outlook

In fiscal year 2016, efforts to dispose of unprofitable businesses were scaled back and investment in new business was lowered, enabling us to improve profitability during the second half of the fiscal year. However, income still fell below our target due to low sales growth.

In fiscal year 2017, we will seek to boost profitability by expanding operations in growth fields and further reorganizing unprofitable businesses.

Nijyusanku GINZA

Domestic Business

Our Value Chain

As a leader in the apparel industry, the Onward Group is guided by a mission of continually proposing fresh, high-value-added products to consumers.

To fulfill this mission, we take advantage of the fashion trend information acquired through our global network and the technological capabilities of the Onward Research and Development Institute. By merging these strengths, we create new products that excel from the perspectives of fashion, technologies, and quality and propose new values and lifestyles.

Onward Research and Development Institute

Established in 1991, the Onward Research and Development Institute is the Group's proprietary center for comprehensive research on new manufacturing technologies and product developments. The Technology Development Center carries out numerous tests and trials to achieve the highest possible level of quality control. For example, fabric is tested for elasticity, tear resistance, friction durability, risk of layer separation, seam burst reparability, stretch recovery, and wrinkle resistance. The Onward Advanced Technology Research Center works together with 16 leading companies from the apparel industry, including raw material suppliers, garment material suppliers, and sewing machine manufacturers, to develop innovative new products. The Professional Development Center is responsible for the training and development of human resources.

Product Flow (primarily used by Onward Kashiyama)

Planning and Design

01

Research

1 Year Before Start of Sales

Product development starts with our designers and merchandisers actually visiting fashion capitals around the world to research the latest fashion trends. They also attend fabric exhibitions in Japan, Europe, and the United States to seek out new, high-quality fabrics.

02

Design and Material Selection

6–9 Months Before

Concept drawings are created, and the design, materials, price range, and seasonal theme are decided based on a consideration of fashion trends, fabrics information, and other factors.

03

Sample Creation

5 Months Before

Samples are made based on concept drawings created by designers to visualize how the design and the materials will actually appear.

04

Exhibition

4 Months Before

Buyers and press members are invited to exhibitions displaying new products. Alterations are made to samples based on feedback from buyers as well as store managers.

05

Product Selection

3–5 Months Before

From among the samples, the items to be commercialized are selected, and production numbers are decided through coordination with sales teams.

Production

06

Product Planning

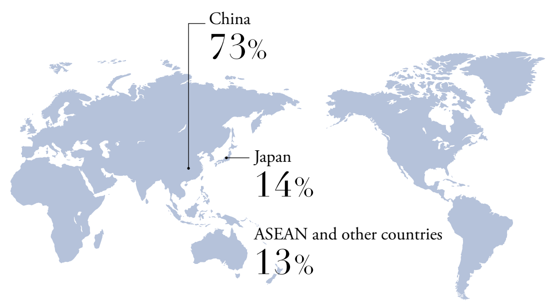
3 Months Before

Quality control teams inspect samples to determine if any issues exist with the fabric or manufacturing processes to be used. At the same time, production control teams decide which factories will be used for mass production as well as establish production schedules and order ancillary materials.

Planning and Production Teams

Onward Kashiyama has approximately 1,000 professionals in its planning and production control teams. With these strong teams in place, the Company assigns merchandisers, designers, and patternmakers to each brand or category. The production control teams take care of other aspects of production, ranging from factory selection, technical guidance, and fabric and other material sourcing to quality control.

Production Areas



Production Network

Of Onward Kashiyama's products, 71% are manufactured in cooperation with trading companies or delegated to factories in Japan or overseas. Recently, however, we have been establishing our own production network by strengthening partnerships with highly capable Japanese factories and expanding our low-cost production and sourcing networks in China and Vietnam. Currently, about 73% of Onward Kashiyama's products are manufactured in China, 14% in Japan, and 13% in ASEAN and other countries. We are developing our procurement and production networks in the ASEAN region and reinforcing production in Japan to ensure that we can always manufacture products in the most suitable location.

Department Store Transactions

The majority of transactions between department stores and apparel manufacturers are made under the consignment system, a transaction scheme indigenous to Japan with the following characteristics.

1. The apparel company owns the inventory and some shop fixtures and provides their own sales personnel. When a product is sold, it is then considered to have been procured by the department store.
2. The apparel company pays an agreed percentage of its sales to the department store as a tenant fee. Rent and other costs generally do not apply. (Profit margins are linked to sales.)
3. The apparel company records a sale as the amount of the wholesale price of the item sold less the margin paid to the department store.

07

Production

2 Months Before

Products are manufactured while production control teams and factories monitor delivery schedules and production processes.

08

Final Check

1–2 Weeks Before

Finished products are delivered to distribution warehouses. Stitching and other product details are inspected once again before delivery.

Delivery and Sales

09

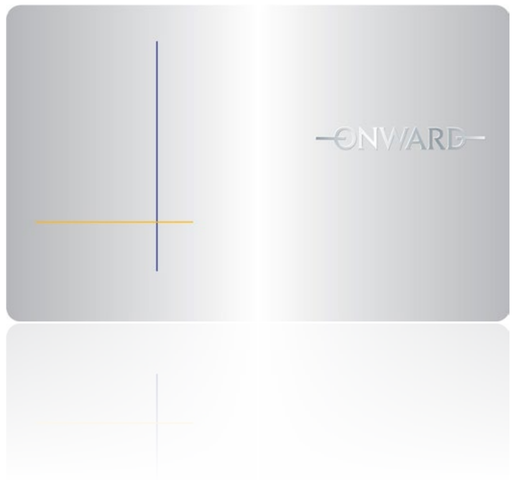
Delivery

Products are transported from distribution warehouses to stores based on the instructions of sales managers and distributors.

10

Sales

Products are sold at physical stores and online.



Onward Members' Loyalty Point Card System

Onward Members is a loyalty point card system that can be used both at Onward Kashiyama stores and on the Onward Crosset directly managed e-commerce website.

Through this system, members not only receive points based on purchase amounts, but they are also able to receive various perks, including brand information distributed through email magazines and member-exclusive services.

In April 2016, this system had 1.2 million members. Aiming to increase this number to 3.0 million by fiscal year 2019, we will seek to expand our customer base on a Groupwide basis.

Our Sales Channels

The Onward Group conducts its sales activities through a number of different sales channels. As we move forward, we will advance our Omni-channel retailing strategy that merges the strengths of both physical and online stores to further expand our customer base.

Department Stores

Department stores are Onward Kashiyama's main sales channel, accounting for 71% of its total sales. A diverse range of core and other brands are deployed through this channel.

We have been strategically relocating and redesigning our shops while developing large-scale shops to maximize individual shop sales and operational efficiency. Furthermore, sales representatives have recently been armed with tablets to enhance sales promotions and services linked to e-commerce operations as part of our Omni-channel retailing strategy.

Nijyusanku Daimaru Sapporo Store

E-Commerce

Our directly managed e-commerce website, Onward Crosset, forms the central pillar of our e-commerce operations, and we also operate brand-specific online stores and list our products on domestic and overseas online shopping sites.

Growth of the e-commerce channel is anticipated to outstrip that of other channels going forward. We therefore plan to bolster communication and services through this channel to expand our customer base.

Directly Managed Stores

These brand flagship stores double as brand billboards for our cutting-edge products.

Train Station Complexes / Fashion Malls

We offer fashionable and trendy products through this sales channel, which is displaying impressive growth in Japan.

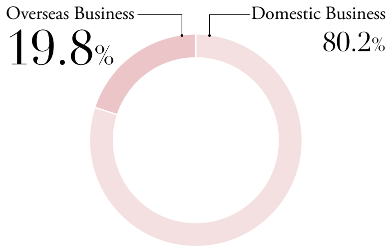
Shopping Centers

These centers serve as a sales channel for Onward Kashiyama's brands, such as any FAM, any SiS, and SHARE PARK.

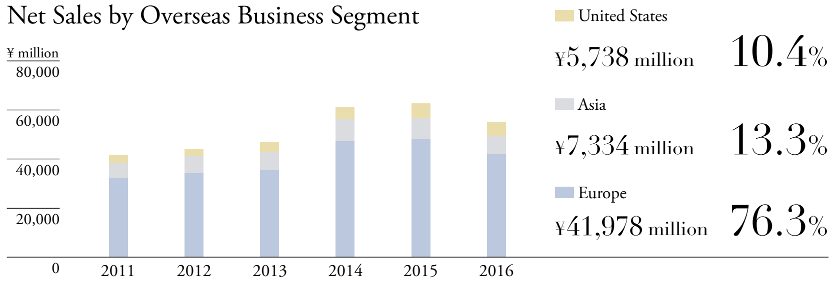
Overseas Business

The overseas business consists of operations in Europe, Asia, and the United States and accounts for 19.8% of consolidated net sales. Business scale expansion will be pursued centered on Europe, where operations are the largest, as we strengthen our competitiveness in the global market.

Contribution to Total Sales



Net Sales by Overseas Business Segment



Note: The figures shown reflect net sales prior to the elimination of internal transactions.

Europe

The European business—our largest overseas business—primarily conducts the manufacture and sale of high-end apparel and accessories.

In 2014, the current form of Onward Luxury Group, which merges Italian subsidiaries GIBO'Co Group and Jil Sander Group, was established. In the long term, we aim to merge Joseph Group in England into Onward Luxury Group to unite the European business under a single company and generate synergies in order to develop it into a fashion conglomerate with a strong presence in the European market.

By uniting our European business, we will be able to exercise its strengths in manufacturing as well as the strengths of Jil Sander (brands) and Joseph (retail). With this comprehensive range of functions, we will seek to become a unique presence in the European fashion industry.

Business Overview

Onward Luxury Group

Manufacture and Wholesale

Onward Luxury Group's manufacturing and wholesale divisions undertake the production of the principal items that are indispensable to a designer brand line, including apparel as well as shoes, bags, and knitwear, and are constructing a manufacturing platform capable of providing the utmost levels of quality.

Apparel item production is conducted by leveraging the strengths of three sites in Italy: Florence, where we are skilled at tailored clothing, such as shoulder pieces; Bergamo, which is home to our skilled crafting functions for light fabric clothing; and Parma, where we create more elaborate clothing items.

Furthermore, the manufacturing divisions are promoting synergies in product creation while also utilizing Onward's network of showrooms in Paris, Milan, and New York to expand sales opportunities and generate sales-field synergies.

OLG Erika Knitwear Factory

JIL SANDER

We conduct the planning, manufacture, and wholesale of the JIL SANDER luxury menswear and womenswear collections and apparel and accessories from JIL SANDER Navy, and we are developing stores on a worldwide basis.

Moreover, Rodolfo Paglialunga, renowned for his work with Prada and Vionnet, was named as the creative director for JIL SANDER and began lending his talents with the 2015 spring/summer collection. We will promote JIL SANDER in the next chapter of its development to further its growth as a global brand.

JIL SANDER Paris store

JOSEPH

Joseph undertakes the planning, manufacture, and sale of JOSEPH brand menswear and womenswear collections and accessories and is also developing a network of multi-brand stores and JOSEPH brand stores centered on London.

In recent years, flagship stores in London and Paris have been renovated to enhance brand recognition. To accelerate the brand's global growth, Joseph is increasing accessory and menswear lineups while expanding operations in the North American market and strengthening e-commerce businesses.

Performance and Outlook

In fiscal year 2016, we strengthened operating foundations and secured stable earnings for production operations. However, the difficult operating environment placed downward pressure on the retail and wholesale operations of Jil Sander, resulting in reduced profits.

In fiscal year 2017, we will undertake investments aimed at increasing the recognition of the JIL SANDER brand while enhancing inter-Group synergies that extend to new subsidiaries dealing in bags and shoes.

JOSEPH 77 Fulham Road store

Asia

Business Overview

In our Asian business, Nijyusanku, ICB, rosebullet, and other major Onward Kashiyama brands are sold in department stores and shopping centers in China, including Hong Kong, Taiwan, South Korea, Singapore, Thailand, Indonesia, and Vietnam.

Furthermore, Asia is rising in importance as a production site. To supplement existing partnerships with Chinese manufacturers that have high overall capacity, we aim to expand our manufacturing platform in ASEAN countries, such as Vietnam. With our sights set on capital alliances and the acquisition of production capacity, we are determined to build a manufacturing platform in Asia with high profitability and quality as well as superior material procurement capabilities and fast delivery time.

United States

Business Overview

U.S. operations comprise retail businesses in the States as well as hotel and golf course management operations in Guam.

J.PRESS, acquired in 1986, is a well-loved brand among Ivy Leaguers. We currently have three directly managed stores in the United States. As part of recent global strategies for European brands, we have been strengthening sales of JOSEPH in the United States.

As we move forward, we will expand our U.S. operations as we conduct necessary investments from a medium-to-long-term perspective to grow retail businesses.

Performance and Outlook

In fiscal year 2016, we were able to improve performance in North America and Asia through streamlining business structures and store networks.

In fiscal year 2017, we will continue carrying out business reorganizations while we expand e-commerce operations and explore new markets to increase earnings.

Onward-Approved Factory System

Environmental and social responsibilities are growing in significance for businesses worldwide. Simultaneously, companies must navigate various risks related to issues that could arise in their business operations, including pollution in the countries or regions from which they procure manufactured products and human rights violations at production sites. Against this backdrop, CSR initiatives that consider the entire supply chain are becoming a crucial part of operations, particularly for companies developing their businesses on a global scale. Onward Holdings is aware of this change and is therefore committed to exercising its social responsibilities as a company involved in manufacturing. To facilitate these efforts, Onward Holdings launched the Onward-Approved Factory System in 2015 and has positioned the promotion of CSR procurement as a management policy.

Goal of the Onward-Approved Factory System

The Onward-Approved Factory System was instituted with the goal of developing a manufacturing platform that can continually supply impeccable quality products.

We are well aware of how important safe and appropriate work environments at production sites are to improving employee retention rates and thereby securing manufacturing techniques and ensuring stable product quality.

Through the Onward-Approved Factory System, we encourage partner factories to reinforce their management systems for maintaining ethical working conditions (CSR) and securing necessary quality control (QC). We thereby support factories exhibiting excellence in achieving sustainable growth.

Audit Targets

Audits conducted in accordance with the Onward-Approved Factory System target sewing factories in China and the ASEAN region.

We launched this system in 2015, and 29 overseas factories contracted by Onward Kashiyama were audited by the end of fiscal year 2016.

In the future, the scope of the Onward-Approved Factory System will be extended to overseas joint venture factories, overseas factories contracted through trading companies, and overseas production partners of domestic subsidiaries.

Audits Performed

	Number of factories audited		Number of factories with no compliance findings	
	First audit	Re-audit	CSR	QC
Fiscal year 2016 (Actual)	29	—	8	11
Fiscal year 2017 (Plan)	36	11	—	—

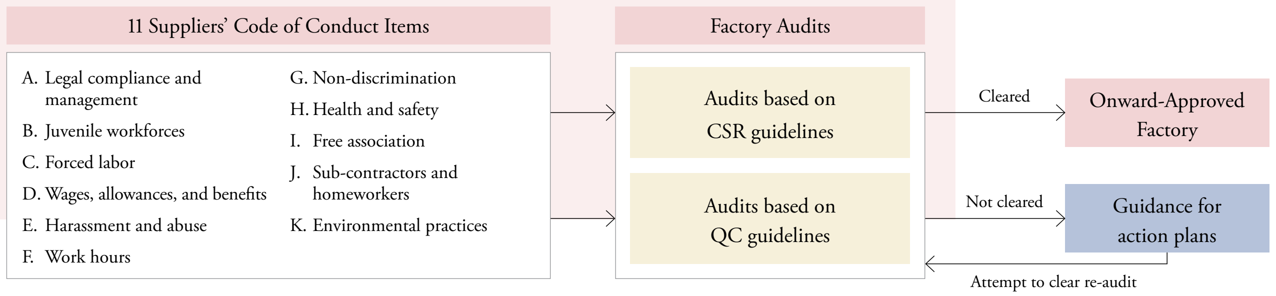
Audit Methods

Audits related to CSR are conducted in accordance with Onward Holdings' proprietary Suppliers' Code of Conduct, which is based on the SA8000 international standard. Actual audits are entrusted to external organizations, but representatives from Onward Holdings are present when audits are conducted. We thereby endeavor to help ensure appropriate auditing based on the current business environment and to develop the understanding necessary for us to exercise our responsibility as the order placer to support factories in carrying out any improvements that need to be made. Audits relating to QC are conducted directly by Onward Holdings' production team.

The results of audits and any compliance findings are compiled into audit reports, and the results of both CSR and QC audits are provided to the factory.

If no compliance findings were discovered through the audit, a certificate of approval is issued that is valid for two years. If improvements are deemed necessary, feedback is supplied with regard to the areas requiring improvements and guidance for action plans is provided by Onward Holdings. The factory is then re-audited after a period of approximately one year.

Audit Procedure



* Audits are conducted every two years, in principle, and the period during which certificates of approval are valid is extended based on the number of audits cleared in the past.

Suppliers' Code of Conduct Items (Created in Japanese, English, and Chinese languages)

A. Legal compliance and management	Business Partners of Onward shall comply with all local laws and regulations. Furthermore, Business Partners shall comply with all legal requirements and respect the legal and moral rights of their employees. At the same time, in order to comply with legal requirements, management systems for maintaining respective documents have to be established.
B. Juvenile workforces	Business Partners of Onward shall not employ minors younger than the local legal minimum working age, or age 15. This code is applicable to all facilities of Business Partners.
C. Forced labor	Business Partners of Onward, in any part of their business, shall not associate with Business Partners who utilize bonded labor or forced labor. Additionally, Onward will not associate with Business Partners who violate the above.
D. Wages, allowances, and benefits	Business Partners of Onward shall comply with all laws and regulations on local wages, hours of work, and allowances. Fundamental policy on wages and allowances shall comply with local laws and standards, while equally satisfying international requirements. Onward will not associate with any Business Partner that violates local laws and regulations or industry common practices.
E. Harassment and abuse	Business Partners of Onward shall not utilize any form of physical or psychological coercion or retribution to workers. Furthermore, Onward will not associate with Business Partners who violate the above.
F. Work hours	Business Partners of Onward shall comply with all legal requirements regarding work hour issues and abide by all local laws.
G. Non-discrimination	Business Partners of Onward shall not discriminate in employment or recruitment on the basis of age, nationality, race, ethnic origin, gender, religion, or any other factor. Business Partners of Onward will not associate with their Business Partners who discriminate.
H. Health and safety	Business Partners of Onward shall provide a safe and healthy work environment for workers. Additionally, they shall ensure not to expose workers to an unsanitary and hazardous workplace environment.
I. Free association	Business Partners of Onward shall guarantee the freedom of unions and workers who wish to join unions in accordance with local requirements.
J. Sub-contractors and homeworkers	Business Partners of Onward shall disclose sub-contractors to Onward.
K. Environmental practices	Business Partners of Onward shall have basic awareness of environmental protection. Business shall be conducted in accordance with local and internationally recognized environmental requirements.

A Message from the Onward-Approved Factory System Representative

As an apparel manufacturer, securing quality factories is a matter of the utmost importance.

Appropriate work environments provide an important foundation that makes it easier to retain highly skilled employees and help increase the number of factories possessing superior manufacturing techniques. To realize true sustainability for production sites and for apparel manufacturers, raising the number of such factories is crucial, and it was this belief that inspired us to introduce the Onward-Approved Factory System. Future initiatives with regard to this system will include examining the possibility for mutual verification of the audits conducted for other brands and by other companies. Through such initiatives, we will continue to reduce the burden placed on factories as we push forward with the construction of a production system that can continually provide customers with products of impeccable quality.

Takashi Yamashita
CSR Procurement Director, Onward Holdings Co., Ltd.

Our Network

As of August 31, 2016

Europe

England

London

- Joseph Ltd.
- Freed of London Ltd.

France

Paris

- Horloge Saint Benoit S.A.S.

Italy

Milan

- Onward Italia S.p.A.
- Onward Luxury Group S.p.A. (JIL SANDER)

Florence

- Onward Luxury Group S.p.A. (Apparel)
- Frassineti s.r.l.

Verona

- Erika s.r.l.

Venice

- Onward Luxury Group S.p.A. (Shoes)

Spain

Madrid

- Gallardo Dance S.L.

Asia

China

Shanghai

- Onward Fashion Trading (China) Co., Ltd.
- Shanghai Onward Fashion Co., Ltd.
- Onward Fashion Trading (Shanghai) Co., Ltd.

Dalian

- Onward Fashion Trading (Dalian) Co., Ltd.

Taicang

- Taicang Onward High Fashion Co., Ltd.

Nantong

- Nantong Haimeng Garments Co., Ltd.

Hong Kong

- Onward Kashiyama Hong Kong Ltd.

Vietnam

Ho Chi Minh City

- Onward Kashiyama Vietnam Ltd.
- Showa (Vietnam) Co., Ltd.
- Yasuda (Vietnam) Co., Ltd.

Singapore

Singapore

- Onward Kashiyama Singapore Pte. Ltd.

Korea

Seoul

- Onward Kashiyama Korea Co., Ltd.
- Chacott Korea Co., Ltd.

Japan

Japan

Tokyo

- Onward Holdings Co., Ltd.
- Onward Kashiyama Co., Ltd.
- Onward Trading Co., Ltd.
- Chacott Co., Ltd.
- Onward Global Fashion Co., Ltd.
- Creative Yoko Co., Ltd.
- Island Co., Ltd.
- Candela International Co., Ltd.
- J. Direction Co., Ltd.
- Birz Association Ltd.
- Intimates Co., Ltd.
- Sakula Inc.
- O.P.S. Co., Ltd.
- Onward J Bridge Co., Ltd.
- Onward Creative Center Co., Ltd.
- Onward Life Design Network Co., Ltd.
- Bien Co., Ltd.
- Onward Resort & Golf Co., Ltd.
- O & K Co., Ltd.
- Tiaclasse Inc.
  and 14 additional companies

United States

U.S.A.

New York

- J. Press, Inc.
- Onward U.S.A. L.L.C.

Guam

- Onward Beach Resort Guam, Inc.
- Onward Golf Resort Guam, Inc.

- Apparel
- Other
- Joint Venture Factory
- Company-Operated Factory

Number of Stores

3,960

in 27 countries and regions

The Onward Group engages in business activities through a network that is made up of 81 subsidiaries and 22 affiliates, for a total of 104 Group companies. The Group operates in the four geographic segments of Japan, Europe, Asia, and the United States.

Environmental and Social Responsibility

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 brisk 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, as it carries out 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 participate in forest preservation initiatives at 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

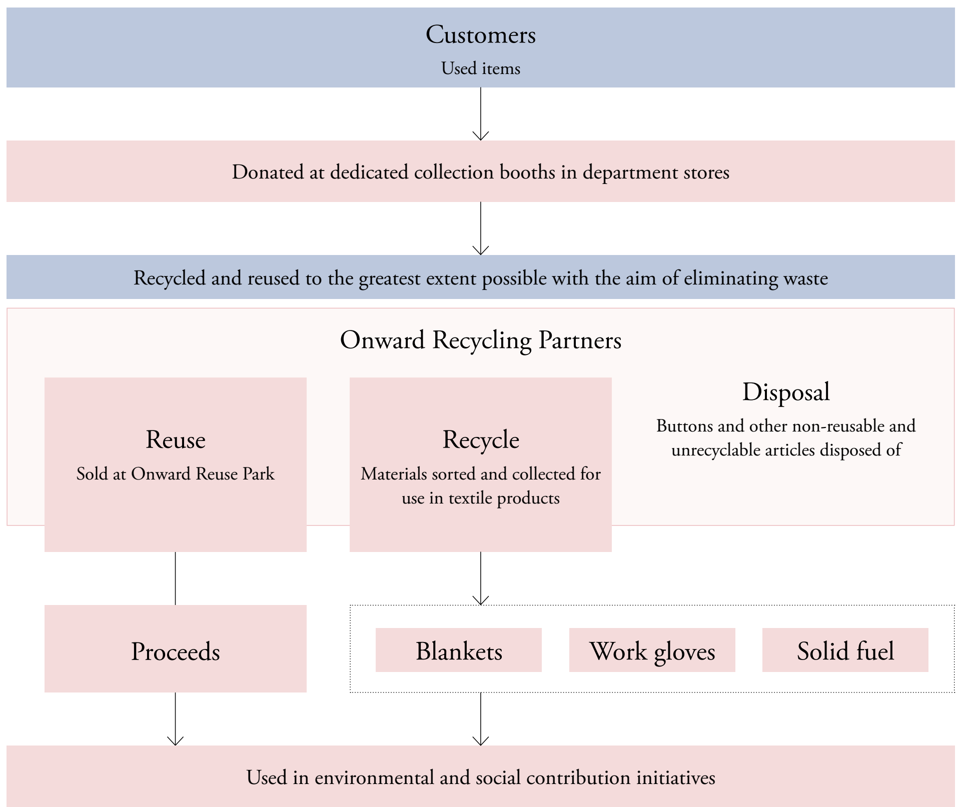
2,100,000 Items Collected	380,000 Customers That Donated	70% Recycled 30% Reused

The Onward Green Campaign is designed to create an apparel life-cycle circulation system. In comparison with 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 to the greatest extent possible with the aim of eliminating waste. Certain clothing items are recycled through use as solid fuel. For other garments, we sort and collect usable materials to create blankets, work gloves, and other recycled textile products that contribute to the organization's environmental and social contribution initiatives. In addition, a portion of collected clothing items are sold at Onward Reuse Park*, and the proceeds from these sales are used to fund environmental and social contribution initiatives.

* For details regarding Onward Reuse Park, please refer to page 39.

Recycling Process



Tie-Up with the Japanese Red Cross Society

Under the Onward Green Campaign, and utilizing the extensive Red Cross network that reaches more than 185 countries throughout the world, Onward cooperates with the Japanese Red Cross Society in 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 forest preservation efforts in addition to being distributed and utilized as a part of an awareness-building campaign.

Support Programs Using Recycled Blankets

First support program:
May 2010

1 Bangladesh

Refugee camp:

3,000 blankets

Donated to a refugee camp in the Cox's Bazar district of Chittagong, in southeastern Bangladesh, and to a hospital that provides medical care in the area

Second support program:
February 2011

2 Kazakhstan

Refugee camp:

3,300 blankets

Donated to refugees, orphans, other socially marginalized people, and communities in the city of Almaty

Third support program:
September 2011

3 Japan

Regions heavily impacted by the Great East Japan Earthquake:

1,000 blankets

Donated to 31 community centers in Miyagi Prefecture that were affected by the Great East Japan Earthquake

Fourth support program:
March 2012

4 China

Regions heavily impacted by the 2008 Sichuan earthquake:

2,000 blankets

Donated to a school and other facilities located in the mountainous regions of Sichuan Province that were affected by the earthquake in 2008

Fifth support program:
September 2012

5 Mongolia

Impoverished area:

2,000 blankets

Donated to the area referred to locally as "dzud" that is periodically afflicted with severe snow damage
(It is not uncommon for people living in impoverished areas to share one blanket during this period.)

Sixth support program:
October 2013

6 Nepal

Impoverished area:

4,000 blankets

Donated to senior citizens and children living in social welfare facilities, where they are forced to face harsh winters each year without sufficient protection against the cold

Ninth support program:
February 2016

9

Regions stricken by the Nepal earthquake:

2,000 blankets

Seventh support program:
October 2014

7 Myanmar

Impoverished area:

4,000 blankets

Donated to impoverished individuals, special needs schools, and children living in orphanages in Myanmar

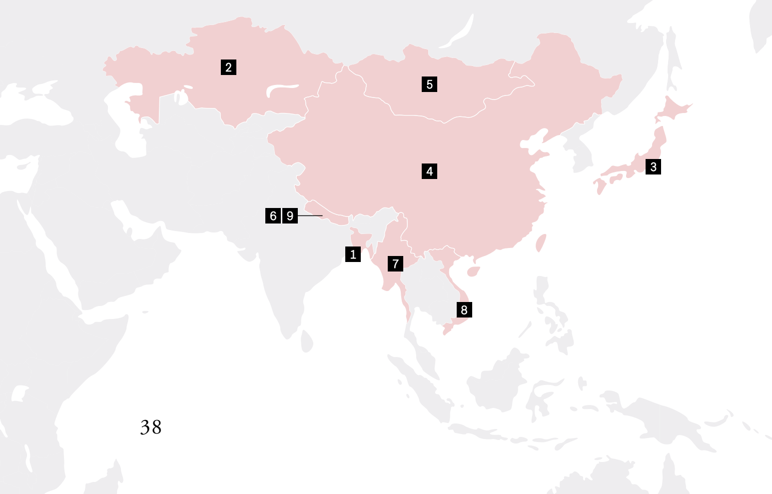
Eighth support program:
October 2015, April 2016

8 Vietnam

Impoverished area:

4,000 blankets

Regions primarily in the northern mountain range and central highlands



Other Activities

Onward Reuse Park—Used Onward Products Offered at Discounted Prices

Onward Reuse Park

Onward Holdings opened Onward Reuse Park in Tokyo as a base for conveying the Group's environmental and social contribution initiatives. In addition, Onward Reuse Park sells used Onward products at discounted prices, and the proceeds from these sales are used to fund further environmental and social contribution initiatives. This store was the first in the industry to employ such a sales model.

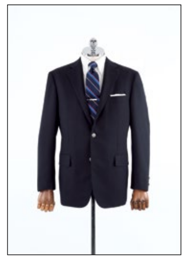
KIBOU311 Participation in Cherry Tree Planting Events

KIBOU311 is a Great East Japan Earthquake relief project promoted on a global scale by DORMEUIL, a French manufacturer of luxury men's apparel. Donations collected through this project are provided to LOOM NIPPON, which uses the donations in turn to fund cherry tree planting events.

Forest Preservation Initiatives at Tosayama Onward Rainbow Forest

In 2008, Onward entered into a partnership agreement with the city of Kochi and the Kochi City Forestry Association and has been participating in forest preservation efforts at Tosayama Onward Rainbow Forest, a forest approximately 45 hectares in size that is located in Kochi Prefecture. With the cooperation of local communities, we are conducting a forest regeneration program that includes forest thinning twice a year.

Bio Tech Jacket—Ecological-Wear That Returns to the Earth



Since 2010, Onward Kashiyama has been offering the Bio Tech Jacket, an ecological product that returns to the Earth. This item is highly fashionable and yet is made of only biodegradable materials, which means that it will be broken down by natural bacteria and returned to the soil after disposal.

Receipt of Senken Award by Onward Green Campaign

In 2016, the Onward Green Campaign was presented with the 38th Senken Award. Inaugurated to recognize companies, other organizations, and individuals that have made significant contributions to the development of businesses related to textiles, fashion, or lifestyles, this award has been presented by the Senken Shimbun Company since 1978. The honor was bestowed upon the Onward Group out of recognition of its efforts to position environmental preservation as an important management policy and to act as a corporate group that is considerate of both people and the environment. At the Onward Group, we pride ourselves on the role we play in an industry directly related to lifestyles and culture. We will continue to advance initiatives for achieving harmony with the Earth and its people.

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 central to increasing corporate and shareholder value.

In its basic management policy, the Onward Group has defined its business domain as "a world of fashion that gives refreshment and beauty to people's lives." By offering fashion as an integral part of consumer culture, the Group creates new lifestyles and values that contribute to the enrichment of life for all people. Moreover, the Company believes that, in order to exercise this policy and accomplish its objectives, it is vital that the Group builds and maintains strong networks and relationships with customers and all other stakeholders it connects with in its corporate activities.

Directors and the Board of Directors

In order to further clarify the management responsibilities of directors, to 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.

Evaluation of the Effectiveness of the Board of Directors

The Company's directors conduct annual self-evaluations to assess the effectiveness and appropriateness of the Board of Directors' management oversight function as well as the degree of accomplishment of their own duties. The results of these evaluations are reported to the Board of Directors. Based on these self-evaluations, the Board of Directors analyzes and evaluates its overall effectiveness, disclosing information on the results.

1. Scope of evaluations
   - All directors and Audit & Supervisory Board members
2. Procedures for evaluations
   - Self-evaluation via questionnaire
   - Support for evaluations provided by external advisor
3. Overview of results of analysis and evaluation of Board of Directors' effectiveness in fiscal year 2016
   - Board of Directors effectively exercising functions for establishing management strategies and targets, resolving management issues, and overseeing business execution in accordance with Onward's Corporate Governance Policy
   - Current operation methods, agendas, and composition of Board of Directors appropriate; no issues requiring urgent attention
   - Need to improve efficiency of operation by enhancing explanatory materials and other measures

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.

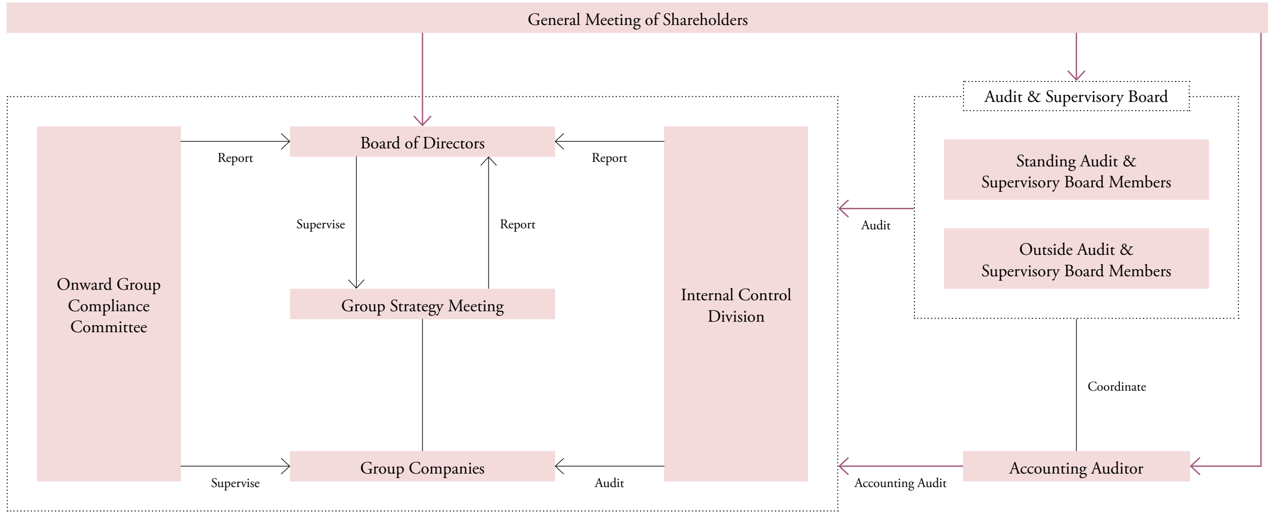
Audit & Supervisory Board Members and the Audit & Supervisory Board

The Company has adopted an Audit & Supervisory Board structure, under which the Company has appointed 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; responsibilities include reviewing the documentation of important decisions and attending important meetings, such as 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 Directors 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.

Corporate Governance Structure



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 the Group Business Management Meeting have been established. At these meetings, management strategies and the important management matters of operating companies are debated and the state of operations is reviewed. The Onward Group also has advisory contracts with a number of attorneys to receive legal advice.

Directors' and Audit & Supervisory Board Members' Compensation

Compensation paid to directors, excluding outside directors, comprises 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	Bonuses	Compensation for Use in Acquiring Company Stock	Stock Options	
Directors (excluding Outside Directors)	395	214	99	64	16	6
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 Compensation Paid (Millions of Yen)	Company Classification	Total Amount of Compensation Paid by Type of Compensation (Millions of Yen)			
			Basic Compensation	Bonuses	Compensation for Use in Acquiring Company Stock	Stock Options
Takeshi Hirouchi (Director)	151	Filing company	85	39	20	6

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

The Company offers venues for directors, Audit & Supervisory Board members, and executive officers to acquire the knowledge necessary for performing their duties along with opportunities for ongoing self-study to ensure that they are able to fulfill their roles and responsibilities. In addition, discussions are held with new directors, Audit & Supervisory Board members, and executive officers upon their appointment regarding the Company's management, business, and financial strategies; important relevant matters; and issues faced by the Onward Group and their resolutions. Outside directors and outside Audit & Supervisory Board members, meanwhile, are provided with explanations of the Company's business and organization structures when they are appointed, and necessary information pertaining to issues faced in business activities and other matters is supplied regularly.

Policies for Cross-Shareholdings and Exercise of Related Voting Rights

In addition to stocks held purely for investment purposes, the Company will also hold shares of stocks in listed business partners with the aim of maintaining and strengthening business relationships and thereby improving medium-to-long-term corporate value. With regard to major cross-shareholdings, the Board of Directors will conduct annual assessments of the meaningfulness and economic rationality of these holdings from the perspectives of shareholding risk limitation and capital efficiency with consideration paid to the Company's growth potential and profitability and to the reinforcement and maintenance of business relationships as well as other concerns. Our basic policy is to sell those holdings that are deemed to no longer be appropriate after gaining the understanding of the business partner in question. In addition, holdings that have been deemed appropriate may also be sold when necessitated by the market environment or by management or financial strategies.

Furthermore, the Company strives to make the best possible decision when exercising voting rights related to cross-shareholdings. We therefore determine how these rights will be exercised based on a comprehensive evaluation of factors, including the medium-to-long-term improvement of the corporate value of the business partner in question and the medium-to-long-term expansion of economic benefits for the Company and Group companies.

Criteria for Independence of Outside Directors and Outside Audit & Supervisory Board Members

Candidates for positions as outside directors and outside Audit & Supervisory Board members will be judged to lack the necessary independence if they meet any of the following criteria.

1. Positions at companies at which a person involved in operation of the Company serves as a corporate officer

The individual must not be a person involved in operation at a company at which a person involved in operation of the Company serves as a corporate officer.

2. Material business relationships

The individual must not be a major customer or a person involved in operation of a major customer of the Company or a major supplier or a person involved in operation of a major supplier of the Company.

3. The Company's Accounting Auditor

The individual must not be affiliated with the Accounting Auditor that performs audits of the Company based on the Companies Act or the Financial Instruments and Exchange Act.

4. External specialists

The individual must not be a specialist receiving large amounts of monetary payments or other financial assets from the Company that are separate from compensation received for services as a director or an Audit & Supervisory Board member. (Specialists include lawyers, accountants, tax accountants, patent attorneys, judicial clerks, and consultants. If the financial assets in question are received by a company, an association, or other entity, the individual must not be affiliated with that entity.)

5. Donation recipients

The individual must not receive large donations from the Company. (If the donations in question are received by a company, an association, or other entity, the individual must not be a person involved in operation of that entity.)

6. Major shareholders

The individual must not possess direct or indirect holdings equating to 10% or more of the total voting rights of the Company or be a person involved in operation of an entity that possesses such holdings.

7. Past relationships

The individual must not have been applicable under items 1. to 5. during the past five years.

8. Relationships of kinship

The individual must not be a close relative of someone that is applicable under items 1. to 7. (excluding cases in which the relationship in question is nonmaterial).

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. Furthermore, by enhancing its corporate governance systems, the Company aims to earn high levels of trust among its customers and shareholders and from society as a whole. In specific terms, the Group published the *Compliance Manual* to clearly outline the direction of compliance activities and define standards for adhering to ethical concerns and social norms. 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. In addition, the Company has established a factory certification system as part of its supply chain management initiatives with the aim of improving work environments at partner factories.

Risk Management Structure

The Onward Risk Management Regulations were established with the purpose of guiding the development of the Company's risk management structure. The Compliance Division is responsible for the development of the 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.

Interaction with Shareholders

The Company conducts various investor relations (IR) activities, and the Investor Relations Division has been established as a dedicated body for ensuring the functionality of these activities. This division maintains close coordination with Corporate Planning, Accounting, Legal Affairs, and other relevant divisions. It also relays the input and requests solicited through IR activities to the Executive Management Council and the Board of Directors for use in discussions of measures for improving corporate value.

1. Periodic briefings for analysts and institutional investors

The officer responsible for IR information disclosure plays a central role in holding periodic briefings for analysts and institutional investors at which we explain our financial results and business strategies.

2. Provision of IR materials on corporate website

An extensive amount of information is disclosed through Onward Holdings' corporate website. Please refer to this website for information on various topics.

- A Message from Management
  http://www.onward-hd.co.jp/site/english/ir/message.html
- Financial Data
  http://www.onward-hd.co.jp/site/english/ir/financ.html
- Information on Shares and Shareholders
  http://www.onward-hd.co.jp/site/english/ir/stocks.html

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

As of September 1, 2016

Board of Directors

Representative Director, Chairman
Takeshi Hirouchi

Representative Director, President
Michinobu Yasumoto

Senior Managing Director
Masaaki Yoshizawa

Director,
Representative Director, President, Onward Kashiyama Co., Ltd.
Akinori Baba

Director
Hisayuki Ichinose

Outside Directors
Hachiro Honjo
Yoshihide Nakamura

Audit & Supervisory Board Members

Standing Audit & Supervisory Board Members
Hitoshi Aoyama
Kenichi Iizuka

Outside Audit & Supervisory Board Members
Jotaro Yabe
Katsuaki Ohashi

Executive Officers

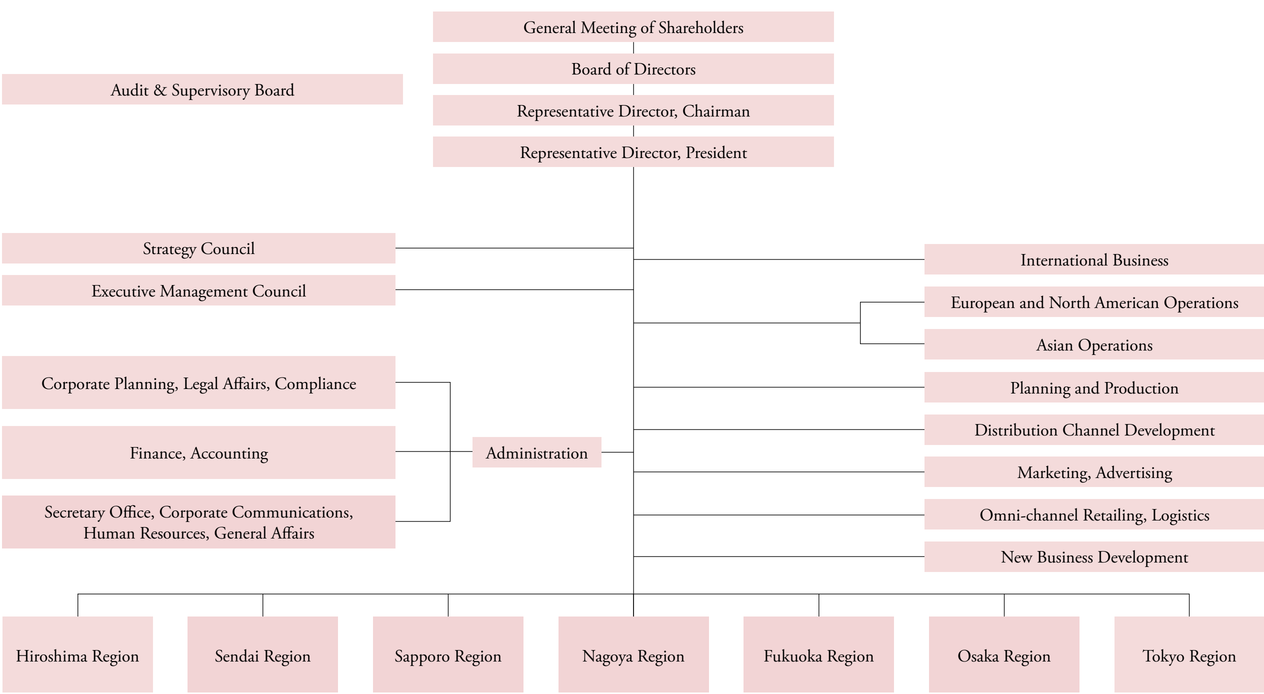
Senior Managing Executive Officer
Michio Ohsawa

Managing Executive Officers
Tsunenori Suzuki
Hirokazu Yoshizato
Eihachiro Umemiya

Executive Officers
Izumi Sugita
Yasuo Yokoyama
Tomohiko Sakamoto
Osamu Miwa
Takashi Sudo
Masanori Shozu
Yoshihiro Higuchi
Takehiro Shiraishi
Hikosaburo Seike
Masatsugu Miyoshi
Masahiko Yoshikawa

Organization Chart

As of September 1, 2016



Financial Section

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

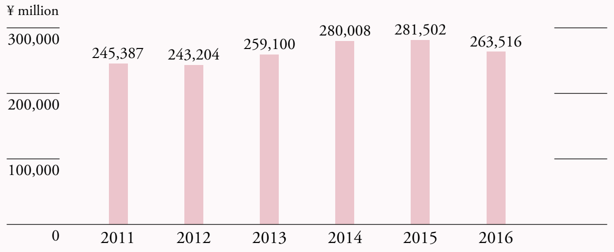
ONWARD HOLDINGS Co., Ltd. and Consolidated Subsidiaries
Years ended February 28 and 29

	Millions of yen						Thousands of U.S. dollars*1
	2011	2012	2013	2014	2015	2016	2016
FOR THE YEAR							
Net sales	¥245,387	¥243,204	¥259,100	¥280,008	¥281,502	¥263,516	$2,319,275
Cost of sales	128,877	127,382	133,983	149,270	152,438	144,063	1,267,940
Selling, general and administrative expenses	106,896	104,160	113,298	120,538	123,332	115,675	1,018,084
Operating income	9,614	11,663	11,819	10,200	5,732	3,778	33,251
Ordinary income	10,497	13,330	13,405	12,211	7,162	5,504	48,450
Income taxes, current	5,555	7,528	7,398	3,112	5,033	8,680	76,395
Net income	2,723	3,529	4,503	4,659	4,204	4,278	37,652
CASH FLOWS							
Cash flows from operating activities	11,207	13,181	10,138	13,362	16,491	3,632	31,971
Cash flows from investing activities	(5,152)	(1,962)	(10,683)	(14,301)	(15,657)	1,783	15,687
Cash flows from financing activities	(9,272)	(7,449)	(7,848)	2,122	757	(6,357)	(55,951)
Free cash flow*2	6,055	11,219	(545)	(939)	834	5,415	47,658
Capital expenditures	5,405	6,230	8,949	16,750	26,884	15,955	140,425
Depreciation and amortization	5,642	5,478	5,721	6,801	7,219	7,799	68,645
AT YEAR-END							
Cash and deposits	30,939	33,192	24,677	27,376	31,123	29,407	258,822
Total current assets	95,545	98,895	100,320	110,349	117,052	121,469	1,069,079
Total property, plant and equipment	86,623	82,988	86,862	102,879	109,658	106,695	939,052
Total assets	281,643	276,939	286,779	313,431	340,854	313,454	2,758,794
Total current liabilities	82,677	84,091	100,740	101,010	109,619	106,110	933,901
Total shareholders' equity	174,454	176,320	177,142	178,078	179,880	176,264	1,551,346
Total net assets	158,745	157,303	165,372	175,029	185,315	172,337	1,516,788

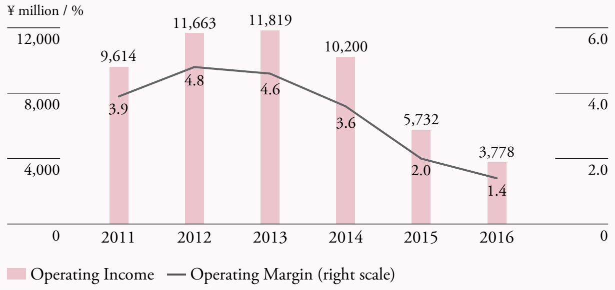
	Yen						U.S. dollars*1
PER SHARE INFORMATION							
Net income (EPS)	¥ 17.38	¥ 22.52	¥ 28.71	¥ 29.69	¥ 26.78	¥ 28.27	$0.25
Net assets	1,002.34	995.11	1,043.64	1,102.99	1,166.89	1,101.21	9.69
Cash dividends	24.00	24.00	24.00	24.00	24.00	24.00	0.21
Payout ratio (%)	138.1	106.6	83.6	80.8	89.6	86.5	
RATIOS							
ROE (%)	1.7	2.3	2.8	2.8	2.4	2.4	—
ROA (%)	1.0	1.3	1.6	1.6	1.3	1.3	—
Operating margin (%)	3.9	4.8	4.6	3.6	2.0	1.4	—
Gross profit margin (%)	47.5	47.6	48.3	46.7	45.8	45.3	—
SG&A expenses / Net sales (%)	43.6	42.8	43.7	43.0	43.8	43.9	—
Shareholders' equity ratio (%)	55.8	56.3	57.1	55.2	53.8	54.2	—
OTHER INFORMATION							
Number of full-time employees	3,910	3,993	5,208	5,224	4,973	5,119	

*1. Yen amounts have been translated, for convenience only, at ¥113.62=US$1, the approximate exchange rate on February 29, 2016.
*2. Free cash flow = Cash flows from operating activities + Cash flows from investing activities

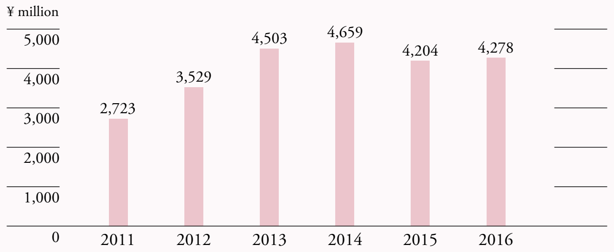
Net Sales



Operating Income and Operating Margin

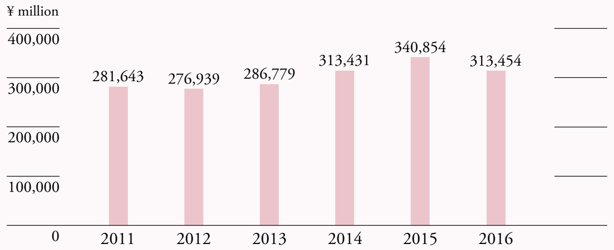


Net Income

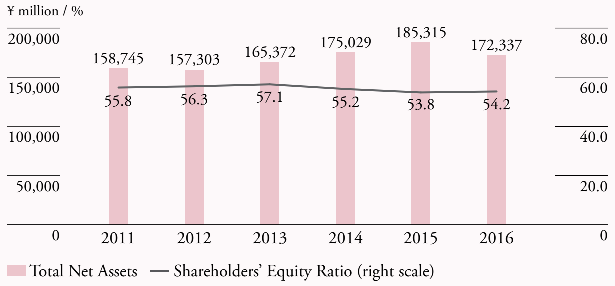


ROE and ROA

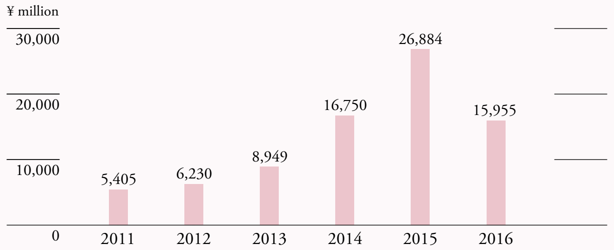
Total Assets



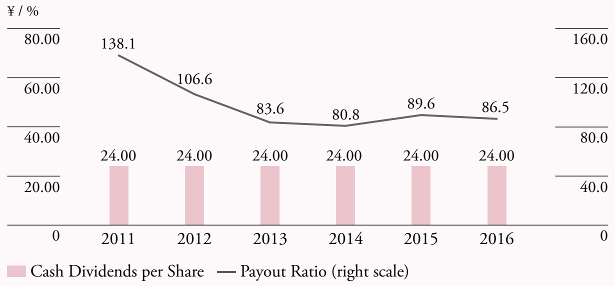
Total Net Assets and Shareholders' Equity Ratio



Capital Expenditures



Cash Dividends per Share and Payout Ratio



Management's Discussion and Analysis

Overview of Operating Results

In fiscal year 2016, ended February 29, 2016, the domestic economy experienced a gentle recovery supported by economic stimulus measures instituted by the Japanese government and monetary easing policies implemented by the Bank of Japan. Overseas, however, conditions were sluggish in China and other economies, and geopolitical risks plagued the Middle East and Europe. An overall sense of opaqueness lingered as a result.

In the domestic apparel and fashion industries, luxury items and demand from inbound tourists supported performance but overall store sales faced difficult conditions, owing to frugal consumer behavior and the adverse impact of a warm winter on sales of winter clothing.

In this operating environment, the Onward Group proceeded with the reinforcement of its core businesses as well as growth businesses. We also continued to be proactive in the development of new businesses for future growth.

Performance suffered from lower March sales, which fell from the previous year when sales were buoyed by the demand rush preceding the consumption tax hike, as well as the adverse impact of the warm winter beginning in November, which placed downward pressure on sales. We were unable to counterbalance the heavy weight of these negative factors despite our efforts to bolster promotions for mainstay brands and to deploy our Omni-channel retailing strategy, which aims to improve customer satisfaction by integrating the management of inventories for brick-and-mortar stores and directly managed e-commerce website Onward Crosset.

Overseas, attempts to improve earnings in the European business were delayed, leading to poor performance. Meanwhile, earnings grew in our North American and Asian businesses.

Net Sales

Sales in the Apparel Business decreased 6.0% year on year, to ¥248,468 million, while sales in the Other Business declined 12.5%, to ¥15,048 million. As a result, consolidated net sales were down 6.4% compared with the previous fiscal year, to ¥263,516 million.

Gross Profit

Cost of sales decreased 5.5%, to ¥144,063 million, and gross profit was ¥119,453 million, down ¥9,611 million compared with the previous fiscal year.

The gross profit margin declined 0.5 percentage points, from 45.8% in fiscal year 2015 to 45.3% in fiscal year 2016. This outcome was primarily a result of the decrease in March sales due to the rebound from high figures in the previous year, which were buoyed by the demand rush preceding the consumption tax hike, and downward pressure placed on sales of full-price items by the warm winter that began in November.

Operating Income

Selling, general and administrative (SG&A) expenses decreased 6.2% year on year, to ¥115,675 million. The ratio of SG&A expenses to net sales was 43.9%, a 0.1-percentage-point increase from 43.8% in the previous fiscal year. These results were largely attributable to higher depreciation and amortization stemming from reforms to IT systems. In addition, the operating margin contracted, from 2.0% to 1.4%, following the decline in the gross profit margin. As a result, operating income decreased ¥1,954 million, to ¥3,778 million.

Other Income (Expenses)

Other income, net, amounted to ¥3,353 million, compared with ¥3,663 million in the fiscal previous year. Other expenses included impairment loss on fixed assets of ¥14,051 million, up ¥12,391 million year on year. However, expenses were offset by other income, including gain on sale of investments in securities, net, of ¥8,812 million, an increase of ¥3,449 million; gain on sales or disposal of fixed assets, net, of ¥5,393 million, up ¥4,953 million; and gain on sale of investments in unconsolidated subsidiaries of ¥1,929 million.

Income before Income Taxes and Minority Interests and Net Income

Income before income taxes and minority interests was ¥7,131 million, a decrease of ¥2,264 million, or 24.1%, year on year. Income taxes dropped ¥2,304 million, or 44.5%, to ¥2,868 million, from ¥5,172 million in the previous fiscal year. Due to these factors, net income was ¥4,278 million, an increase of ¥74 million, or 1.8%, from the previous fiscal year.

Segment Information

Apparel Business

In fiscal year 2016, sales in the Apparel Business segment declined 6.0% year on year, to ¥248,468 million, while operating income was down 36.8%, to ¥5,558 million.

Domestic Business

At core operating subsidiary Onward Kashiyama, the e-commerce business posted strong performance in line with plans and global brands, such as JOSEPH and TOCCA, continued to sell well. However, costs rose in conjunction with yen depreciation and clothing sales struggled in department stores and other major distribution channels. As a result, both sales and profits were down.

Overseas Business

In Europe, we strengthened operating foundations and secured stable earnings for production operations, but performance suffered in brand businesses due to delays in our response to demand fluctuations that resulted from external factors. We were able to improve performance in North America and Asia, however, through streamlining business structures and store networks.

Other Business

In fiscal year 2016, sales in the Other Business segment decreased 12.5% compared with the previous fiscal year, to ¥15,048 million, and operating income increased 61.5%, to ¥629 million.

In our service-related businesses, selectively concentrated efforts led to reduced sales but higher profits. Our resort business performed favorably, also posting higher profits despite lower sales.

Outlook for the Fiscal Year Ending February 28, 2017

For fiscal year 2017, ending February 28, 2017, we at the Onward Group forecast that consolidated net sales will decrease 3.6%, to ¥254,000 million, while operating income will grow 19.1% year on year, to ¥4,500 million.

Amid the continuation of the quantitative and qualitative easing policies of the Bank of Japan, the domestic economy will not be able to cast off the shackles of deflation. One factor behind this outlook is a strong sense of wariness about the direction of the global economy, itself a product of the slowdown in the Chinese economy.

In the domestic apparel and fashion industries, progress in globalization and the trend toward selection and concentration of business activities will serve as a backdrop for ongoing difficult conditions characterized by fierce competition. In this operating environment, the Onward Group will seek to improve product value and enhance customer service in its core businesses with the aim of steadily improving profitability. At the same time, we will develop new business fields with a promising outlook for growth.

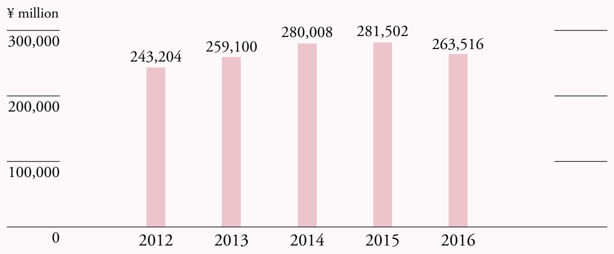
Domestic Business

In our domestic operations, we will focus on improving the margins of existing core operations at Onward Kashiyama and other important subsidiaries and on expanding operations in new business fields.

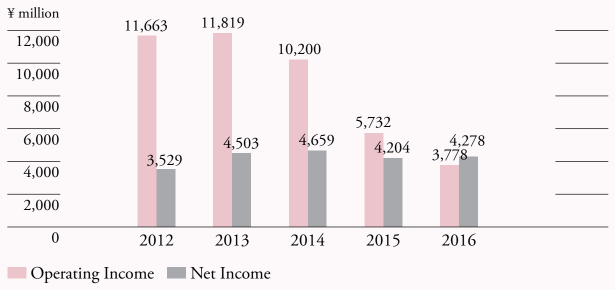
Overseas Business

Overseas, we will heighten our growth potential by utilizing our manufacturing platform in Europe to globalize our operations while strategically expanding our Asian business.

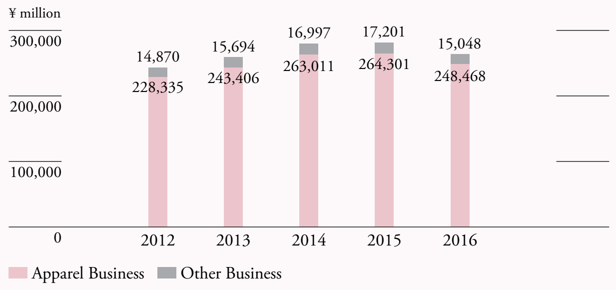
Net Sales



Operating Income and Net Income



Segment Sales



Financial Position

Assets

As of February 29, 2016, total assets decreased ¥27,400 million from the previous fiscal year-end, to ¥313,454 million. Total current assets rose ¥4,417 million, mainly from increases in deferred tax assets and other current assets. Fixed assets contracted ¥31,817 million, largely reflecting decreases in property, plant and equipment and goodwill.

Liabilities

Total liabilities as of February 29, 2016, were down ¥14,422 million from the previous fiscal year-end, to ¥141,117 million. Total current liabilities declined ¥3,509 million, mainly attributable to a decrease in accounts and notes payable. Total long-term liabilities declined ¥10,913 million, largely due to a decrease in long-term loans payable.

Net Assets

As of February 29, 2016, total net assets were down ¥12,978 million from the previous fiscal year-end, to ¥172,337 million. Total shareholders' equity decreased ¥3,616 million due to lower retained earnings. Total accumulated other comprehensive income declined ¥9,919 million, mainly because of a decrease in net unrealized gain on available-for-sale securities.

Cash Flows

Cash Flows from Operating Activities

Net cash provided by operating activities for fiscal year 2016 was ¥3,632 million (¥16,491 million in the previous fiscal year), mainly from income before income taxes and minority interests, a decrease in trade payables, and income taxes paid.

Cash Flows from Investing Activities

Net cash provided by investing activities for fiscal year 2016 totaled ¥1,783 million (compared with net cash used in investing activities of ¥15,657 million in the previous fiscal year), mainly due to investments in sales facilities and the sale of real estate.

Cash Flows from Financing Activities

Net cash used in financing activities for fiscal year 2016 amounted to ¥6,357 million (compared with net cash provided by financing activities of ¥757 million in the previous fiscal year), owing mainly to changes in borrowings, dividends paid, and acquisition of treasury stock.

As a result, cash and cash equivalents as of February 29, 2016, moved down ¥1,488 million, to ¥28,330 million.

Capital Expenditures

We at the Onward Group undertake capital expenditures on a continuous basis to upgrade and expand our planning, production, sales, and logistics structures and systems. Our Group's capital expenditures are the wellspring that enables us to address the diverse needs of our customers. In fiscal year 2016, our capital expenditures totaled ¥15,955 million. The details of expenditures by segment are as follows.

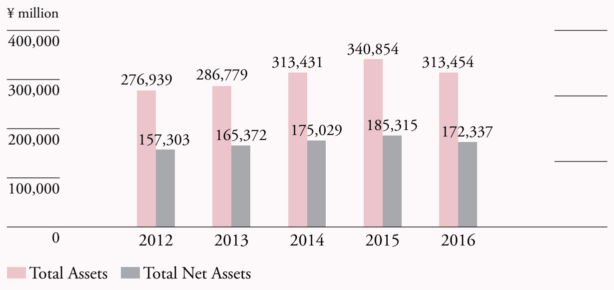
In the Apparel Business segment, capital expenditures amounted to ¥14,575 million, the majority of which was channeled to sales floors at department stores and directly managed stores with the aim of strengthening the Group's sales structure and systems. In the Other Business segment, we invested ¥741 million to upgrade commercial facilities and enhance operational efficiency.

Profit Distribution Policy

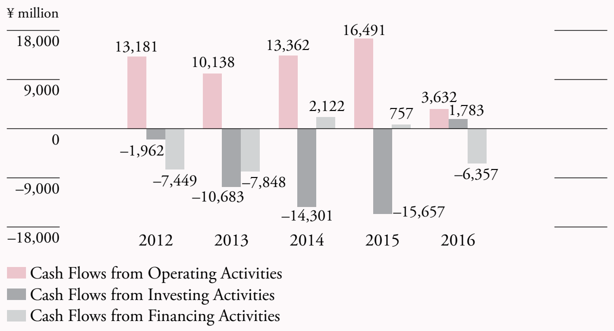
At Onward Holdings, we recognize that the distribution of profits to shareholders is one of our top priorities. Our basic policy is to distribute regular and stable dividends to shareholders based on our business performance, and we target a dividend payout ratio of at least 35%. For fiscal year 2016, we decided to distribute a cash dividend of ¥24.00 per share.

Treasury stock acquisitions will be conducted based on funding requirements. Additionally, 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 we consider 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 canceled 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, and 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 28, 2015 and February 29, 2016

ASSETS	Millions of yen 2015	Millions of yen 2016	Thousands of U.S. dollars (Note 2. (22)) 2016
Current assets:			
Cash and deposits (Notes 3 and 9)	¥ 31,123	¥ 29,407	$ 258,822
Accounts and notes receivable (Note 3)	30,793	27,819	244,838
Inventories (Note 2. (4))	43,862	42,770	376,433
Deferred tax assets (Note 11)	4,066	4,705	41,406
Other current assets	8,132	17,603	154,933
Less: Allowance for bad debt	(924)	(835)	(7,353)
Total current assets	117,052	121,469	1,069,079
Property, plant and equipment:			
Buildings and structures	82,220	82,715	727,997
Leased assets	8,804	8,020	70,589
Other depreciable property	35,747	34,188	300,896
Less: Accumulated depreciation	(79,148)	(76,266)	(671,239)
	47,623	48,657	428,243
Land (Note 12)	62,035	58,038	510,809
Total property, plant and equipment	109,658	106,695	939,052
Intangible assets, net:			
Goodwill	26,569	15,652	137,758
Other	7,487	7,785	68,516
Total intangible assets, net	34,056	23,437	206,274
Investments and other assets:			
Investments in securities (Notes 3 and 4)	54,162	33,922	298,560
Long-term loans receivable	2,294	2,276	20,035
Long-term prepaid expenses	1,119	661	5,816
Net defined benefit asset (Note 7)	3,267	1,417	12,473
Deferred tax assets (Note 11)	1,168	11,166	98,277
Other investments	18,726	13,086	115,171
Less: Allowance for bad debt	(648)	(675)	(5,943)
Total investments and other assets	80,088	61,853	544,389
Total assets	¥340,854	¥313,454	$2,758,794

LIABILITIES AND NET ASSETS	Millions of yen 2015	Millions of yen 2016	Thousands of U.S. dollars (Note 2. (22)) 2016
Current liabilities:			
Accounts and notes payable (Note 3)	¥ 40,341	¥ 34,971	$ 307,786
Short-term loans payable (Notes 3 and 13)	42,404	45,326	398,930
Current portion of long-term loans payable (Notes 3 and 13)	3,250	3,828	33,696
Accrued income taxes	3,178	5,911	52,026
Accrued bonuses to employees	1,155	1,002	8,816
Accrued bonuses to directors	166	185	1,626
Allowance for sales returns	405	303	2,669
Provision for point program	331	436	3,833
Other current liabilities (Notes 11 and 13)	18,389	14,148	124,519
Total current liabilities	109,619	106,110	933,901
Long-term liabilities:			
Long-term loans payable (Notes 3 and 13)	20,979	16,026	141,050
Deferred tax liabilities—revaluation of land (Notes 11 and 12)	3,209	2,818	24,802
Net defined benefit liability (Note 7)	4,126	4,180	36,790
Lease obligations (Note 13)	5,892	5,195	45,720
Accrued retirement benefits for directors and corporate auditors	142	150	1,323
Other long-term liabilities (Note 11)	11,572	6,638	58,420
Total long-term liabilities	45,920	35,007	308,105
Total liabilities	155,539	141,117	1,242,006
Net assets:			
Shareholders' equity (Note 14):			
Common stock:			
Authorized—400,000,000 shares			
Issued—172,921,669 shares and 167,921,669 shares at February 28, 2015 and February 29, 2016, respectively	30,080	30,080	264,739
Capital surplus	50,043	50,043	440,444
Retained earnings	122,590	114,181	1,004,939
Less: Treasury stock, at cost, 15,846,086 shares and 13,767,509 shares at February 28, 2015 and February 29, 2016, respectively	(22,833)	(18,040)	(158,776)
Total shareholders' equity	179,880	176,264	1,551,346
Accumulated other comprehensive income:			
Net unrealized gain on available-for-sale securities (Note 4)	11,207	1,118	9,841
Deferred gain (loss) on hedging instruments	147	(303)	(2,666)
Net revaluation loss on land (Note 12)	(13,871)	(10,126)	(89,120)
Foreign currency translation adjustments	5,139	3,777	33,245
Remeasurements of defined benefit plans (Note 7)	788	(975)	(8,584)
Total accumulated other comprehensive income	3,410	(6,509)	(57,284)
Stock acquisition rights	871	844	7,428
Minority interests in consolidated subsidiaries	1,154	1,738	15,298
Total net assets	185,315	172,337	1,516,788
Total liabilities and net assets	¥340,854	¥313,454	$2,758,794

Per share:	Yen 2015	Yen 2016	U.S. dollars (Note 2. (22)) 2016
Net assets per share	¥1,166.89	¥1,101.21	$9.69

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

ONWARD HOLDINGS Co., Ltd. and Consolidated Subsidiaries
February 28, 2015 and February 29, 2016

	Millions of yen		Thousands of U.S. dollars (Note 2. (22))
	2015	2016	2016
Net sales	¥281,502	¥263,516	$2,319,275
Cost of sales	152,438	144,063	1,267,940
Gross profit	129,064	119,453	1,051,335
Selling, general and administrative expenses	123,332	115,675	1,018,084
Operating income	5,732	3,778	33,251
Other income (expenses):			
Interest income	97	108	955
Dividend income	463	464	4,087
Land and house rent received	890	1,296	11,407
Interest expenses	(583)	(546)	(4,807)
Equity in earnings (losses) of investees	(147)	43	376
Foreign currency exchange gain	397	49	432
Rent expenses	(215)	(734)	(6,464)
Gain on sale of investments in securities, net (Note 4)	5,363	8,812	77,560
Gain on sales or disposal of fixed assets, net	440	5,393	47,463
Gain on sale of investments in unconsolidated subsidiaries	—	1,929	16,981
Impairment loss on fixed assets (Note 6)	(1,660)	(14,051)	(123,671)
Special retirement expenses	(1,901)	—	—
Other, net	519	590	5,190
Income before income taxes and minority interests	9,395	7,131	62,760
Income taxes (Note 11):			
Current	5,033	8,680	76,395
Deferred	139	(5,812)	(51,153)
Income before minority interests	4,223	4,263	37,518
Minority interests in income of consolidated subsidiaries	(19)	15	134
Net income	¥ 4,204	¥ 4,278	$ 37,652

	Yen		U.S. dollars (Note 2. (22))
Per share (Notes 14, 15 and 17):			
Basic net income per share	¥26.78	¥28.27	$0.25
Diluted net income per share	26.48	27.96	0.25
Cash dividends per share	24.00	24.00	0.21

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

ONWARD HOLDINGS Co., Ltd. and Consolidated Subsidiaries
February 28, 2015 and February 29, 2016

	Millions of yen		Thousands of U.S. dollars (Note 2. (22))
	2015	2016	2016
Income before minority interests	¥ 4,223	¥ 4,263	$ 37,518
Other comprehensive income:			
Net unrealized gain (loss) on available-for-sale securities	6,096	(9,875)	(86,915)
Deferred gain (loss) on hedging instruments	180	(450)	(3,961)
Net revaluation gain on land	—	294	2,583
Foreign currency translation adjustments	2,546	(1,442)	(12,688)
Remeasurements of defined benefit plans, net of tax	—	(1,764)	(15,523)
Share of other comprehensive income of associates accounted for using the equity method	225	(155)	(1,360)
Total other comprehensive income (Note 8)	9,047	(13,392)	(117,864)
Comprehensive income	¥13,270	¥ (9,129)	$ (80,346)
Comprehensive income attributable to:			
Owners of the parent	¥13,176	¥ (9,093)	$ (80,027)
Minority interests	94	(36)	(319)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

ONWARD HOLDINGS Co., Ltd. and Consolidated Subsidiaries
February 28, 2015 and February 29, 2016

		Millions of yen					
		Shareholders' equity (Note 14)					
	Number of shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance as at March 1, 2014	172,922	¥30,080	¥50,043	¥121,008	¥(23,053)	¥178,078
Cash dividends	—	—	—	(3,766)	—	(3,766)
Net income	—	—	—	4,204	—	4,204
Purchase of treasury stock	—	—	—	—	(4)	(4)
Reissuance of treasury stock	—	—	—	(141)	224	83
Reversal of revaluation of land	—	—	—	1,368	—	1,368
Change of scope of consolidation	—	—	—	(83)	—	(83)
Net changes other than shareholders' equity	—	—	—	—	—	—
Total changes during the year	—	—	—	1,582	220	1,802
Balance as at February 28, 2015	172,922	30,080	50,043	122,590	(22,833)	179,880
Cumulative effects of changes in accounting policies	—	—	—	285	—	285
Restated balance	—	30,080	50,043	122,875	(22,833)	180,165
Cash dividends	—	—	—	(3,770)	—	(3,770)
Net income	—	—	—	4,278	—	4,278
Purchase of treasury stock	—	—	—	—	(2,294)	(2,294)
Reissuance of treasury stock	—	—	—	(83)	127	44
Retirement of treasury stock	(5,000)	—	—	(6,960)	6,960	—
Reversal of revaluation of land	—	—	—	(2,159)	—	(2,159)
Net changes other than shareholders' equity	—	—	—	—	—	—
Total changes during the year	(5,000)	—	—	(8,694)	4,793	(3,901)
Balance as at February 29, 2016	167,922	¥30,080	¥50,043	¥114,181	¥(18,040)	¥176,264

	Thousands of U.S. dollars (Note 2. (22))				
	Shareholders' equity (Note 14)				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance as at February 28, 2015	$264,739	$440,444	$1,078,943	$(200,958)	$1,583,168
Cumulative effects of changes in accounting policies	—	—	2,511	—	2,511
Restated balance	264,739	440,444	1,081,454	(200,958)	1,585,679
Cash dividends	—	—	(33,179)	—	(33,179)
Net income	—	—	37,652	—	37,652
Purchase of treasury stock	—	—	—	(20,189)	(20,189)
Reissuance of treasury stock	—	—	(730)	1,119	389
Retirement of treasury stock	—	—	(61,252)	61,252	—
Reversal of revaluation of land	—	—	(19,006)	—	(19,006)
Net changes other than shareholders' equity	—	—	—	—	—
Total changes during the year	—	—	(76,515)	42,182	(34,333)
Balance as at February 29, 2016	$264,739	$440,444	$1,004,939	$(158,776)	$1,551,346

See accompanying notes to consolidated financial statements.

	Millions of yen								
	Accumulated other comprehensive income								
	Net unrealized gain on available-for-sale securities (Note 4)	Deferred gain (loss) on hedging instruments	Net revaluation loss on land (Note 12)	Foreign currency translation adjustments	Remeasurements of defined benefit plans (Note 7)	Total	Stock acquisition rights	Minority interests in consolidated subsidiaries	Total net assets
Balance as at March 1, 2014	¥ 5,005	¥ (33)	¥(12,503)	¥ 2,550	¥ —	¥(4,981)	¥823	¥1,109	¥175,029
Cash dividends	—	—	—	—	—	—	—	—	(3,766)
Net income	—	—	—	—	—	—	—	—	4,204
Purchase of treasury stock	—	—	—	—	—	—	—	—	(4)
Reissuance of treasury stock	—	—	—	—	—	—	—	—	83
Reversal of revaluation of land	—	—	—	—	—	—	—	—	1,368
Change of scope of consolidation	—	—	—	—	—	—	—	—	(83)
Net changes other than shareholders' equity	6,202	180	(1,368)	2,589	788	8,391	48	45	8,484
Total changes during the year	6,202	180	(1,368)	2,589	788	8,391	48	45	10,286
Balance as at February 28, 2015	11,207	147	(13,871)	5,139	788	3,410	871	1,154	185,315
Cumulative effects of changes in accounting policies	—	—	—	—	—	—	—	—	285
Restated balance	11,207	147	(13,871)	5,139	788	3,410	871	1,154	185,600
Cash dividends	—	—	—	—	—	—	—	—	(3,770)
Net income	—	—	—	—	—	—	—	—	4,278
Purchase of treasury stock	—	—	—	—	—	—	—	—	(2,294)
Reissuance of treasury stock	—	—	—	—	—	—	—	—	44
Retirement of treasury stock	—	—	—	—	—	—	—	—	—
Reversal of revaluation of land	—	—	—	—	—	—	—	—	(2,159)
Net changes other than shareholders' equity	(10,089)	(450)	3,745	(1,362)	(1,763)	(9,919)	(27)	584	(9,362)
Total changes during the year	(10,089)	(450)	3,745	(1,362)	(1,763)	(9,919)	(27)	584	(13,263)
Balance as at February 29, 2016	¥ 1,118	¥(303)	¥(10,126)	¥ 3,777	¥ (975)	¥(6,509)	¥844	¥1,738	¥172,337

	Thousands of U.S. dollars (Note 2. (22))								
	Accumulated other comprehensive income								
	Net unrealized gain on available-for-sale securities (Note 4)	Deferred gain (loss) on hedging instruments	Net revaluation loss on land (Note 12)	Foreign currency translation adjustments	Remeasurements of defined benefit plans (Note 7)	Total	Stock acquisition rights	Minority interests in consolidated subsidiaries	Total net assets
Balance as at February 28, 2015	$ 98,634	$ 1,295	$(122,083)	$ 45,231	$ 6,939	$ 30,016	$7,669	$10,155	$1,631,008
Cumulative effects of changes in accounting policies	—	—	—	—	—	—	—	—	2,511
Restated balance	98,634	1,295	(122,083)	45,231	6,939	30,016	7,669	10,155	1,633,519
Cash dividends	—	—	—	—	—	—	—	—	(33,179)
Net income	—	—	—	—	—	—	—	—	37,652
Purchase of treasury stock	—	—	—	—	—	—	—	—	(20,189)
Reissuance of treasury stock	—	—	—	—	—	—	—	—	389
Retirement of treasury stock	—	—	—	—	—	—	—	—	—
Reversal of revaluation of land	—	—	—	—	—	—	—	—	(19,006)
Net changes other than shareholders' equity	(88,793)	(3,961)	32,963	(11,986)	(15,523)	(87,300)	(241)	5,143	(82,398)
Total changes during the year	(88,793)	(3,961)	32,963	(11,986)	(15,523)	(87,300)	(241)	5,143	(116,731)
Balance as at February 29, 2016	$ 9,841	$(2,666)	$ (89,120)	$ 33,245	$ (8,584)	$(57,284)	$7,428	$15,298	$1,516,788

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

ONWARD HOLDINGS Co., Ltd. and Consolidated Subsidiaries
February 28, 2015 and February 29, 2016

	Millions of yen		Thousands of U.S. dollars (Note 2. (22))
	2015	2016	2016
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 9,395	¥ 7,131	$ 62,760
Adjustments to reconcile income before income taxes			
and minority interests to net cash provided by operating activities:			
Depreciation and amortization	7,219	7,799	68,645
Impairment loss on fixed assets	1,660	14,051	123,671
Net amortization of goodwill on consolidation	3,327	3,027	26,638
Increase (decrease) in allowance for bad debt	(2,064)	(15)	(128)
(Increase) decrease in net defined benefit asset	—	2,363	20,796
Increase (decrease) in net defined benefit liability	(934)	181	1,597
Interest and dividend income	(560)	(573)	(5,042)
Interest expenses	583	546	4,807
Equity in (earnings) losses of investees	147	(43)	(376)
(Gain) loss on sales or disposal of fixed assets, net	(440)	(5,393)	(47,463)
(Gain) loss on sale of investments in securities, net	(5,363)	(8,812)	(77,560)
(Increase) decrease in trade receivables	(1,450)	1,694	14,908
(Increase) decrease in inventories	(1,948)	400	3,523
Increase (decrease) in trade payables	1,175	(4,672)	(41,122)
Other, net	7,231	(10,034)	(88,324)
Subtotal	17,978	7,650	67,330
Interest and dividends received	687	625	5,506
Interest paid	(600)	(526)	(4,631)
Income taxes paid	(2,595)	(4,356)	(38,334)
Refunded income taxes	1,021	239	2,100
Net cash provided by operating activities	16,491	3,632	31,971
Cash flows from investing activities:			
Increase in time deposits	(1,168)	(308)	(2,711)
Decrease in time deposits	16	533	4,692
Acquisition of property, plant and equipment	(22,182)	(12,140)	(106,844)
Proceeds from sale of property, plant and equipment	2,806	15,576	137,086
Acquisition of investments in securities	(543)	(5,522)	(48,604)
Proceeds from sale of investments in securities	10,170	16,739	147,323
Payments for long-term prepaid expenses	(586)	(429)	(3,771)
Payments for security deposits	(1,394)	(538)	(4,738)
Proceeds from security deposits	1,317	925	8,145
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(205)	(4,263)	(37,520)
Payments for sale of investments in subsidiaries resulting in change in scope of consolidation	—	(7,163)	(63,048)
Other, net	(3,888)	(1,627)	(14,323)
Net cash provided by (used in) investing activities	(15,657)	1,783	15,687

	Millions of yen		Thousands of U.S. dollars (Note 2. (22))
	2015	2016	2016
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	(875)	4,225	37,184
Proceeds from long-term loans payable	10,000	—	—
Repayments of long-term loans payable	(3,358)	(3,437)	(30,248)
Acquisition of treasury stock	(4)	(2,294)	(20,189)
Dividends paid by the parent company	(3,766)	(3,770)	(33,179)
Dividends paid to minority shareholders	(83)	(101)	(886)
Other, net	(1,157)	(980)	(8,633)
Net cash provided by (used in) financing activities	757	(6,357)	(55,951)
Effect of exchange rate changes on cash and cash equivalents	835	(546)	(4,807)
Net increase (decrease) in cash and cash equivalents	2,426	(1,488)	(13,100)
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	161	—	—
Cash and cash equivalents at beginning of year	27,231	29,818	262,439
Cash and cash equivalents at end of year (Note 9)	¥ 29,818	¥ 28,330	$ 249,339

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

ONWARD HOLDINGS Co., Ltd. and Subsidiaries
For the years ended February 28, 2015 and February 29, 2016

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 Companies Act of Japan (the "Companies Act") and the Financial Instruments and Exchange Act 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-General of the Kanto Local 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 81 subsidiaries as at February 29, 2016 (81 as at February 28, 2015). The accompanying consolidated financial statements include the accounts of the Company and 72 of its subsidiaries (72 for 2015). Major consolidated subsidiaries are listed below (the Company and its 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
Onward Global Fashion Co., Ltd.	100.0	February 28
Birz Association Ltd.	100.0	February 28
Onward Luxury Group S.p.A.	100.0	November 30
Project Sloane Ltd.	100.0	November 30
Joseph Ltd.	100.0	November 30
Onward Fashion Trading (China) Co., Ltd.	100.0	December 31
J. Press, Inc.	100.0	December 31
Onward Creative Center 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

During the year ended February 29, 2016, all the shares in Booklet Co., Ltd., which had been a consolidated subsidiary of the Company, were transferred, Montenapoleone LLC. was liquidated, and Bus Stop Co., Ltd. was absorbed into Onward Global Fashion Co., Ltd.; therefore, these companies were removed from the scope of consolidation.

Onward J Bridge Co., Ltd. was newly established, and shares in Freeland S.R.L. were acquired; therefore, these companies and subsidiaries of Freeland S.R.L., Ypsilon S.R.L., Nadhour S.a.r.l., and Dauphin S.a.r.l., became consolidated subsidiaries of the Company.

Although Land S.R.L. was newly established and became a consolidated subsidiary of the Company, it was removed from the scope of consolidation as it was absorbed into Freeland S.R.L. Jil Sander Paris S.a.r.l. was absorbed into Onward Luxury Group S.a.r.l., and it was decided that all the shares in Across Transport Co., Ltd., which had been a consolidated subsidiary of the Company, would be transferred; therefore, these companies were removed from the scope of consolidation.

The financial statements of the aforementioned subsidiaries with the fiscal year-end of December 31 or November 30 have been used for consolidation. Significant adjustments considered necessary between the fiscal year-ends and the Company's closing date have been made for consolidation.

The remaining nine subsidiaries (nine for 2015) 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 has been 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 17 companies (18 companies for 2015) are accounted for by the equity method for the year ended February 29, 2016.

The Company did not apply the equity method to Onward Italia S.p.A. and others as the effect on net income and retained earnings of their consolidated financial statements are not material individually or in the aggregate.

Although the fiscal year-end of Gailyglen Ltd. is November 30, its financial statements for the fiscal year-end have been used. Also, the fiscal year-end of Daidoh Limited is March 31, and its financial statements prepared on a basis similar to that for the year-end closing as of December 31 have been 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. Write-downs recorded for the years ended February 28, 2015 and February 29, 2016 were ¥11,466 million and ¥11,016 million ($96,956 thousand), respectively.

(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 at cost.

In cases where any decline in the fair value of a security is assessed to be other than temporary, the cost of the security is reduced to the 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

Gains or losses arising from changes in the fair values of derivatives designated as "hedging instruments" 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 period during which the gains and losses on the hedged items or transactions are recognized. For forward exchange contracts, if they meet conditions for the 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 forward exchange 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 facilities attached to buildings) acquired on and after April 1, 1998, which are depreciated by the straight-line method pursuant to an amendment to Japanese income tax act.

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 to 10 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) Allowance 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 Companies 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 Companies provide an allowance for doubtful accounts based on their historical average charge-off ratio.

(12) Allowance for Sales Returns
Certain domestic consolidated subsidiaries provide for estimated losses based on the actual percentage of sales return in prior years and gross profit margin.

(13) Retirement Benefits
To calculate projected benefit obligations, the Companies adopt the benefit formula basis for the method of attributing the projected benefits to periods.

Unrecognized prior service costs are amortized and charged or credited to income on a straight-line basis over five to 10 years, which are within the related employees' average remaining service years. Unrecognized actuarial differences are amortized on a straight-line basis over five to 10 years, which are within the related employees' average remaining service years, from the year following the one in which they arise.

To provide for retirement benefits for directors and corporate auditors, certain domestic consolidated subsidiaries recognize accrued retirement benefits in an amount required at the balance sheet dates in accordance with their internal rules.

(14) Provision for Point Program
The provision for point program is provided for future costs arising from the utilization of points that customers of certain domestic consolidated subsidiaries have earned under the point service program which is for sales promotions. They reserve 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 that do not transfer ownership are depreciated on a straight-line basis, over the lease periods as their useful lives with no residual value.

(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) Application of Consolidated Taxation System
The Company and its certain domestic consolidated subsidiaries apply the consolidated taxation system.

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

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

(20) Accrued Bonuses to Employees
Accrued bonuses to employees are recognized for the estimated amount to provide for payment of bonuses to employees after the fiscal year-end, based on services provided by them during the period.

(21) Accrued Bonuses to Directors
The Company and its certain domestic consolidated subsidiaries recognize accrued bonuses to directors in an estimated amount to provide for payment of bonuses to their directors.

(22) United States Dollar Amounts
Amounts in U.S. dollars are included solely for the convenience of readers outside of Japan. The rate of ¥113.62 = US$1, the rate of exchange as of February 29, 2016, 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 29, 2016.

(Changes in Presentation Method)
"Bonds," which was set down separately under "Long-term liabilities" for the year ended February 28, 2015, have been included in "Other long-term liabilities" from the year ended February 29, 2016 since significance of the amount has decreased. To reflect this change in the method of presentation, the amounts in the consolidated balance sheet as of February 28, 2015 have been reclassified.

As a result, ¥100 million of "bonds" and ¥11,472 million of "Other current liabilities" under "Long-term liabilities" in the consolidated balance sheet as of February 28, 2015 have been reclassified to ¥11,572 million of "Other long-term liabilities."

"Rent expenses," which was included in "Other, net" under "Other income (expenses)" for the year ended February 28, 2015, have been set down separately from the year ended February 29, 2016 since significance of the amount has increased. To reflect this change in the method of presentation, the amounts in the consolidated statement of operations for the year ended February 28, 2015 have been reclassified.

As a result, ¥304 million of "Other, net" has been reclassified to ¥(215) million of "Rent expenses" and ¥519 million of "Other, net."

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

(25) Changes in Accounting Policies
The Company has applied provisions in the main clause of Section 35 of the "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan ("ASBJ") Statement No. 26, May 17, 2012; the "Accounting Standard") and the main clause of Section 67 of the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, March 26, 2015) from the year ended February 29, 2016. Accordingly, the Company has reviewed the calculation methods of projected benefit obligations and service costs and has changed the method of attributing projected benefits to periods from the straight-line basis to the benefit formula basis and the method for determining the discount rate from the one based on the average period up to the estimated timing of benefit payment to a single weighted average discount rate reflecting the estimated timing and amount of benefit payment.

In accordance with the transitional provisions prescribed in Section 37 of the Accounting Standard, the effects of the changes in the calculation methods of projected benefit obligations and service costs have been added to or deducted from retained earnings as of the beginning of the year ended February 29, 2016.

As a result, as of the beginning of the year ended February 29, 2016, net defined benefit asset, net defined benefit liability, and retained earnings increased by ¥513 million ($4,518 thousand), ¥92 million ($809 thousand), and ¥285 million ($2,511 thousand), respectively. The impact on operating income and income before income taxes and minority interests for the year ended February 29, 2016 is immaterial.

3. Financial Instruments

1. Matters pertaining to the status of financial instruments
(1) Policy on financial instruments
The Companies invest their funds in short-term deposits and meet their financing needs through bank loans. The Companies 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. Operating receivables denominated in foreign currencies, being subject to risks associated with changes in the foreign currency exchange rates, are hedged by forward exchange contracts.

Investments in securities mainly comprise stocks of companies with which the Companies have business alliances and are exposed to risks associated with fluctuations of their market prices.

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

Regarding derivatives, forward exchange contracts, interest rate swaps, and currency options are used to hedge the foreign exchange rate fluctuation risk associated with the operating receivables and payables.

(3) Risk management for financial instruments
(a) Management of credit risk (risk of default by customers and counterparties)
For credit risk of customers associated with accounts and notes receivable, in accordance with the credit management regulations, the Companies monitor the status of their main customers and counterparties on a periodical basis and manage due dates and outstanding balances by customer while working to early identify and mitigate any concerns about collection due to deterioration of financial conditions and other reasons.
For derivative transactions, to mitigate the credit risk, the Companies conduct transactions only with highly-rated financial institutions.

(b) Management of market risk (risk of fluctuations in foreign exchange rates, interest rates and others)
The Companies hedge risk associated with changes in the foreign currency exchange rates arising from receivables and payables denominated in foreign currencies mainly by forward exchange contracts.

For investments in securities, the Companies periodically perceive the fair values and financial conditions of the issuers and continuously evaluate whether the securities should be maintained taking into account relationships with their business partners.

For derivatives, the Companies conduct transactions only for their actual requirements in accordance with internal management rules and monthly review transaction balances, valuation gain or loss, and other conditions.

(c) Management of liquidity risk related to fund procurement (risk that the Companies may not be able to meet their obligations on scheduled due dates)
In order to manage liquidity risk, the Companies timely prepare and update a schedule of cash receipts and disbursements and maintain sufficient liquidity on hand.

(4) Supplementary explanation of fair values 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 and fair values and differences between them as of February 28, 2015 and February 29, 2016.

	Millions of yen		
February 28, 2015	Book value	Fair value	Difference
(a) Cash and deposits	¥ 31,123	¥ 31,123	¥ —
(b) Accounts and notes receivable	30,793	30,793	—
(c) Investments in securities:			
Available-for-sale securities	44,390	44,390	—
Investments in unconsolidated subsidiaries and affiliates	8,970	4,264	(4,706)
(d) Accounts and notes payable	(40,341)	(40,341)	—
(e) Short-term loans payable	(42,404)	(42,404)	—
(f) Long-term loans payable (including current portion of long-term loans payable)	(24,229)	(24,468)	239
(g) Derivative transactions	230	230	—

	Millions of yen		
February 29, 2016	Book value	Fair value	Difference
(a) Cash and deposits	¥ 29,407	¥ 29,407	¥ —
(b) Accounts and notes receivable	27,819	27,819	—
(c) Investments in securities:			
Available-for-sale securities	24,487	24,487	—
Investments in unconsolidated subsidiaries and affiliates	8,725	3,602	(5,123)
(d) Accounts and notes payable	(34,971)	(34,971)	—
(e) Short-term loans payable	(45,326)	(45,326)	—
(f) Long-term loans payable (including current portion of long-term loans payable)	(19,855)	(19,894)	39
(g) Derivative transactions	(452)	(452)	—

	Thousands of U.S. dollars		
February 29, 2016	Book value	Fair value	Difference
(a) Cash and deposits	$ 258,822	$ 258,822	$ —
(b) Accounts and notes receivable	244,838	244,838	—
(c) Investments in securities:			
Available-for-sale securities	215,516	215,516	—
Investments in unconsolidated subsidiaries and affiliates	76,794	31,706	(45,088)
(d) Accounts and notes payable	(307,786)	(307,786)	—
(e) Short-term loans payable	(398,930)	(398,930)	—
(f) Long-term loans payable (including current portion of long-term loans payable)	(174,746)	(175,091)	345
(g) Derivative transactions	(3,976)	(3,976)	—

Notes:
1. Fair value measurement of financial instruments and matters related to securities and derivatives
(a) Cash and deposits and (b) Accounts and notes receivable
Since these items are settled in a short period of time, their book values approximate fair values.
(c) Investments in securities
The fair value of equity securities is based on 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 values approximate fair values.
(f) Long-term loans payable
The fair values of fixed interest rate long-term loans payable are measured as present values obtained by discounting the total amount of principal and interest at the interest rate which is assumed if any similar loan is newly made. Variable interest rate long-term loans payable are deemed to reflect market interest rates in a short period of time, so the book value is used as fair value.
(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 values as of February 28, 2015 and February 29, 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
Classification	2015	2016	2016
Investments in securities:			
Unlisted equity securities	¥802	¥710	$6,249

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

3. The redemption schedules for monetary receivables and marketable securities with maturities as of February 28, 2015 and February 29, 2016 are as follows:

	Millions of yen			
February 28, 2015	Due within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and deposits	¥31,123	¥—	¥—	¥ —
Accounts and notes receivable	30,793	—	—	—
Marketable securities and investments in securities:				
Available-for-sale securities with maturities	—	—	—	350
Total	¥61,916	¥—	¥—	¥350

	Millions of yen			
February 29, 2016	Due within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and deposits	¥29,407	¥—	¥—	¥—
Accounts and notes receivable	27,819	—	—	—
Marketable securities and investments in securities:				
Available-for-sale securities with maturities	—	—	—	—
Total	¥57,226	¥—	¥—	¥—

	Thousands of U.S. dollars			
February 29, 2016	Due within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and deposits	$258,822	$—	$—	$—
Accounts and notes receivable	244,838	—	—	—
Marketable securities and investments in securities:				
Available-for-sale securities with maturities	—	—	—	—
Total	$503,660	$—	$—	$—

4. Expected repayment amounts of long-term loans payable subsequent to the balance sheet date
See Note 13. "Short-Term Loans Payable and Long-Term Loans Payable."

4. Investments in Securities

(1) Information as of and for the Year Ended February 28, 2015

(a) Available-for-sale securities with readily determinable fair value:
Investments in securities whose fair values were readily determinable at February 28, 2015 are summarized as follows:

	Millions of yen		
	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities with unrealized gain:			
Equity securities	¥43,268	¥23,898	¥19,370
Other	355	133	222
Total	43,623	24,031	19,592
Securities with unrealized loss:			
Equity securities	767	910	(143)
Other	—	—	—
Total	767	910	(143)
Total	¥44,390	¥24,941	¥19,449

Note: Non-marketable equity securities of ¥336 million are not included in the above table because there were no quoted market prices available and it is extremely difficult to determine the fair value.

(b) Available-for-sale securities sold during the year ended February 28, 2015:

	Millions of yen
Proceeds from sale of securities	¥10,170
Realized gain on sale of securities	5,363
Realized loss on sale of securities	—

(c) The aggregate carrying amount of investments in unconsolidated subsidiaries and affiliates as of February 28, 2015 was ¥9,435 million.

(2) Information as of and for the Year Ended February 29, 2016

(a) Available-for-sale securities with readily determinable fair value:
Investments in securities whose fair values were readily determinable at February 29, 2016 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	¥22,536	¥18,190	¥4,346	$198,348	$160,099	$38,249
Other	3	2	1	24	12	12
Total	22,539	18,192	4,347	198,372	160,111	38,261
Securities with unrealized loss:						
Equity securities	1,948	2,373	(425)	17,145	20,882	(3,737)
Other	—	—	—	—	—	—
Total	1,948	2,373	(425)	17,145	20,882	(3,737)
Total	¥24,487	¥20,565	¥3,922	$215,517	$180,993	$34,524

Note: Non-marketable equity securities of ¥336 million ($2,959 thousand) are not included in the above table because there were no quoted market prices available and it is extremely difficult to determine the fair value.

(b) Available-for-sale securities sold during the year ended February 29, 2016:

	Millions of yen	Thousands of U.S. dollars
Proceeds from sale of securities	¥18,985	$167,093
Realized gain on sale of securities	8,888	78,226
Realized loss on sale of securities	—	—

(c) The aggregate carrying amount of investments in unconsolidated subsidiaries and affiliates as of February 29, 2016 was ¥9,099 million ($80,085 thousand).

(d) Amounts of "acquisition cost" in the above table represent book values after the recognition of an impairment loss. For the year ended February 29, 2016, the Companies recognized loss on valuation of investments in securities of ¥8 million ($68 thousand) as an impairment loss.

5. Derivative Transactions

The contract or notional amounts and fair values of derivative financial instruments held as of February 28, 2015 and February 29, 2016 are summarized as follows:
(1) Derivative transactions to which hedge accounting was not applied:

	Millions of yen		
February 28, 2015	Contract or notional amount	Fair value	Valuation gain (loss)
Interest rate swap agreements:			
Variable rate receive / variable rate pay	¥300	¥ 0	¥ 0
Fixed rate receive / variable rate pay	100	(0)	(0)
	¥400	¥ 0	¥ 0

	Millions of yen		
February 29, 2016	Contract or notional amount	Fair value	Valuation gain (loss)
Interest rate swap agreements:			
Fixed rate receive / variable rate pay	¥100	¥(1)	¥(1)
	¥100	¥(1)	¥(1)

	Thousands of U.S. dollars		
February 29, 2016	Contract or notional amount	Fair value	Valuation gain (loss)
Interest rate swap agreements:			
Fixed rate receive / variable rate pay	$880	$(7)	$(7)
	$880	$(7)	$(7)

(2) Derivative transactions to which hedge accounting was applied:

	Millions of yen		
February 28, 2015	Hedged item	Contract or notional amount	Fair value
Forward exchange contracts:			
To buy foreign currency:			
U.S. dollar	Accounts payable	¥4,660	¥265
Euro	Accounts payable	1,475	(37)
Pound	Accounts payable	38	2
Chinese yuan	Accounts payable	183	(0)
To sell foreign currency:			
U.S. dollar	Accounts receivable	1	(0)
		¥6,357	¥230

February 29, 2016	Millions of yen Hedged item	Contract or notional amount	Fair value
Forward exchange contracts:			
To buy foreign currency:			
U.S. dollar	Accounts payable	¥ 7,009	¥(285)
Euro	Accounts payable	3,116	(96)
Pound	Accounts payable	64	(7)
Chinese yuan	Accounts payable	96	(1)
Singapore dollar	Accounts payable	83	(3)
Currency options:			
To buy foreign currency:			
Call:			
U.S. dollar	Accounts payable	414	1
To sell foreign currency:			
Put:			
U.S. dollar	Accounts receivable	666	(60)
		¥11,448	¥(451)

February 29, 2016	Thousands of U.S. dollars Hedged item	Contract or notional amount	Fair value
Forward exchange contracts:			
To buy foreign currency:			
U.S. dollar	Accounts payable	$ 61,689	$(2,511)
Euro	Accounts payable	27,421	(837)
Pound	Accounts payable	559	(65)
Chinese yuan	Accounts payable	847	(11)
Singapore dollar	Accounts payable	730	(22)
Currency options:			
To buy foreign currency:			
Call:			
U.S. dollar	Accounts payable	3,648	7
To sell foreign currency:			
Put:			
U.S. dollar	Accounts receivable	5,862	(530)
		$100,756	$(3,969)

6. Impairment Loss on Fixed Assets

For the years ended February 28, 2015 and February 29, 2016, the Companies reviewed its long-lived assets for impairment and, as a result, recognized an impairment loss as follows:

February 28, 2015

Location	Usage	Description	Millions of yen
Tokyo metropolitan area and other	Business assets	Buildings and structures	¥739
		Other	121
—	—	Goodwill	¥800

February 29, 2016

Location	Usage	Description	Millions of yen	Thousands of U.S. dollars
Tokyo metropolitan area and other	Business assets	Buildings and structures	¥ 1,275	$ 11,220
		Other	1,033	9,096
—	—	Goodwill	¥11,743	$103,354

The long-lived assets are basically grouped by brand, and assets for lease and idle assets are grouped individually by each item. The Companies have 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 values to the respective recoverable amounts.

The impairment loss on long-lived assets for the years ended February 28, 2015 and February 29, 2016 consisted of the following:

	Millions of yen 2015	Millions of yen 2016	Thousands of U.S. dollars 2016
Buildings and structures	¥ 739	¥ 1,275	$ 11,220
Other intangible assets	31	457	4,027
Other	78	560	4,930
Land	12	16	140
Goodwill	800	11,743	103,354
Total	¥1,660	¥14,051	$123,671

For the year ended February 28, 2015, based on the result of future cash flow analysis that the recoverable amount of goodwill on Birz Association Ltd., which is a consolidated subsidiary of the Company, was less than the carrying amount, the Company recognized impairment loss of ¥800 million on the remaining unamortized portion of the goodwill. For the year ended February 29, 2016, based on the result of future cash flow analysis that the recoverable amount of goodwill on Onward Luxury Group S.p.A., which is a consolidated subsidiary of the Company, and two other consolidated subsidiaries of the Company was less than the carrying amount, the Company recognized an impairment loss of ¥11,743 million ($103,354 thousand) on the remaining unamortized portion of the goodwill.

The recoverable amount of 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 flows at discount rates of 5.5% and 5.1% for the years ended February 28, 2015 and February 29, 2016, respectively.

7. Retirement Plan and Retirement Benefits

The Company and its certain subsidiaries have adopted funded and unfunded defined benefit retirement plans as well as defined contribution retirement plans to provide for retirement benefits to their employees.

Under the defined benefit corporate pension plans, all of which are funded, the Company and its certain subsidiaries grant lump-sum payments or pensions to their employees based on the salary levels and service periods. Retirement benefit trusts have been established in certain defined benefit corporate pension plans.

Under the lump-sum retirement payment plans, of which some are funded, the Company and its subsidiaries grant lump-sum payments to their employees as retirement benefits, based on the salary levels and service periods. Retirement benefit trusts have been established in certain lump-sum retirement payment plans.

Under the lump-sum retirement payment plans for certain consolidated subsidiaries, net defined benefit liability and net periodic pension expenses are calculated by using the simplified method.

A. Defined benefit plans

(i) Changes in projected benefit obligations

	Millions of yen 2015	Millions of yen 2016	Thousands of U.S. dollars 2016
Balance at beginning of year	¥18,591	¥16,552	$145,682
Cumulative effects of changes in accounting policies	—	(421)	(3,709)
Restated balance	18,591	16,131	141,973
Service cost	979	1,436	12,637
Interest cost	233	40	349
Actuarial differences	(764)	660	5,807
Benefits paid	(2,714)	(1,629)	(14,336)
Other	227	(432)	(3,793)
Balance at end of year	¥16,552	¥16,206	$142,637

(ii) Changes in plan assets

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Balance at beginning of year	¥13,859	¥15,693	$138,118
Expected return on plan assets	235	232	2,046
Actuarial differences	2,026	(1,984)	(17,460)
Employer contributions	293	271	2,381
Benefits paid	(720)	(558)	(4,910)
Other	—	(211)	(1,856)
Balance at end of year	¥15,693	¥13,443	$118,319

(iii) Reconciliation from projected benefit obligations and plan assets to net defined benefit asset and liability recognized in the consolidated balance sheets

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Funded projected benefit obligations	¥ 15,786	¥ 15,392	$ 135,468
Plan assets	(15,693)	(13,443)	(118,319)
	93	1,949	17,149
Unfunded projected benefit obligations	766	814	7,168
Net amount of liability and asset recognized in the consolidated balance sheets	859	2,763	24,317
Net defined benefit liability	4,126	4,180	36,790
Net defined benefit asset	(3,267)	(1,417)	(12,473)
Net amount of liability and asset recognized in the consolidated balance sheets	¥ 859	¥ 2,763	$ 24,317

(iv) Net periodic pension expenses and their breakdown

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Service cost	¥ 979	¥1,436	$12,637
Interest cost	233	40	349
Expected return on plan assets	(235)	(232)	(2,046)
Amortization of unrecognized actuarial differences	228	28	250
Amortization of unrecognized prior service costs	(54)	(54)	(472)
Other	(14)	(9)	(73)
Net periodic pension expenses	¥1,137	¥1,209	$10,645

(v) Remeasurements of defined benefit plans in other comprehensive income

Breakdown of items recognized as remeasurements of defined benefit plans (before tax effect) in other comprehensive income is as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Prior service costs	¥—	¥ (54)	$ (471)
Actuarial differences	—	(2,615)	(23,018)
Total	¥—	¥(2,669)	$(23,489)

(vi) Remeasurements of defined benefit plans in accumulated other comprehensive income

Breakdown of items recognized as remeasurements of defined benefit plans (before tax effect) in accumulated other comprehensive income is as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Unrecognized prior service costs	¥ 320	¥ 266	$ 2,343
Unrecognized actuarial differences	909	(1,706)	(15,015)
Total	¥1,229	¥(1,440)	$(12,672)

Notes to Consolidated Financial Statements

(vii) Plan assets

(a) Percentage by major category of plans assets is as follows:

	2015	2016
Life insurance company general accounts	40%	43%
Equity securities	51%	47%
Debt securities	2%	2%
Short-term funds	7%	8%
Total	100%	100%

Total plan assets include retirement benefit trusts established for defined benefit corporate pension plans and lump-sum retirement payment plans of 54% and 51% for the years ended February 28, 2015 and February 29, 2016, respectively.

(b) Determination of long-term expected rate of return on plan assets

In determining long-term expected rate of return on plan assets, the Companies consider the current and projected asset allocations, as well as current and future long-term rate of returns from various assets constituting plan assets.

(viii) Basis for calculation of actuarial assumptions

	2015	2016
Discount rate	1.5%	0.3% to 0.7%
Long-term expected rate of return on plan assets	1.2% to 2.1%	1.1% to 1.8%

B. Defined contribution plans

The amounts to be paid by the Companies to the defined contribution pension plans for the years ended February 28, 2015 and February 29, 2016 were ¥434 million and ¥402 million ($3,538 thousand), respectively.

8. Notes to Consolidated Statements of Comprehensive Income

Other comprehensive income for the years ended February 28, 2015 and February 29, 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Net unrealized gain (loss) on available-for-sale securities:			
Amount arising during the year	¥15,211	¥ (5,978)	$ (52,618)
Reclassification adjustment for gain and loss	(5,787)	(9,548)	(84,033)
Amount before income tax effect	9,424	(15,526)	(136,651)
Income tax effect	(3,328)	5,651	49,736
Total	6,096	(9,875)	(86,915)
Deferred gain (loss) on hedging instruments:			
Amount arising during the year	229	(443)	(3,896)
Reclassification adjustment for gain and loss	44	(229)	(2,018)
Amount before income tax effect	273	(672)	(5,914)
Income tax effect	(93)	222	1,953
Total	180	(450)	(3,961)
Revaluation gain on land:			
Income tax effect	—	294	2,583
Total	—	294	2,583
Foreign currency translation adjustments:			
Amount arising during the year	2,546	(1,442)	(12,688)
Total	2,546	(1,442)	(12,688)
Remeasurements of defined benefit plans:			
Amount arising during the year	—	(2,644)	(23,267)
Reclassification adjustment for gain and loss	—	(25)	(222)
Amount before income tax effect	—	(2,669)	(23,489)
Income tax effect	—	905	7,966
Total	—	(1,764)	(15,523)
Share of other comprehensive income of associates accounted for using the equity-method:			
Amount arising during the year	225	(155)	(1,360)
Total	225	(155)	(1,360)
Total other comprehensive income	¥ 9,047	¥(13,392)	$(117,864)

9. Notes to Consolidated Statements of Cash Flows

Cash and cash equivalents at February 28, 2015 and February 29, 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Cash and deposits	¥31,123	¥29,407	$258,822
Time deposits with maturities of more than three months	(1,305)	(1,077)	(9,483)
Cash and cash equivalents	¥29,818	¥28,330	$249,339

10. Lease Transactions

(Lessee)
Finance lease transactions
Finance lease transactions that do not transfer ownership
1. Leased assets
Leased assets are primarily comprised of logistic facilities (“buildings and structures”).

2. Depreciation method for leased assets
The depreciation method for leased assets is as described in “2. Summary of Significant Accounting Policies, (15) Accounting for Leases.”

11. Income Taxes

The tax effects of temporary differences that give rise to significant components of the deferred tax assets and liabilities as at February 28, 2015 and February 29, 2016 consisted of the following elements:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Deferred tax assets:			
Loss on write-down of inventories	¥ 2,473	¥ 2,273	$ 20,003
Loss on write-down of investments in unconsolidated subsidiaries	130	7,718	67,932
Accrued bonuses to employees	412	331	2,914
Net defined benefit liability	3,082	2,866	25,224
Accrued retirement benefits for directors and corporate auditors	55	68	601
Allowance for bad debt	372	352	3,098
Tax loss carry forwards	10,625	10,380	91,360
Impairment loss on fixed assets	6,193	6,251	55,012
Investments in securities	432	111	980
Other	6,069	5,401	47,529
Subtotal	29,843	35,751	314,653
Less: Valuation allowance	(18,298)	(17,484)	(153,885)
Total deferred tax assets	11,545	18,267	160,768
Deferred tax liabilities:			
Gain on securities contributed to employee retirement benefit trusts	(113)	(82)	(723)
Net defined benefit asset	(1,164)	(505)	(4,443)
Provision for deferred capital gain on real property for tax purposes	(17)	(47)	(415)
Net unrealized gain on available-for-sale securities	(6,914)	(1,264)	(11,125)
Other	(709)	(509)	(4,476)
Total deferred tax liabilities	(8,917)	(2,407)	(21,182)
Net deferred tax assets	¥ 2,628	¥ 15,860	$ 139,586

Notes to Consolidated Financial Statements

The reconciliation of the difference between the statutory tax rate and the effective tax rate for the years ended February 28, 2015 and February 29, 2016 is as follows:

	%	
	2015	2016
Statutory tax rate	38.0	35.6
Reconciliation:		
Permanently non-deductible expenses (entertainment expenses, etc.)	2.5	2.7
Permanently non-taxable income (dividends received, etc.)	(1.6)	(1.4)
Per capita inhabitant tax	3.7	5.1
Amortization of goodwill	12.5	14.0
Impairment loss on goodwill	3.2	58.7
Changes in valuation allowance	11.1	(115.3)
Consolidation adjustments to gain or loss on sale of investments in consolidated subsidiaries	—	16.8
Differences in statutory tax rate	(9.2)	18.0
Other	(5.1)	6.0
Effective tax rate	55.1	40.2

(Adjustments to deferred tax assets and liabilities due to change in income tax rates, etc.)
On March 31, 2015, the “Act for Partial Revision of the Income Tax Act, etc.” (Act No. 9 of 2015) and “Act for Partial Revision of the Local Tax Act, etc.” (Act No. 2 of 2015) were promulgated, and the income tax rate is reduced from the fiscal years beginning on or after April 1, 2015. Accordingly, the statutory tax rates applied to the calculation of deferred tax assets and liabilities are lowered from 35.6%, which was applied to temporary differences expected to be settled in the fiscal years beginning on or after March 1, 2015, to 33.1% for temporary differences expected to be settled in the fiscal year beginning on March 1, 2016, and to 32.3% for temporary differences expected to be settled in the fiscal years beginning on or after March 1, 2017.

The effect of these changes in tax rates is immaterial.

(Change in income tax rates, etc. after the closing date of consolidated accounts)
On March 31, 2016, the “Act for Partial Revision of the Income Tax Act, etc.” (Act No. 15 of 2016) and “Act for Partial Revision, etc. of the Local Tax Act, etc.” (Act No. 13 of 2016) were promulgated, and the income tax rate is reduced from the fiscal years beginning on or after April 1, 2016. Accordingly, the statutory tax rates applied to the calculation of deferred tax assets and liabilities are lowered from 32.3%, which was applied to temporary differences expected to be settled in the fiscal years beginning on or after March 1, 2017, to 30.9% for temporary differences expected to be settled in the fiscal years beginning on March 1, 2017 and 2018, and to 30.6% for temporary differences expected to be settled in the fiscal years beginning on or after March 1, 2019.

The effect of these changes in tax rates is immaterial.

12. Revaluation of Land

The Companies revaluated their own land for business use in accordance with the “Act on Revaluation of Land” (Act No. 34, promulgated on March 31, 1998) and “Act for Partial Revision of Act on Revaluation of Land” (amended on March 31, 2001). The income taxes corresponding to the net unrealized gain are reported in long-term liabilities as deferred tax liabilities—revaluation of land, and the net unrealized gain, net of deferred taxes, are reported as net revaluation loss on land in net assets.

Pursuant to Article 2-4 of the “Order for Enforcement of Act on Revaluation of Land” (the “Order”; Cabinet Order No. 119, promulgated on March 31, 1998), in order to calculate the land value for a basis of determining the taxable amount subject to land value tax prescribed by Article 16 of the “Land-holding Tax Act” (Act No. 69 of 1991), in addition to conducting appropriate adjustments for land shape of the assessment, certain lands are determined by the assessed value of the fixed assets stipulated in Article 2-3 of the Order, based on the method established and published by the Commissioner of National Tax Agency.

The difference between the market value of land subject to the revaluation and the book value as at February 28, 2015 and February 29, 2016 was ¥1,774 million and ¥910 million ($8,013 thousand), respectively.

13. Short-Term Loans Payable and Long-Term Loans Payable

Short-term loans payable at February 28, 2015 and February 29, 2016 represented loans, principally from banks. The weighted-average interest rate on these loans was 0.7% in 2015 and 2016.

Long-term loans payable at February 28, 2015 and February 29, 2016 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Unsecured loans, principally from banks, maturing in installments through 2019	¥24,229	¥19,854	$174,746
Less current portion with weighted-average interest rate of 0.7% at February 29, 2016	3,250	3,828	33,696
Long-term loans payable, less current portion with weighted-average interest rate of 0.5% at February 29, 2016	¥20,979	¥16,026	$141,050

Lease obligations at February 28, 2015 and February 29, 2016 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Lease obligations	¥6,835	¥5,877	$51,726
Less current portion of lease obligations	943	682	6,006
	¥5,892	¥5,195	$45,720

The aggregate annual maturities of long-term loans payable after February 28, 2017 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending February 28 or 29:		
2018	¥13,026	$114,643
2019	3,000	26,406
2020	0	1
2021	—	—

The aggregate annual maturities of lease obligations after February 28, 2017 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending February 28 or 29:		
2018	¥620	$5,461
2019	533	4,690
2020	334	2,943
2021	280	2,465

Bonds at February 28, 2015 and February 29, 2016 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
0.39% in 2015 and 2016 unsecured yen bonds issued by a subsidiary, due 2018	¥150	¥100	$880
Less current portion	50	50	440
	¥100	¥ 50	$440

The aggregate annual maturities of bonds after February 28, 2017 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending February 28 or 29:		
2018	¥50	$440
2019	—	—
2020	—	—
2021	—	—

14. Shareholders' Equity

Under the Companies Act, 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 Companies Act 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 Companies Act also provides that additional paid-in capital and the legal reserve are available for appropriations by resolution of a shareholders' meeting. Balances of the legal reserve are included in retained earnings in the accompanying consolidated balance sheets.

Cash dividends charged to retained earnings for the years ended February 28, 2015 and February 29, 2016 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 Companies Act.

Dividends to be paid after the balance sheet date, which were approved by the General Meeting of Shareholders held on May 26, 2016, are as follows:

(a) Total dividends:	¥3,700 million ($32,562 thousand)
(b) Source of dividends:	Retained earnings
(c) Cash dividends per common share:	¥24 ($0.21)
(d) Date to determine which shareholders receive the dividends:	February 29, 2016
(e) Effective date:	May 27, 2016

15. Per Share Information

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

The basis for the calculation of basic and diluted net income per share for the years ended February 28, 2015 and February 29, 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Net income	¥4,204	¥4,278	$37,652
Less: Components not pertaining to common shareholders	—	—	—
Net income pertaining to common stock	¥4,204	¥4,278	$37,652
Average outstanding shares of common stock (thousand shares)	157,006	151,343	
Effect of dilutive stock options (thousand shares)	1,729	1,689	

16. Related-Party Transactions

Year ended February 28, 2015

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

Year ended February 29, 2016

The Company leased land from Takeshi Hirouchi, Representative Director and Chairman of ONWARD HOLDINGS Co., Ltd., during the year, and the rental fee was ¥7 million ($64 thousand). Also, Mr. Hirouchi paid a rental fee of ¥16 million ($143 thousand) to the Company for a house. The rental fees were determined by the average market prices.

Onward Global Fashion Co., Ltd., a consolidated subsidiary of the Company, sold goods to BOLS 1987 Co., Ltd., over which Hitoshi Futamura, Representative Director, President of Onward Global Fashion Co., Ltd., has 100% of voting rights directly, during the year. The transaction amount was ¥13 million ($117 thousand), and the balance of relevant accounts receivable as of February 29, 2016 was ¥2 million ($14 thousand). Prices and other terms and conditions were determined by reference to market prices or general terms and conditions.

17. Stock Options

The cost recognized for the stock options for the years ended February 28, 2015 and February 29, 2016 was ¥131 million and ¥16 million ($142 thousand), respectively, which is included in selling, general and administrative expenses.

2014 Stock Option Plan (No. 16)

Under the 2014 stock option plan (No. 16), stock options were granted to five directors of the Company on June 20, 2014. They are exercisable in the period from June 21, 2014 to June 20, 2044. 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.

The number of stock options granted by type of shares is 122,900 shares of common stock.

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

Exercise price:	¥1 ($0.01)
Fair value at the grant date:	¥526 ($4.63)

A summary of the scale and movement of the stock option plan for the year ended February 29, 2016 is as follows:

	2014 stock option plan (No. 16)
Non-vested (shares):	
Outstanding at February 28, 2015	122,900
Granted	—
Forfeited	—
Vested	—
Outstanding at February 29, 2016	122,900

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.

2014 Stock Option Plan (No. 15)

Under the 2014 stock option plan (No. 15), stock options were granted to 12 executive officers of the Company and five directors and nine executive officers of the Company's subsidiary on March 20, 2014. They are exercisable in the period from March 21, 2014 to February 29, 2044. 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 officers of the Company, or directors or executive officers of the Company's subsidiary.

The number of stock options granted by type of shares is 146,100 shares of common stock.

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

Exercise price:	¥1 ($0.01)
Fair value at the grant date:	¥466 ($4.10)

A summary of the scale and movement of the stock option plan for the year ended February 29, 2016 is as follows:

	2014 stock option plan (No. 15)
Non-vested (shares):	
Outstanding at February 28, 2015	140,000
Granted	—
Forfeited	—
Vested	—
Outstanding at February 29, 2016	140,000

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.

2013 Stock Option Plan (No. 14)

Under the 2013 stock option plan (No. 14), stock options were granted to five directors of the Company on June 20, 2013. They are exercisable in the period from June 21, 2013 to June 20, 2043. 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.

The number of stock options granted by type of shares is 107,000 shares of common stock.

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

Exercise price:	¥1 ($0.01)
Fair value at the grant date:	¥629 ($5.54)

A summary of the scale and movement of the stock option plan for the year ended February 29, 2016 is as follows:

	2013 stock option plan (No. 14)
Non-vested (shares):	
Outstanding at February 28, 2015	107,000
Granted	—
Forfeited	—
Vested	8,900
Outstanding at February 29, 2016	98,100
Vested (shares):	
Outstanding at February 28, 2015	—
Vested	8,900
Exercised	—
Forfeited	—
Outstanding at February 29, 2016	8,900

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.

2013 Stock Option Plan (No. 13)

Under the 2013 stock option plan (No. 13), stock options were granted to 14 executive officers of the Company and six directors and nine executive officers of the Company's subsidiary on March 18, 2013. They are exercisable in the period from March 19, 2013 to February 28, 2043. 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 officers of the Company, or directors or executive officers of the Company's subsidiary.

The number of stock options granted by type of shares is 151,300 shares of common stock.

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

Exercise price:	¥1 ($0.01)
Fair value at the grant date:	¥572 ($5.03)

A summary of the scale and movement of the stock option plan for the year ended February 29, 2016 is as follows:

	2013 stock option plan (No. 13)
Non-vested (shares):	
Outstanding at February 28, 2015	140,400
Granted	—
Forfeited	—
Vested	13,800
Outstanding at February 29, 2016	126,600
Vested (shares):	
Outstanding at February 28, 2015	—
Vested	13,800
Exercised	—
Forfeited	—
Outstanding at February 29, 2016	13,800

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.

2012 Stock Option Plan (No. 12)

Under the 2012 stock option plan (No. 12), stock options were granted to five 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.

The number of stock options granted by type of shares is 141,400 shares of common stock.

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

Exercise price:	¥1 ($0.01)
Fair value at the grant date:	¥458 ($4.03)

A summary of the scale and movement of the stock option plan for the year ended February 29, 2016 is as follows:

	2012 stock option plan (No. 12)
Non-vested (shares):	
Outstanding at February 28, 2015	141,400
Granted	—
Forfeited	—
Vested	11,800
Outstanding at February 29, 2016	129,600
Vested (shares):	
Outstanding at February 28, 2015	—
Vested	11,800
Exercised	—
Forfeited	—
Outstanding at February 29, 2016	11,800

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.

2012 Stock Option Plan (No. 11)

Under the 2012 stock option plan (No. 11), stock options were granted to one executive officer of the Company and nine 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 officers of the Company, or directors or executive officers of the Company's subsidiary.

The number of stock options granted by type of shares is 234,700 shares of common stock.

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

Exercise price:	¥1 ($0.01)
Average stock price on the date the option was exercised:	¥756 ($6.65)
Fair value at the grant date:	¥444 ($3.91)

A summary of the scale and movement of the stock option plan for the year ended February 29, 2016 is as follows:

	2012 stock option plan (No. 11)
Non-vested (shares):	
Outstanding at February 28, 2015	142,400
Granted	—
Forfeited	—
Vested	18,700
Outstanding at February 29, 2016	123,700
Vested (shares):	
Outstanding at February 28, 2015	50,800
Vested	18,700
Exercised	8,200
Forfeited	—
Outstanding at February 29, 2016	61,300

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 five 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.

The number of stock options granted by type of shares is 144,800 shares of common stock.

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

Exercise price:	¥1 ($0.01)
Average stock price on the date the option was exercised:	¥731 ($6.43)
Fair value at the grant date:	¥510 ($4.49)

A summary of the scale and movement of the stock option plan for the year ended February 29, 2016 is as follows:

	2011 stock option plan (No. 10)
Non-vested (shares):	
Outstanding at February 28, 2015	79,400
Granted	—
Forfeited	—
Vested	10,000
Outstanding at February 29, 2016	69,400
Vested (shares):	
Outstanding at February 28, 2015	65,400
Vested	10,000
Exercised	9,600
Forfeited	—
Outstanding at February 29, 2016	65,800

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.

2011 Stock Option Plan (No. 9)

Under the 2011 stock option plan (No. 9), stock options were granted to one executive officer of the Company and 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 officers of the Company, or directors or executive officers of the Company's subsidiary.

The number of stock options granted by type of shares is 199,900 shares of common stock.

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

Exercise price:	¥1 ($0.01)
Average stock price on the date the option was exercised:	¥802 ($7.06)
Fair value at the grant date:	¥444 ($3.91)

A summary of the scale and movement of the stock option plan for the year ended February 29, 2016 is as follows:

	2011 stock option plan (No. 9)
Non-vested (shares):	
Outstanding at February 28, 2015	115,800
Granted	—
Forfeited	—
Vested	16,100
Outstanding at February 29, 2016	99,700
Vested (shares):	
Outstanding at February 28, 2015	51,300
Vested	16,100
Exercised	5,700
Forfeited	—
Outstanding at February 29, 2016	61,700

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

2010 Stock Option Plan (No. 8)

Under the 2010 stock option plan (No. 8), stock options were granted to five 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.

The number of stock options granted by type of shares is 115,800 shares of common stock.

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

Exercise price:	¥1 ($0.01)
Average stock price on the date the option was exercised:	¥731 ($6.43)
Fair value at the grant date:	¥613 ($5.40)

A summary of the scale and movement of the stock option plan for the year ended February 29, 2016 is as follows:

	2010 stock option plan (No. 8)
Non-vested (shares):	
Outstanding at February 28, 2015	52,300
Granted	—
Forfeited	—
Vested	—
Outstanding at February 29, 2016	52,300
Vested (shares):	
Outstanding at February 28, 2015	19,700
Vested	—
Exercised	4,000
Forfeited	—
Outstanding at February 29, 2016	15,700

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

2010 Stock Option Plan (No. 7)

Under the 2010 stock option plan (No. 7), stock options were granted to eight 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.

The number of stock options granted by type of shares is 194,600 shares of common stock.

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

Exercise price:	¥1 ($0.01)
Average stock price on the date the option was exercised:	¥719 ($6.33)
Fair value at the grant date:	¥475 ($4.18)

A summary of the scale and movement of the stock option plan for the year ended February 29, 2016 is as follows:

	2010 stock option plan (No. 7)
Non-vested (shares):	
Outstanding at February 28, 2015	94,000
Granted	—
Forfeited	—
Vested	17,600
Outstanding at February 29, 2016	76,400
Vested (shares):	
Outstanding at February 28, 2015	52,300
Vested	17,600
Exercised	17,500
Forfeited	—
Outstanding at February 29, 2016	52,400

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 five 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.

The number of stock options granted by type of shares is 155,000 shares of common stock.

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

Exercise price:	¥1 ($0.01)
Fair value at the grant date:	¥432 ($3.80)

Notes to Consolidated Financial Statements

A summary of the scale and movement of the stock option plan for the year ended February 29, 2016 is as follows:

	2009 stock option plan (No. 6)
Non-vested (shares):	
Outstanding at February 28, 2015	72,000
Granted	—
Forfeited	—
Vested	—
Outstanding at February 29, 2016	72,000

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.

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.

The number of stock options granted by type of shares is 268,900 shares of common stock.

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

Exercise price:	¥1 ($0.01)
Average stock price on the date the option was exercised:	¥713 ($6.28)
Fair value at the grant date:	¥362 ($3.19)

A summary of the scale and movement of the stock option plan for the year ended February 29, 2016 is as follows:

	2009 stock option plan (No. 5)
Non-vested (shares):	
Outstanding at February 28, 2015	100,300
Granted	—
Forfeited	—
Vested	15,900
Outstanding at February 29, 2016	84,400
Vested (shares):	
Outstanding at February 28, 2015	50,900
Vested	15,900
Exercised	34,000
Forfeited	—
Outstanding at February 29, 2016	32,800

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.

The number of stock options granted by type of shares is 91,100 shares of common stock.

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

Exercise price:	¥1 ($0.01)
Average stock price on the date the option was exercised:	¥709 ($6.24)
Fair value at the grant date:	¥905 ($7.97)

A summary of the scale and movement of the stock option plan for the year ended February 29, 2016 is as follows:

	2008 stock option plan (No. 4)
Non-vested (shares):	
Outstanding at February 28, 2015	28,300
Granted	—
Forfeited	—
Vested	5,000
Outstanding at February 29, 2016	23,300
Vested (shares):	
Outstanding at February 28, 2015	10,000
Vested	5,000
Exercised	6,600
Forfeited	—
Outstanding at February 29, 2016	8,400

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 five 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.

The number of stock options granted by type of shares is 70,000 shares of common stock.

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

Exercise price:	¥1 ($0.01)
Fair value at the grant date:	¥944 ($8.31)

A summary of the scale and movement of the stock option plan for the year ended February 29, 2016 is as follows:

	2008 stock option plan (No. 3)
Non-vested (shares):	
Outstanding at February 28, 2015	32,000
Granted	—
Forfeited	—
Vested	—
Outstanding at February 29, 2016	32,000

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.

2007 Stock Option Plan (No. 2)

Under the 2007 stock option plan (No. 2), stock options were granted to five directors and two 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 of the Company.

The number of stock options granted by type of shares is 40,000 shares of common stock.

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

Exercise price:	¥1 ($0.01)
Average stock price on the date the option was exercised:	¥796 ($7.01)
Fair value at the grant date:	¥1,284 ($11.30)

A summary of the scale and movement of the stock option plan for the year ended February 29, 2016 is as follows:

	2007 stock option plan (No. 2)
Non-vested (shares):	
Outstanding at February 28, 2015	16,600
Granted	—
Forfeited	—
Vested	—
Outstanding at February 29, 2016	16,600
Vested (shares):	
Outstanding at February 28, 2015	1,500
Vested	—
Exercised	1,500
Forfeited	—
Outstanding at February 29, 2016	—

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 two 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 of the Company.

The number of stock options granted by type of shares is 63,000 shares of common stock.

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

Exercise price:	¥1 ($0.01)
Average stock price on the date the option was exercised:	¥796 ($7.01)
Fair value at the grant date:	¥1,541 ($13.56)

A summary of the scale and movement of the stock option plan for the year ended February 29, 2016 is as follows:

	2006 stock option plan (No. 1)
Non-vested (shares):	
Outstanding at February 28, 2015	14,500
Granted	—
Forfeited	—
Vested	—
Outstanding at February 29, 2016	14,500
Vested (shares):	
Outstanding at February 28, 2015	1,000
Vested	—
Exercised	1,000
Forfeited	—
Outstanding at February 29, 2016	—

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

18. Segment Information

(1) Summary of reportable segments
The Companies' reportable segments are components for which separate financial information is available and regular evaluation by the Board of Directors is performed to decide how management resources are allocated and to assess performance.

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

The reportable segments of the Companies comprise the "Apparel Business," which has been divided geographically into three categories, "Japan," "Europe," and "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. The "Other Business" operates the logistics, sports facilities and resort facilities businesses.

(2) Method of calculating net 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 "2. Summary of Significant Accounting Policies."

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

(3) Information on net sales, profit or loss, assets, liabilities and other items by reportable segment for the years ended February 28, 2015 and February 29, 2016 is as follows:

	Millions of yen							
	Apparel							
For the year ended February 28, 2015	Japan	Europe	Asia/North America	Total	Other	Total	Adjustments (Note 1)	Consolidated total (Note 3)
Net sales to outside customers	¥211,019	¥45,338	¥ 7,944	¥264,301	¥17,201	¥281,502	¥ —	¥281,502
Intersegment sales or transfers	1,343	2,485	611	4,439	8,090	12,529	(12,529)	—
Total	¥212,362	¥47,823	¥ 8,555	¥268,740	¥25,291	¥294,031	¥ (12,529)	¥281,502
Segment income (loss)	¥ 10,573	¥ 62	¥(1,838)	¥ 8,797	¥ 390	¥ 9,187	¥ (3,455)	¥ 5,732
Segment assets	¥151,869	¥38,028	¥ 5,725	¥195,622	¥36,307	¥231,929	¥108,925	¥340,854
Depreciation and amortization (Note 2)	¥ 4,158	¥ 1,104	¥ 484	¥ 5,746	¥ 1,072	¥ 6,818	¥ 401	¥ 7,219
Investments in equity-method affiliates	8,970	73	—	9,043	—	9,043	—	9,043
Increases in property, plant and equipment, and intangible assets (Note 2)	10,140	841	520	11,501	778	12,279	14,605	26,884

(Notes) 1. Adjustments consist of the following:

(1) The adjustment amount for segment income (loss) of ¥(3,455) million includes amortization of goodwill of ¥(3,327) million, elimination of intersegment transactions of ¥3,859 million, and corporate expenses not allocated to reportable segments of ¥(3,987) million. Corporate expenses are mainly general administrative expenses that are not attributable to reportable segments.

(2) The adjustment amount for segment assets of ¥108,925 million includes the unamortized balance of goodwill of ¥26,569 million, elimination of intersegment transactions of ¥(134,150) million, and corporate assets not allocated to reportable segments of ¥216,506 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 (loss) coincides with the amount of operating income in the consolidated statement of operations.

	Millions of yen							
	Apparel							
For the year ended February 29, 2016	Japan	Europe	Asia/North America	Total	Other	Total	Adjustments (Note 1)	Consolidated total (Note 3)
Net sales to outside customers	¥201,824	¥39,682	¥6,962	¥248,468	¥15,048	¥263,516	¥ —	¥263,516
Intersegment sales or transfers	1,362	1,952	492	3,806	6,300	10,106	(10,106)	—
Total	¥203,186	¥41,634	¥7,454	¥252,274	¥21,348	¥273,622	¥(10,106)	¥263,516
Segment income (loss)	¥ 7,010	¥ (697)	¥ (755)	¥ 5,558	¥ 629	¥ 6,187	¥ (2,409)	¥ 3,778
Segment assets	¥148,688	¥38,669	¥4,481	¥191,838	¥26,562	¥218,400	¥ 95,054	¥313,454
Depreciation and amortization (Note 2)	¥ 4,722	¥ 1,035	¥ 547	¥ 6,304	¥ 993	¥ 7,297	¥ 502	¥ 7,799
Investments in equity-method affiliates	8,726	73	—	8,799	—	8,799	—	8,799
Increases in property, plant and equipment, and intangible assets (Note 2)	12,501	1,824	250	14,575	741	15,316	639	15,955

	Thousands of U.S. dollars							
	Apparel							
For the year ended February 29, 2016	Japan	Europe	Asia/North America	Total	Other	Total	Adjustments (Note 1)	Consolidated total (Note 3)
Net sales to outside customers	$1,776,304	$349,251	$61,275	$2,186,830	$132,445	$2,319,275	$ —	$2,319,275
Intersegment sales or transfers	11,984	17,179	4,334	33,497	55,450	88,947	(88,947)	—
Total	$1,788,288	$366,430	$65,609	$2,220,327	$187,895	$2,408,222	$ (88,947)	$2,319,275
Segment income (loss)	$ 61,695	$ (6,138)	$ (6,644)	$ 48,913	$ 5,540	$ 54,453	$ (21,202)	$ 33,251
Segment assets	$1,308,646	$340,340	$39,440	$1,688,426	$233,776	$1,922,202	$836,592	$2,758,794
Depreciation and amortization (Note 2)	$ 41,564	$ 9,109	$ 4,814	$ 55,487	$ 8,741	$ 64,228	$ 4,417	$ 68,645
Investments in equity-method affiliates	76,794	644	—	77,438	—	77,438	—	77,438
Increases in property, plant and equipment, and intangible assets (Note 2)	110,024	16,055	2,196	128,275	6,526	134,801	5,624	140,425

(Notes) 1. Adjustments consist of the following:

(1) The adjustment amount for segment income (loss) of ¥(2,409) million ($(21,202) thousand) includes amortization of goodwill of ¥(3,027) million ($(26,638) thousand), elimination of intersegment transactions of ¥4,266 million ($37,548 thousand), and corporate expenses not allocated to reportable segments of ¥(3,648) million ($(32,112) thousand). Corporate expenses are mainly general administrative expenses that are not attributable to reportable segments.

(2) The adjustment amount for segment assets of ¥95,054 million ($836,592 thousand) includes the unamortized balance of goodwill of ¥15,652 million ($137,758 thousand), elimination of intersegment transactions of ¥(117,485) million ($(1,034,017) thousand), and corporate assets not allocated to reportable segments of ¥196,887 million ($1,732,851 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 statement of operations.

(4) Segment information by geographical area for the years ended February 28, 2015 and February 29, 2016 is as follows:
(a) Sales

For the year ended February 28, 2015 — Millions of yen

Japan	Europe	Other	Total
¥223,620	¥29,213	¥28,669	¥281,502

For the year ended February 29, 2016 — Millions of yen

Japan	Europe	Other	Total
¥212,199	¥26,187	¥25,130	¥263,516

For the year ended February 29, 2016 — Thousands of U.S. dollars

Japan	Europe	Other	Total
$1,867,623	$230,477	$221,175	$2,319,275

(b) Property, plant and equipment

For the year ended February 28, 2015 — Millions of yen

Japan	Europe	Other	Total
¥89,448	¥8,843	¥11,367	¥109,658

For the year ended February 29, 2016 — Millions of yen

Japan	Europe	Other	Total
¥87,385	¥8,324	¥10,986	¥106,695

For the year ended February 29, 2016 — Thousands of U.S. dollars

Japan	Europe	Other	Total
$769,096	$73,263	$96,693	$939,052

(5) Segment information on impairment losses on property, plant and equipment by reportable segment for the years ended February 28, 2015 and February 29, 2016 is as follows:

	Millions of yen						
	Apparel					Unallocated amounts and elimination	
For the year ended February 28, 2015	Japan	Europe	Asia/North America	Total	Other		Total
Impairment loss	¥632	¥—	¥216	¥848	¥12	¥800	¥1,660

	Millions of yen						
	Apparel					Unallocated amounts and elimination	
For the year ended February 29, 2016	Japan	Europe	Asia/North America	Total	Other		Total
Impairment loss	¥1,720	¥—	¥288	¥2,008	¥—	¥12,043	¥14,051

	Thousands of U.S. dollars						
	Apparel					Unallocated amounts and elimination	
For the year ended February 29, 2016	Japan	Europe	Asia/North America	Total	Other		Total
Impairment loss	$15,138	$—	$2,540	$17,678	$—	$105,993	$123,671

Independent Auditor's Report

Building a better working world

Ernst & Young ShinNihon LLC
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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 29, 2016, and the consolidated statements of operations, 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 29, 2016, 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, 2016

Main Subsidiaries

As of August 31, 2016

Japan

Onward Kashiyama Co., Ltd.
3-10-5 Nihonbashi, Chuo-ku, Tokyo 103-8239, Japan
Tel: (81) 3-4512-1020

Onward Trading Co., Ltd.
2-10-10 Iidabashi, Chiyoda-ku, Tokyo 102-8115, Japan
Tel: (81) 3-5266-1333

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

Onward Global Fashion Co., Ltd.
4th Floor, 313 Minami-Aoyama Building,
3-13-18 Minami-Aoyama,
Minato-ku, Tokyo 107-0062, Japan
Tel: (81) 3-6406-0350

Creative Yoko Co., Ltd.
667-16 Takada, Nagano City,
Nagano 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.
Onden Imaizumi Building, 5-7-4 Jingumae,
Shibuya-ku, Tokyo 150-0001, Japan
Tel: (81) 3-6712-6981

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

Intimates Co., Ltd.
6th Floor, VORT Aobadai Building, 3-10-9 Aobadai,
Meguro-ku, Tokyo 153-0042, Japan
Tel: (81) 3-5428-6611

Sakula Inc.
2nd Floor, No. 2 Daigai Building, 1-11-3 Jinnan,
Shibuya-ku, Tokyo 150-0041, Japan
Tel: (81) 3-3464-8972

O & K Co., Ltd.
3-10-5 Nihonbashi, Chuo-ku, Tokyo 103-8239, Japan
Tel: (81) 3-4512-1130

Onward Resort & Golf Co., Ltd.
3-10-5 Nihonbashi, Chuo-ku, Tokyo 103-8239, Japan
Tel: (81) 3-4512-1130

Onward Creative Center Co., Ltd.
3-10-5 Nihonbashi, Chuo-ku, Tokyo 103-8239, Japan
Tel: (81) 3-4512-1140

Onward Life Design Network Co., Ltd.
3-10-5 Nihonbashi, Chuo-ku, Tokyo 103-8239, Japan
Tel: (81) 3-4512-1133

Bien Co., Ltd.
3-10-5 Nihonbashi, Chuo-ku, Tokyo 103-8239, Japan
Tel: (81) 3-4512-1120

O.P.S. Co., Ltd.
3-14-21 Kaigan, Minato-ku, Tokyo 108-8439, Japan
Tel: (81) 3-5476-6131

Onward J Bridge Co., Ltd.
3-14-21 Kaigan, Minato-ku, Tokyo 108-8439, Japan
Tel: (81) 3-5476-5370

Tiaclasse Inc.
Senri Asahi Hankyu Building, 1-5-3 Shinsenri Higashimachi,
Toyonaka-shi, Osaka 560-0082, Japan
Tel: (81) 6-6873-5566

Overseas

Europe

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

Onward Luxury Group S.p.A.
Via Cassia 69, 50029 Tavarnuzze, Firenze, Italy
Tel: (39) 055-237-2020

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

Freed of London Ltd.
35 Rydal Street,
Leicester LE2 7DY, U.K.
Tel: (44) 116-254-8010

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

Asia

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

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

Onward Fashion Trading (Shanghai) Co., Ltd.
14th Floor, Onward Building,
No. 1238, Danba Road, Putuo District,
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, Tsim Sha Tsui, Kowloon,
Hong Kong, People's Republic of China
Tel: (852) 2367-2055

Onward Kashiyama Korea Co., Ltd.
Songsan B/D, Seochojungang-ro 61, Seocho-gu,
Seoul, 06651, Republic of Korea
Tel: (82) 2-548-5841

Onward Kashiyama Singapore Pte. Ltd.
150 Orchard Road, #07-18 Orchard Plaza,
Singapore 238841
Tel: (65) 6838-0690

Onward Kashiyama Vietnam Ltd.
10th Floor, 60 Nguyen Dinh Chieu Street,
District 1, Ho Chi Minh City, Vietnam
Tel: (84) 8-3911-8857

United States

J. Press, Inc.
3rd Floor, 8 Crosby Street,
New York, NY10013, U.S.A.
Tel: (1) 212-997-3600

Onward U.S.A. L.L.C.
3rd Floor, 8 Crosby Street,
New York, NY10013, 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 29, 2016

Head Office	10-5, Nihonbashi 3-chome, Chuo-ku, Tokyo 103-8239, Japan Tel: (81) 3-4512-1020 Fax: (81) 3-4512-1021 URL: http://www.onward-hd.co.jp/site/english/
Established	September 1947
Capital	¥30,080 million
Common Stock	Authorized— 400,000,000 shares Issued—167,921,669 shares Note: The total number of issued and outstanding shares included 13,767,509 shares of treasury stock.
Number of Shareholders	10,952
Stock Exchange Listings	Tokyo, Nagoya
Transfer Agent	Mitsubishi UFJ Trust & Banking Co., Ltd. 10-11, Higashisuna 7-chome, Koto-ku, Tokyo 137-8081, Japan
Number of Employees (Consolidated)	5,119

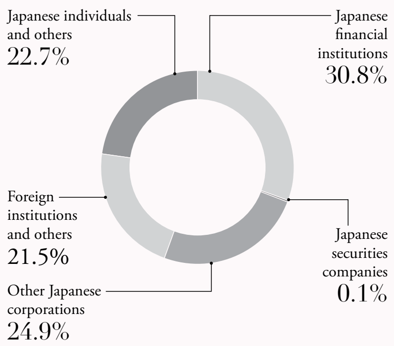
Major Shareholders

	Number of Shares Held (Thousands)	Percentage of Total Shares Issued (%)
Kashiyama Scholarship Foundation	8,710	5.6
Japan Trustee Services Bank, Ltd. (Trust account)	7,186	4.6
Japan Trustee Service Bank, Ltd. (Trust account9)	6,102	3.9
Isetan Mitsukoshi, Ltd.	5,001	3.2
Nippon Life Insurance Company	4,671	3.0
BNYML-NON TREATY ACCOUNT	4,664	3.0
The Master Trust Bank of Japan, Ltd. (Trust account)	4,569	2.9
The Dai-ichi Mutual Life Insurance Company Ltd.	4,200	2.7
Onward Holdings Customers' Shareholding Association	4,149	2.6
MARUI GROUP CO., LTD.	3,417	2.2

Notes:
1. The Company holds 13,767,509 shares of treasury stock. Treasury stock is not included in the above Major Shareholders information.
2. Percentage of total shares issued is calculated after deducting 13,767,509 shares of treasury stock.

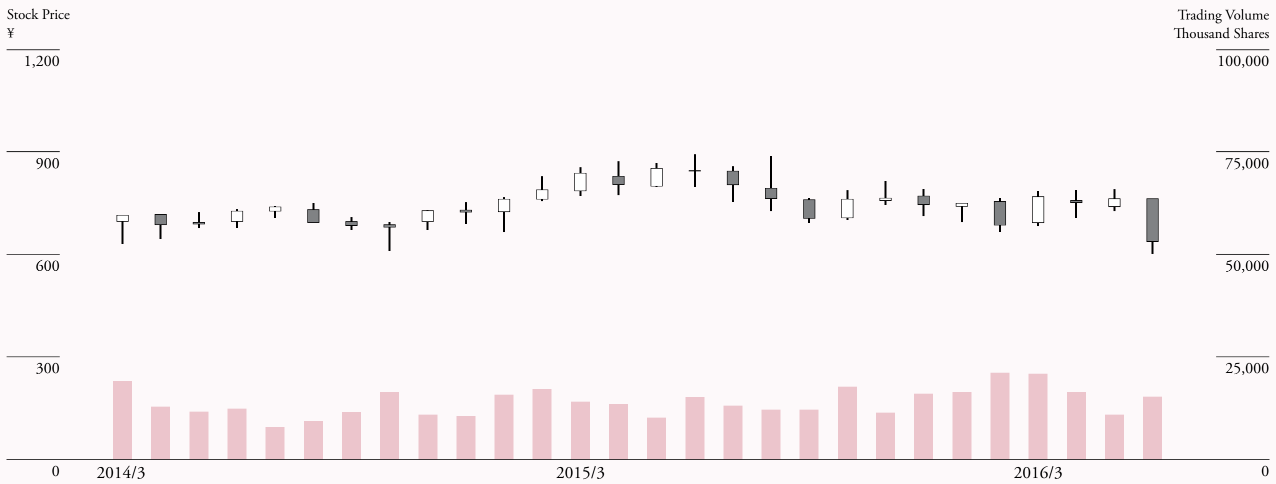
Distribution of Ownership among Shareholders

(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 second sections of 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 first sections of 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 Guam, Inc.).
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 holding company structure through corporate restructuring under new company name, Onward Holdings Co., Ltd.
		Established 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 controlling interest in Island Co., Ltd.
2010	June	Established Onward Kashiyama Singapore Pte. Ltd.
2011	August	Established Onward Kashiyama Vietnam Ltd.
2012	April	Acquired controlling interest in Birz Group, including Birz Association Ltd.
	May	Established Onward Fashion Trading (Shanghai) Co., Ltd.
	December	Established Charles & Keith Japan Co., Ltd.
2013	February	Acquired Sakula Inc.
	June	Established Onward Luxury Group S.p.A.
2014	March	Established Onward Global Fashion Co., Ltd.
	November	Completed Onward Park Building (Head Office building in Nihonbashi district of Tokyo).
2015	March	Michinobu Yasumoto became president and representative director.
	September	Established Onward J Bridge Co., Ltd. (a joint venture company with Laox Co., Ltd.).

Onward Holdings Co., Ltd.

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10-5, Nihonbashi 3-chome, Chuo-ku,
Tokyo 103-8239, Japan
Tel: (81) 3-4512-1020
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