



—ONWARD—

ANNUAL REPORT 2018

Year Ended February 28, 2018

Onward Holdings Co., Ltd.



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ONWARD ADS BRAND
LAUNCH PARTY 2018 in Tokyo

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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.

Onward at a Glance

(Fiscal year ended February 28, 2018)

The Onward Group is the apparel manufacturer and retailer that built the very foundations for the manufacture and sale of ready-made clothing in Japan. Today, we continue to be recognized as a leading company in the industry specializing in high-value-added products with outstanding quality, and we are more than able to compete in apparel markets around the world. Our business model encompasses all stages of the apparel value chain, including planning, design, production, and sales. The Onward Group also prides itself on its lineup of products and services that interconnect with various areas of people's lives. This fashion-oriented lineup includes men's, women's, and children's clothing and accessories as well as uniforms, dance wear, pet-fashion items, and others.

Founding

1927

Number of Employees

4,530 people

Number of Stores

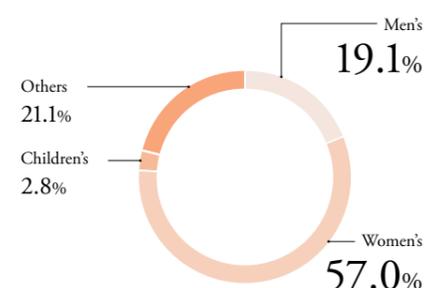
3,127 stores
in 25 countries and regions

Main CSR Activities

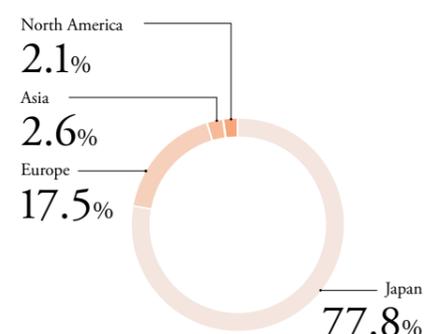
- ▶ Item collection for recycling and reuse via Onward Green Campaign
(See pages 41–42 for details)
- ▶ Factory auditing through the Onward-Approved Factory System
(See pages 38–39 for details)

Sales Breakdown

By Clothing Type in the Apparel Business

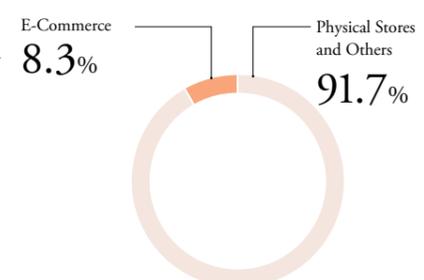


By Geographic Region



By Sales Channel

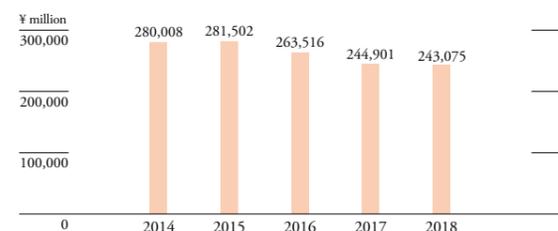
The ratio of sales conducted through directly operated online stores



Basis	Percentage
Groupwide basis	75%
Onward Kashiyama	85%

Financial Figures

Net Sales



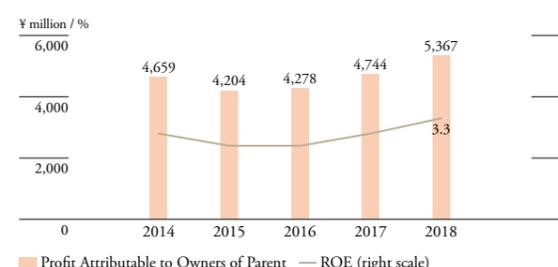
¥ 243,075 million
(-0.7% YoY)

Operating Profit and Operating Margin



¥ 5,167 million
(+22.9% YoY)

Profit Attributable to Owners of Parent and ROE

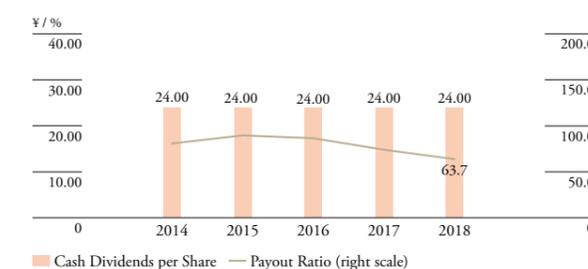


¥ 5,367 million
(+13.1% YoY)

Total Net Assets and Shareholders' Equity Ratio



Cash Dividends per Share and Payout Ratio



A Letter to Our Shareholders



Takeshi Hirouchi
Representative Director, Chairman

Dear Shareholders,

In the latter part of 2017, apparel sales at department stores climbed above the previous year's levels, indicating an increased willingness to spend among the middle class. This trend brought with it hope for an escape from deflation.

Looking ahead, it will be crucial for the current tailwind blowing through the economy to be tied to a substantive recovery in consumption.

The fashion business has entered into a period of great transformation characterized by the rapid development of AI and IoT technologies. At the same time, the diversification of customer needs is placing increased importance on the ability for apparel manufacturers and retailers to satisfy the individual needs of customers.

Given these circumstances, the Onward Group has turned its attention to the increasing demand for customization and personalization. We prepared for this trend with the launch of our new KASHIYAMA the Smart Tailor brand in fall 2017. Under this brand in the menswear field, which was the point of departure for the Onward Group's apparel business, we provide high-quality, made-to-order suits at affordable prices within short delivery times.

Moving forward, we will muster the collective strength of the Onward Group to develop KASHIYAMA the Smart Tailor into a global flagship brand for our Omni-channel retailing strategy.

We are committed to further enhancing the craft we have honed thus far in our capacity as a lifestyle culture enterprise embodying the apparel industry of the future.

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

August 2018

Takeshi Hirouchi
Representative Director, Chairman

A Message from the President



Michinobu Yasumoto
Representative Director, President

With a clear view of its operating environment, Onward will heighten its profitability through growth strategies that are in step with technological advancements and market changes.

The operating environment for the apparel industry continues to transform as the aging of Japan's population and the decline in the birth rate shrink the overall population and because consumer values grow more diverse. Faced with this reality, the Onward Group will maximize the brand value and customer base it has cultivated to date in order to advance growth strategies and structural reforms aimed at future growth. I would like to take this opportunity to talk about our business results in fiscal year 2018 and to explain the measures that we will implement going forward.

Review of Fiscal Year 2018

Even in the midst of a challenging operating environment, we succeeded in increasing full-year profit through growth strategies and structural reforms.

In fiscal year 2018, net sales decreased 0.7% year on year, to ¥243.1 billion, which was 1.6% higher than the target, while operating profit increased 22.9%, to ¥5.2 billion, and profit attributable to owners of parent rose 13.1%, to ¥5.4 billion. Net sales were affected by a sales reduction of ¥8.2 billion stemming from efforts to reorganize underperforming brands and stores as one part of the structural reforms kicked off in 2017 as well as a ¥3.8 billion increase resulting from foreign exchange rate fluctuations. If these factors are excluded, net sales were up ¥2.6 billion. Profit benefited from e-commerce and other growth strategies as well as from the aforementioned structural reforms, which drove increases in all profit figures.

On the topic of structural reforms, the drastic revision of our inventory management system proved to be greatly beneficial for the Company. For years, Onward Kashiyama had employed a system in which regional branches were responsible for ordering products from brand business divisions, managing their inventories, and holding bargain sales and otherwise ensuring that no products go unsold. To address this situation, we have begun integrating inventory control

through organizational reforms. A goal of these reforms will be to share inventory data between physical and e-commerce stores in order to prevent lost sales opportunities and thereby strengthen e-commerce, which is a focus of our growth strategies.

In the overseas business, the operating environment for the apparel industry is undergoing substantial change, as indicated by such developments as the rapid progress of the digitalization trend. We still need time to address this change, and operating profit decreased ¥1.3 billion in Europe, ¥0.4 billion in Asia, and ¥0.1 billion in the United States as we have not yet furnished a response. Overall, operating profit were down ¥1.8 billion year on year in the overseas business. We plan to address this situation with drastic business reforms going forward.

The European business—our largest overseas business—comprises manufacturing divisions dealing in luxury brands as well as brand divisions, such as JIL SANDER and JOSEPH. Our manufacturing divisions boast a manufacturing platform steeped in masterful manufacturing techniques. Reforms in these divisions will thus be implemented through a detailed approach looking carefully at each and every factory in this platform to determine how they can be adapted to better meet market needs. We will improve profitability in our manufacturing divisions via this approach. As for brands, we enhanced the JIL SANDER creative team from 2018 spring / summer collection. The products announced by this new team have won strong praise

A Message from the President

from the fashion market. The biggest challenge going forward in this area will be accelerating business strategies by delivering these appealing items to a wide range of markets.

The overseas business is a linchpin in the Onward Group's overall growth strategies. We will therefore be taking swift action as we revise human resource management practices and governance systems to quickly improve the profitability of this business.

Acceleration of E-Commerce Operations

Onward will pursue growth by enhancing its directly operated e-commerce website and collecting and utilizing customer data.

In fiscal year 2018, sales from the Onward Group's e-commerce operations rose to ¥20.3 billion, a 37% year-on-year increase. This impressive performance was in part a result of measures to enhance Onward Crosset, our directly operated e-commerce website. These measures included the integration of physical and online store inventories, which allowed for more efficient inventory control and thus led to a reduction in lost sales opportunities; the expansion of our lineup of pre-order and online-exclusive items; the enhancement of sales promotion campaigns linked with the so-called Premium Friday*¹; and the effective utilization of online bargain sales. Moreover, these measures enable us to increase our online marketing expertise on a daily basis, which in turn heightens the effectiveness of our efforts.

The ratio of total e-commerce sales conducted through directly operated online stores in fiscal year 2018 was 75% on a Groupwide basis and 85% when looking at Onward Kashiyama alone. This high portion of sales attributable to directly operated online stores is a result of our focus on our own e-commerce operations over the past decade. Rather than relying on e-commerce platform holders outside of the Group, the Onward Group has sought to attract customers and perform sales on its own, collecting sales records and other data through this process. The customer data we have accumulated while performing sales through directly operated online stores will be a powerful asset for accelerating future marketing strategies for our e-commerce operations. At the same time, the number of customers of the Onward Members' loyalty point card system, in which we manage the customer bases at physical stores and their

e-commerce equivalents in an integrated manner, rose 28% year on year, climbing above 2 million. We plan to continue growing customer numbers at this pace in the future, targeting 3 million, 5 million, and eventually more customers. However, the goal of this growth is not just to acquire more customers. We plan to analyze the massive amounts of customer information as big data for use in product development and sales promotions to help the Onward Group provide even better products and services. Through these efforts, we aim to claim a leading position in the apparel industry. With this goal in mind, we will be accelerating our e-commerce initiatives, which will include concentrated investments and human resource development, in fiscal year 2019 and beyond.

*1 Premium Friday: A consumption stimulus campaign promoted by the Ministry of Economy, Trade and Industry, Keidanren (Japan Business Federation), and other economic organizations that entails encouraging companies to end their workday at 3 p.m. on the last Friday of each month.

Promotion of Logistics Reforms

We are promoting logistics efficiency while also bolstering in-house capabilities.

In March 2018, Onward Kashiyama consolidated its logistics network, reducing the number of locations from 11 to four and transitioning from the prior structure, which entailed management of inventories by regional branch, to a structure based on centralized control by brand business divisions. This move reduced the amount of warehousing work that needed to be performed by regional branches. In addition, we consolidated our e-commerce warehouses in August 2018, thereby integrating inventories for physical stores and e-commerce operations. On this front, we will continue efforts to prevent the loss of possible sales opportunities while accelerating our shift toward Omni-channel retailing.

In conjunction with these structural reforms, we finished attaching RFID tags to all of our products, which entailed the deployment of around 17 million tags. Such a comprehensive and widespread introduction of an RFID system*² is an unprecedented feat in the industry. We have also installed RFID reader gates at all warehouses, improving efficiency with regard to logistics functions such as the storage, retrieval, and return of products. Looking ahead, we hope to utilize RFID systems to reduce the workload associated

with in-store inventories and to implement workstyle reforms.

In our overseas production operations, we are developing a one-stop procurement system in Chinese customs areas while utilizing our logistics centers to shorten delivery times and reduce costs through improved procurement efficiency. We plan to introduce a similar scheme in Vietnam during the first half of fiscal year 2020.

*2 RFID (radio frequency identification) systems: Systems that automatically read identification information recorded in IC tags through wireless communication and which are used for supply chain management in the retail industry, production management in the manufacturing industry, and traceability in the distribution industry

Development of New Businesses

We aim to develop new businesses with the potential to become future core businesses by leveraging the technological prowess we have developed to date.

We, of course, are dedicated to enhancing existing brands and online marketing strategies. At the same time, however, we plan to develop new businesses with the potential to form future earnings pillars. One recent topic is the made-to-order suit business operated under our KASHIYAMA the Smart Tailor brand.

In this business, we coordinate the factory operations of Kashiyama (Dalian) Co., Ltd., which converted to a wholly owned subsidiary in August 2016, located in Dalian, China, by utilizing an advanced IT system for receiving orders directly from customers to deliver made-to-order suits to customers after a week. Made-to-order products are garnering attention as customers' values grow more diverse, and we therefore believe that this business has significant potential to grow. After full-fledged operation of the Dalian factory commences in fiscal year 2019, the Onward Group will engage in a concerted effort to develop the made-to-order suit business into a core business in the future.

Financial Strategy

We will continue to institute various measures to improve return on equity.

The basic financial strategy of the Onward Group is to conduct aggressive up-front growth investments to increase future earnings

and issue ongoing, consistent, and appropriate shareholder returns all while maintaining a stable financial base.

Over the past two years, we have been able to reduce the negative amount of net cash by around ¥20.0 billion, and return on equity, or ROE, in fiscal year 2018 was 3.3%, a year-on-year improvement of 0.5 percentage point. Boosting operating profit will be part of our efforts to improve ROE. We will also continue to examine such options as selling investments in securities, liquidating assets, and acquiring and canceling treasury stock. Our initial target for ROE is 5%, which we aim to realize as soon as possible, after which we will seek to raise ROE to 8%. Treasury stock acquisitions were an option we used in the past, and we will position them as important aspects of shareholder returns. Accordingly, we will continue to flexibly conduct acquisitions based on thorough consideration of the future uses of such stocks as well as holding ratios and market capitalization.

Going forward, the Onward Group stands committed to improving corporate value through the provision of high-quality products and services, among other initiatives. I hope we can look forward to your ongoing support as we advance on this quest.

August 2018



Michinobu Yasumoto
Representative Director, President

Our History

91st

The Onward Group is currently in its 91st year since its founding in 1927.

In this new decade of growth leading up to the 100th anniversary of our founding, we are still looking onward to the future as we move forward.

1927



Company founder Junzo Kashiyama

Founding

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

Events Seen in Each Era

- 1920s Roaring Twenties—World War II
- 1940s
 - Westernization of women's clothing trends (after the Great Kanto Earthquake in 1923—)
 - Great Depression originating in the United States (1929)
 - World War II (1939–1945)

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.



Grading machine modifies and cuts basic sewing patterns

- 1950s Post-war reconstruction—Japanese economic miracle
- 1960s
 - Start of mass-production boom (1950s—)
 - Ready-made clothing revolution for men's and women's clothing (1960s—)
 - Economic boom surrounding Summer Olympics in Tokyo (1962–1964)
 - Japan ranked No. 2 in the world for gross national product (1968)

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.



Onward Kashiyama's U.S. office



Bus Stop store on Boulevard Saint-Germain in Paris



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

- 1970s Pivot of change—Japanese asset price bubble
- 1980s
 - Oil crisis (1973)
 - Plaza Accord (1985)
 - Enactment of Act on Securing, Etc. of Equal Opportunity and Treatment between Men and Women in Employment (1986)
 - Emergence of prominent Japanese designers
 - Spread of luxury fashion

Our History

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.



Launches Kumikyoku, 1992



Launches Nijyusanku, 1993

Department stores begin expanding womenswear floor spaces and emphasizing new brands from Japanese makers. Thanks to this trend, Onward Kashiwama's store numbers grow rapidly after the launch of the new brands, and this impressive growth forms the foundations for future advancement.

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 beginning 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.



Acquires Jil Sander Group, 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.



Acquires Joseph Group, 2005



Acquires Island Co., Ltd., 2009

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 Group brands, launches in 2014.

Through this and other initiatives, the Onward Group proceeds to expand its



Launches Onward Crosset, 2009

customer base while accelerating its Omni-channel retailing strategy, which merges the strengths of online stores and physical stores. The evolution of the Omni-channel retailing strategy leads to the start of KASHIYAMA the Smart Tailor, a brand offered based on a new business model in which made-to-order suits are offered at physical stores, through visits to a customer's office or home, and on e-commerce sites.

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



Opens Nijyusanku Ginza store, 2011



KASHIYAMA the Smart Tailor from 2017

1990s Bubble collapse—Post-bubble recession

- Release of Windows 95 (1995)
- Rapid spread of the Internet among the general public
- Diversification of retail channels and emergence of specialty retailers selling private label apparel

2000s

2001 Global information era

- Lehman Brothers bankruptcy and global financial crisis (2008)
- Mass consolidation and reorganization of Japanese department stores
- Burgeoning of fast fashion

2010s

2011 Fourth industrial revolution (Industry 4.0)

- Great East Japan Earthquake (2011)
- Annual inbound visitors to Japan exceed 20 million (2016)

Today

Core Brands

23 

LAUNCHED
1993

ANNUAL SALES
¥28.0 billion

NUMBER OF STORES
Over 200



Nijyusanku is the leading brand of Onward Kashiya. With working women in their 30s and 40s as its core target, the brand is based on the concept of creating a “Japanese women’s standard.” It thus seeks to capture the hearts of customers of all ages with its timeless and simple designs, which make for elegant and comfortable clothing that can be enjoyed by all. The brand’s flagship store, Nijyusanku GINZA, was opened in the Ginza district of Tokyo in April 2011.



JIL SANDER

LAUNCHED
1973

ANNUAL SALES
¥9.6 billion

NUMBER OF STORES
55

Founded by Ms. Jil Sander in Germany in 1973, 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. Lucie and Luke Meier have been the creative directors of JIL SANDER since the 2018 spring/summer collection.



gotairiku
五大陸

LAUNCHED
1992

ANNUAL SALES
¥4.6 billion

NUMBER OF STORES
109

Gotairiku is Onward Kashiya’s core men’s brand. Based on the concept of providing a “gentlemanly wardrobe for the businessmen that represent Japan,” this brand primarily features suits aimed at businessmen in their 40s.

JOSEPH

LAUNCHED
1972

ANNUAL SALES
¥15.6 billion

NUMBER OF STORES
154



JOSEPH

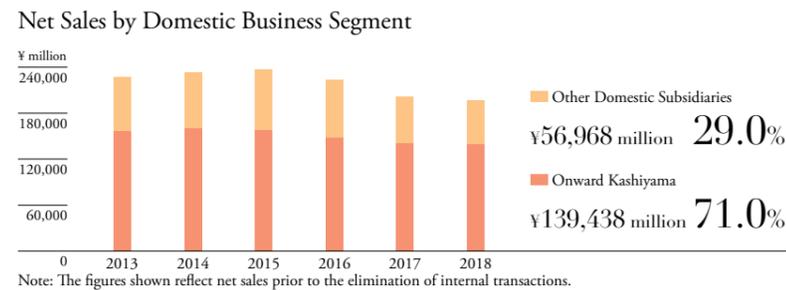
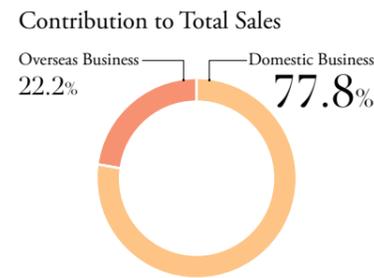
The JOSEPH brand grew from a small multi-brand store owned by Joseph Ettedgui in London. After the original label JOSEPH was launched with the concept of “SLICK&CHIC,” Onward Holdings acquired JOSEPH in 2005. The development of this brand in Japan is being undertaken by Onward Kashiya.



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

Our Business in Japan

The domestic business is our mainstay business, generating 77.8% of consolidated net sales. This business consists of 31 companies: core operating company Onward Kashiya as well as other domestic subsidiaries that make fashion proposals in a wide range of fields.



Onward Kashiya

Business Overview

Onward Kashiya is the Group's core operating company, generating 55% of consolidated net sales.

Engaged in planning, production, sales, and other activities related to delivering clothing of impeccable quality, Onward Kashiya supplies womenswear, menswear, children's clothing, and

accessories from private brands as well as licensed brands.

Our products are distributed through department stores, our main sales channel and an area of strength, and we are also stepping up distribution through the growing venue of e-commerce.

Future initiatives will be aimed at establishing operating foundations that are suited to the impending era of Omni-channel retailing. We will accomplish this objective by integrating the functions of

physical and online stores while boosting efficiency through logistics reforms and enhancing our product development capabilities as a manufacturer.

Performance and Outlook

In fiscal year 2018, the gross profit margin rose on the back of a strong performance in key and core brands. This performance was driven by the enhancement of product strategies to be more compatible with Omni-channel retailing, prevention of lost sales opportunities through more efficient inventory management, and growth in e-commerce sales.

At the same time, we moved ahead with structural reforms, reducing costs and thereby securing higher profits on a full-year basis.

In fiscal year 2019, we will seek to further improve efficiency by instituting logistics reforms to integrate management of inventories for physical stores and e-commerce operations and by utilizing RFID systems. This fiscal year will also see the launch of the Advanced System Project, which will take advantage of proprietary developed technologies to increase sales of full-priced items.



ICB Izutsuya Kokura Store

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.

Main Domestic Subsidiaries

Chacott, a manufacturer and retailer of ballet and other dance wear, is capitalizing on its high recognition as a manufacturer to broaden the scope of its business into



Grace Continental, the core brand of Island



Shirotan, the main character of Creative Yoko

yoga, healthcare, cosmetics, and other new fields. 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 offers a lineup of products for pets as well as an assortment of character goods and toys. This company seeks to expand its network of unique, large-scale integrated pet stores while also strengthening its character merchandise business. At Onward Trading, a leading domestic manufacturer of uniforms and sales promotion goods, the apparel expertise and product planning excellence cultivated by the Group are used to provide uniforms to suit any environment while striking the best balance between style and usability.



The uniform business of Onward Trading



Dance Cube Kachidoki of Chacott

Performance and Outlook

In fiscal year 2018, profitability improved due to stable performance among main domestic subsidiaries, the abolition of unprofitable subsidiaries, and contributions from a newly consolidated cosmetics business subsidiary.

In fiscal year 2019, we anticipate increased earnings from luxury brand businesses, which had been subject to business reorganizations leading up to fiscal year 2018. We will also pursue growth in high-potential fields.

Onward Crosset



Photographs of featured products taken at a photography studio that was relocated to an Onward Kashiya office in July 2018

Onward Crosset is our largest directly operated online shopping site. This site features a lineup of 103 brands, including key brands from Onward Kashiya and other domestic Group companies as well as select products from outside partners.

Onward Crosset was launched in December 2009 with a lineup of eight women's brands from Onward Kashiya.—① (Please see Transition of Onward Crosset and Related Functions on page 21) We then proceeded to expand this site's lineup of brands and products to include menswear, children's clothing, accessories, sportswear, and large- and

small-size items. In 2016, we started further enhancing this site's lineup by incorporating core brands from domestic Group companies, such as Island and Creative Yoko, and selections from outside partners.—②

In fiscal year 2018, sales through Onward Crosset increased 39% year on year and accounted for 85% of Onward Kashiya's e-commerce sales and 64% of the overall e-commerce sales of the Group, respectively. In addition, this site boasted 16,020,000 visits over the year, a lineup of 500,000 items, and 230,000 purchases from customers, indicating its continuously high potential for growth.

1 P. 19 Onward Crosset

P. 22 KASHIYAMA the Smart Tailor

P. 26 Advanced Down System Onward's Latest Product Innovation

SPECIAL FEATURE

Accelerated digitalization and globalization are transforming the apparel supply chain, and apparel companies are thus required to address these trends by quickly responding to customer demand and to diversity.

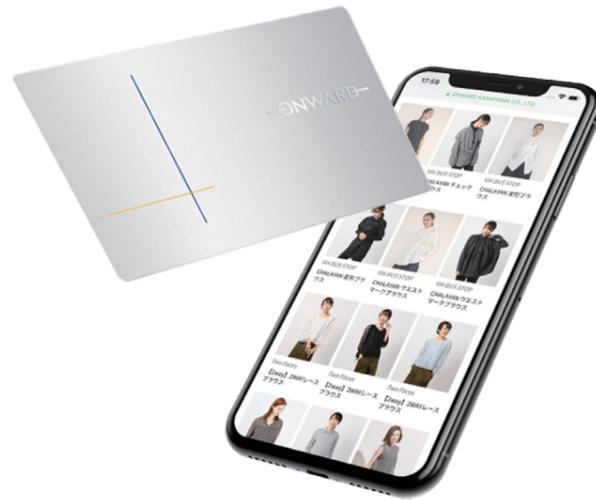
At the Onward Group, we are utilizing new technologies and networks to evolve our supply chain management so that we can more swiftly incorporate customer desires into our products and services. At the same time, we are leveraging our strengths as an apparel manufacturer to continuously offer customers "something new," by which we refer to high-quality and high-value-added products that set us apart from our competitors.

In this special feature, we will look at three initiatives that will shape the Onward of the future.

Improvement of Customer Management and Acceleration of Omni-Channel Retailing Strategies

The vast majority of customers who use Onward Crosset are enrolled in the Onward Members loyalty point card program. In April 2016, we integrated customer data from Onward Crosset with that of the Onward Members program to form a customer base that is shared between both our physical and e-commerce shopping venues.— ③

The integration of customer information and point services makes it possible to provide comprehensive access to Onward Members services through both e-commerce and physical stores, which in turn helps accelerate our Omni-channel retailing strategies. This benefit is indicated by the fact that approximately 40% of customers who made purchases through Onward Crosset in fiscal year 2018 also bought items at physical stores.



Increased Speed and Efficiency Realized through Evolution of Fulfillment Functions

In 2015, Onward Crosset was transitioned to a proprietary e-commerce platform, improving the accuracy of fulfillment functions, including inventory management, shipping, photographing, measuring, and customer support.— ④

The site was further transformed in July 2018, when we transferred Onward Crosset's photography and product measurement studio, sample warehouse, and customer support center to an Onward Kashiya office.— ⑤ This move was followed by the integration of e-commerce warehouse functions into the Narashino Logistics Center, our principal distribution base, in August of the same year.— ⑥

Through the transition and reconstruction of our fulfillment function system, we will pursue increased speed and efficiency in inventory allocation and in the restocking of strong-selling items by integrating e-commerce and physical store inventories. This move is also designed to ensure that we are able to provide high-quality product information and customer support.



Featured products measured using digital tape measurer. Measurements are then instantly digitized and made available for viewing through tablets.



Transition of Onward Crosset and Related Functions

December 2009 – ①
Launch of Onward Crosset with lineup of eight Onward Kashiya women's brands using EC operation support system of START TODAY CO., LTD. (currently ZOZO, Inc.)

(Expansion of lineup of brands and products)

September 2014
Start of Onward Members program

March 2015 – ⑨
Launch of Onward SHOP BLOG (currently staff-recommended outfit page)

August 2015 – ④
Transition to proprietary e-commerce platform
Commencement of sharing of information (inventory data, product images, etc.) with affiliated online shopping sites

March 2016 – ②
Start of offering brands of domestic Group companies and outside partners

April 2016
Launch of My Shop Registration system

April 2016 – ③
Integration of physical store and e-commerce site customer data into Onward Members program

July 2018 – ⑤
Transference of photography and measurement studio and customer support functions to Onward Kashiya office

August 2018 – ⑥
Integration of e-commerce warehouse functions into the Narashino Logistics Center and commencement of integration of e-commerce site and physical store inventories

September 2018 – ⑦
Commencement of mutual offering of products on e-commerce sites with STRIPE INTERNATIONAL INC.

November 2018 – ⑧
Upgrading of official Onward smartphone application



Enhancement of Online Products and Services Lineups

We are taking steps to enhance our product lineup by bolstering our range of advance reservation and online-exclusive items. Other new initiatives have included a partnership with STRIPE INTERNATIONAL INC. that was commenced in September 2018. Through this partnership, Onward and STRIPE will offer products on each other's e-commerce sites and engage in joint online sales promotions.— ⑦

Furthermore, the official Onward smartphone application was upgraded in November 2018.— ⑧ The new application features Onward Members verification and point management functions for increased convenience. We are also able to provide users with customized information, including news, event information, and staff-recommended outfits,— ⑨ based on their individual needs.



SPECIAL FEATURE

KASHIYAMA the Smart Tailor



made-to-order clothing system using computer-aided design in Japan.

Summoning our strengths in this field, we launched KASHIYAMA the Smart Tailor, a new made-to-order brand matched to the impending era of Omni-channel retailing, in November 2017.

We will combine the knowledge and manufacturing techniques we have accumulated thus far with new technologies and the production platform of our factory in Dalian, China, to grow this brand into a core, next-generation business.

The advancement of digital technologies is transforming the supply chain for made-to-order clothing in terms of price, delivery time, convenience, and various other factors, giving rise to never-before-seen trends. In addition to low prices and quick deliveries, advanced technologies make it possible to provide new experiences to customers, such as tablet-based customer services and online purchases. These new shopping experiences attract customers from younger generations and other untapped demographics and are therefore anticipated to create a new growth field.

The Onward Group is a pioneer in the field of made-to-order menswear. Our history as a menswear manufacturer spans more than 60 years, and we created the first easily operable



Interior of KASHIYAMA the Smart Tailor Osaka Honmachi store, the flagship store of the brand

About KASHIYAMA the Smart Tailor

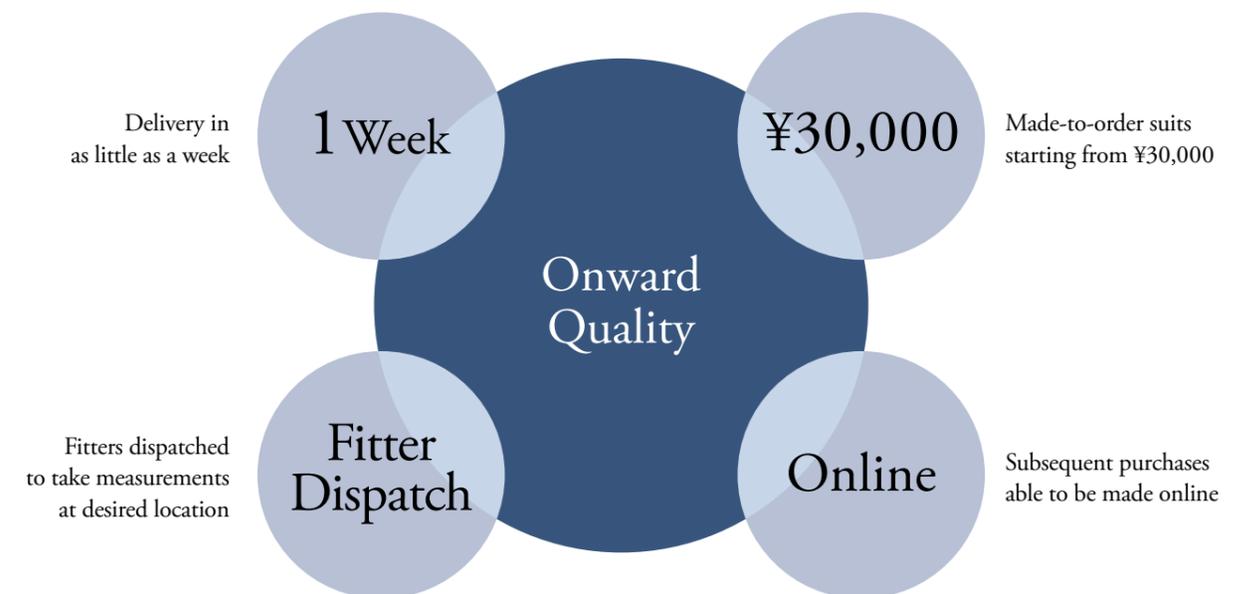
KASHIYAMA the Smart Tailor is the Onward Group's new brand of made-to-order clothing sold directly to customers. Its mainstay made-to-order suits are available at prices starting from ¥30,000 and can be delivered in as little as a week.

The Group's numerous experienced fitters can take customer measurements at stores or showrooms and can even visit customers to perform measurements at their home or business.

After taking measurements when placing one's first order, additional orders can be placed entirely through the Internet. We therefore expect that this brand will see strong growth as a core element of our Omni-channel retailing strategies.

In August 2018, we also began offering men's shirts and women's suits through KASHIYAMA the Smart Tailor, and we have plans to further expand the range of products offered under this brand. For example, we intend to launch new lines of stretchable, easy-care business-casual clothing in February 2019 and to release whole-garment knitwear and women's made-to-order shoes in the near future.

Four Services to Provide Onward Quality



High-Quality Made-to-Order Suits Realized Thanks to Experienced Fitters

Around 80% of the fitters supporting the KASHIYAMA the Smart Tailor scheme have careers spanning over 20 years, and each fitter performs approximately 300 measurements a year.

When measuring customers, these fitters go the extra step to account for the unique characteristics of each individual's body. In addition, they act based on their "Bespoken" philosophy, conversing with customers to learn of their concerns and desires and thereby realize the ideal style and fit to match every customer.



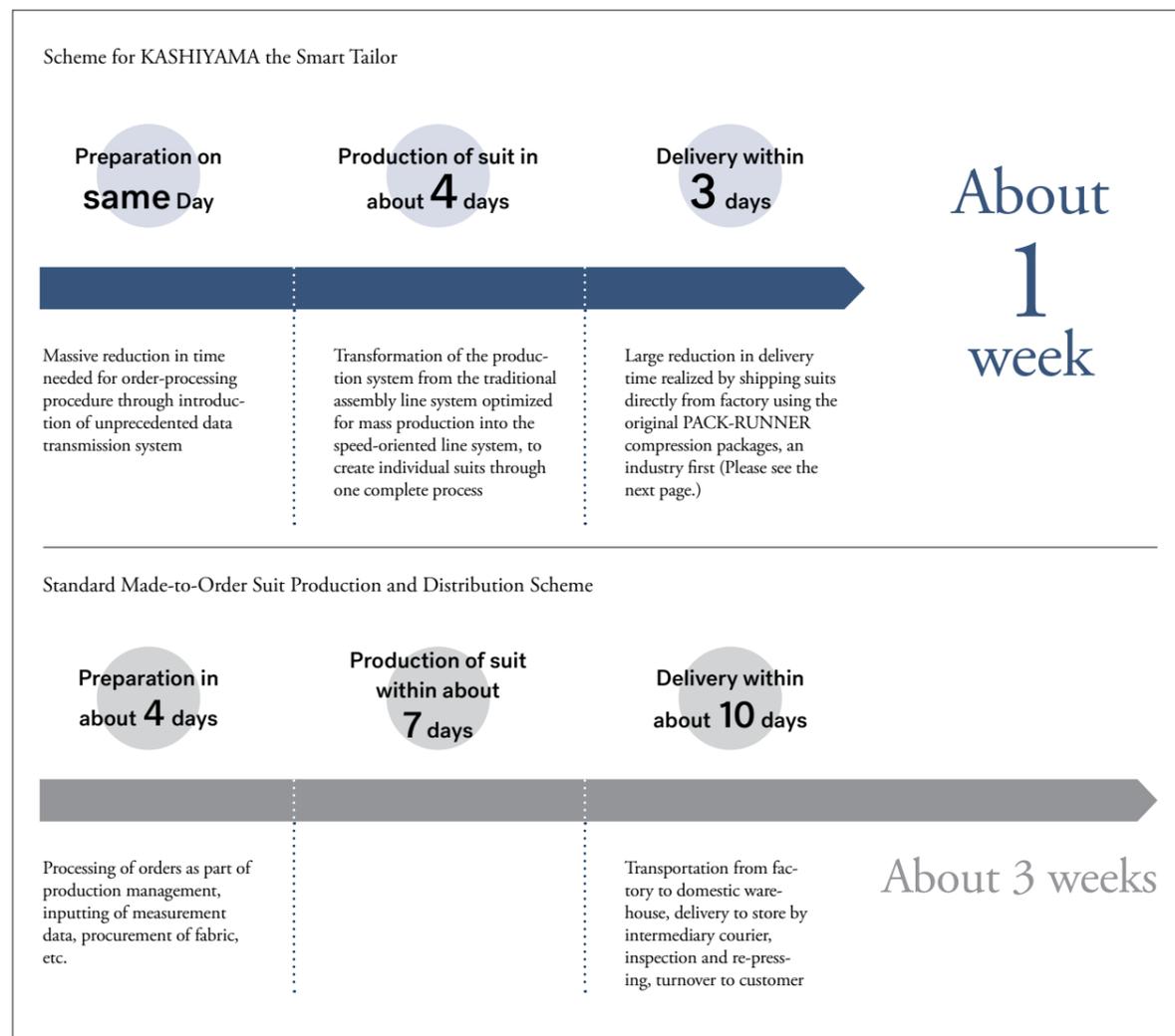
Strengths of KASHIYAMA the Smart Tailor

Capitalizing on the resources the Onward Group has cultivated over its long history, we have established a supply chain management system that allows anyone to enjoy high-quality made-to-order products.

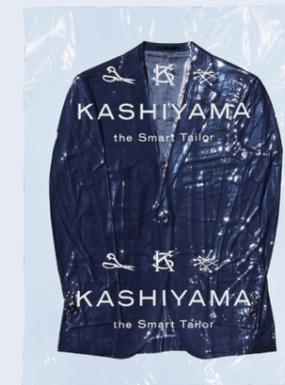
High-Quality Suits Delivered in as Little as One Week after Measurement

On average, made-to-order suits require three weeks to be delivered. However, we have made it possible to deliver suits in as little as one week by utilizing factory innovations. By manufacturing suits entirely at our own factories, we are able to avoid unnecessary inspections. The utilization of IT, meanwhile, helps minimize time losses in various situations. The process of producing suits is performed without interruption, allowing us to eliminate inefficiencies to realize new pinnacles of quality and speed.

One-Week Delivery, IT Innovations at Both Ends of Process



Delivery to Customers Directly from Factories Made Possible by PACK-RUNNER



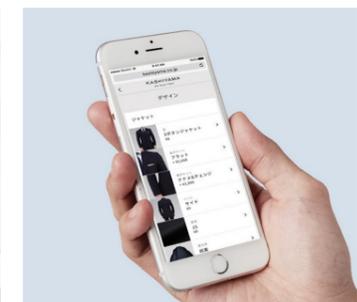
The PACK-RUNNER system utilizes specialized compression packages. This packing system has traditionally been used for business-to-business applications, for example, to deliver products from garment factories to manufacturers. We have adapted this system for business-to-consumer applications to make it possible for products to be delivered directly to customers from factories. Finished products are enclosed in compression packages, after which air is extracted and moisture is drained from the fibers to lower humidity levels before sealing. These precautions protect suits from damage and wrinkles during transportation, allowing for deliveries to be made while maintaining quality. If a suit is hung on a hanger after unsealing, it will return to its original shape, with no displacement, in about an hour as the fibers gradually absorb moisture from the air.

Development of a Smart Factory

The ability to deliver products to customers in as little as a week is underpinned by the advanced production technologies and effective production management at Kashiya (Dalian) Co., Ltd. our directly operated factory in Dalian, China.

In addition, we plan to commence operations at our second factory in Dalian in 2019. This factory will be developed as a revolutionary smart factory that marries production technologies with IT.

The new factory will pursue an unprecedented level of productivity through increased use of IT and mechanization, including automated hanger systems for all processes as well as automated systems adjusting patterns, cutting cloth, and setting parts.



SPECIAL FEATURE

Advanced Down System

Onward's Latest Product Innovation

The Onward Group seeks to create innovations by leveraging its technological and product development capabilities.

The Advanced System Project, launched in June 2018, is aimed at commercializing the innovations born out of the Group's proprietary development technologies. We plan to expand the business in Japan as well as in the global market.



Advertising campaign for 2018 autumn/winter ADS collection



Exhibition held in June 2018

ADS-Innovative down material originated Onward

The first product developed through the Advanced System Project is the Advanced Down System (ADS), which is used to create stitch-less, highly functional down materials.

ADS employs a new structure patented by Onward Kashiyama to replace stretched quilted structures with specialized tape, making for stitch-less materials that trap all down feathers inside.

Moreover, the seamless structure allows for air to circulate within clothing, realizing a lighter and more comfortable feel, while the large amount of air contained inside the feathers ensures warmth, despite its thinness. ADS also allows for increased freedom of design and fashion. We will improve the recognition of ADS so that it can take advantage of the wide range of functional yet fashionable down clothing made possible by these features as well as utilize a unique branding approach.

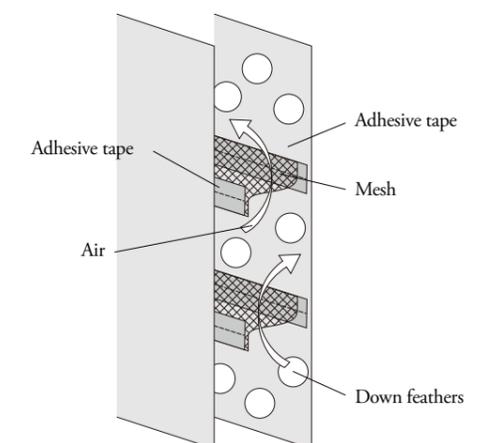
For the 2018 autumn/winter season, we will release two lines of ADS products, a standard line comprising core Onward Group brands and a new-generation line featuring unique designs created through collaboration with internal and external designers. These lines will be available at existing physical and online stores as well as at pop-up shops and specialty stores.

Looking ahead, we plan to develop a collaboration line of ADS products that borrows the talents of prominent designers and creators while accelerating efforts to attract new customers and develop sales channels for these products and deploy them on the global market.

Onward Kashiyama's Proprietary Structure Using Specialized Tape (Patented)

- Unique structure circulates air within clothing
- Down feathers incorporate large quantities of air, making for a lighter and more comfortable feel
- Higher amount of air contained in feathers allows for thinner jackets that trap heat
- No stitches requiring holes allows for increased freedom of design
- Lack of seams contributes to astoundingly light jackets

Z tape



Our Value Chain

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

To fulfill this mission, we take advantage of fashion trend information by utilizing our global network, the technological capabilities granted by our production teams, and the quality control management of the Onward Quality Center.

By merging these strengths, we create new products that excel from the perspectives of fashion, technologies, and quality and propose new values and lifestyles.

Product Flow (primarily used by Onward Kashiya)

Planning and Design

1

Research

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.



2

Design and Material Selection

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



3

Sample Creation

From among the samples, the items to be commercialized are selected, and production volume is decided.



4

Internal and External Exhibitions

Internal exhibitions are held for brand representatives to share information on products and receive input.

When new technologies or products are developed, exhibitions and events are held for members of the press and other influential individuals to promote these new innovations.



5

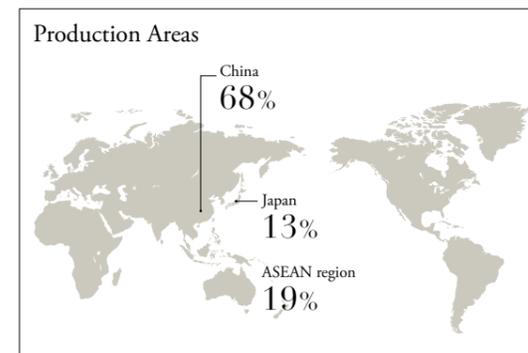
Product Selection

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

6

Production

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.



Production Network

Of Onward Kashiya's products, 69% are manufactured in cooperation with trading companies or delegated to factories in Japan or overseas. Recently, however, we have been expanding our own production network by strengthening partnerships with highly capable Japanese factories and expanding our low-cost production and sourcing networks in China and ASEAN region. Currently, about 68% of Onward Kashiya's products are manufactured in China, 13% in Japan, and 19% in the ASEAN region. We are developing our procurement and production networks in the ASEAN region and reinforcing high quality production in Japan to ensure that we can always manufacture products in the most suitable location.

Planning and Production Teams

Onward Kashiya 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.



Onward Quality Center

The Onward Group established the Onward Quality Center in March 2017. The Onward Quality Center offers quality control guidance and proxy services in the four areas of quality control management, quality merchandising, test analyses, and factory audits and repairs (or product repair) that are steeped in the Group's quality control expertise and insight. These services are made available to apparel manufacturers, trading companies, factories, and other entities engaged in textile and fashion business both inside and outside of the Group.

Moreover, the Onward Quality Center will seek to share and promote the use of Japan's quality control techniques, which are known for a level of attention to detail not found anywhere else in the world, throughout the entire industry. We hope that this undertaking will lead to the creation of stronger frameworks for providing consumers with safe, reliable, and high-value products.





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.

Delivery and Sales

7

Production

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



8

Final Check

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



9

Delivery

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

10

Sales

Products are sold at physical stores and online.



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 the main sales channel of Onward Kashiya, accounting for 69% of its total sales in fiscal year 2018. A diverse range of core and other brands are deployed through this channel. In addition to enhancing existing stores, we are pursuing improvements in the sales of individual stores and in operational efficiency through strategic store openings and closures.

Recently, we have been promoting an Omni-channel retailing strategy as we step up sales promotions coordinated with online venues and augment services. Specific efforts on this front have included utilizing the Group's Onward Members loyalty point card system and posting staff-recommended outfits on our website.

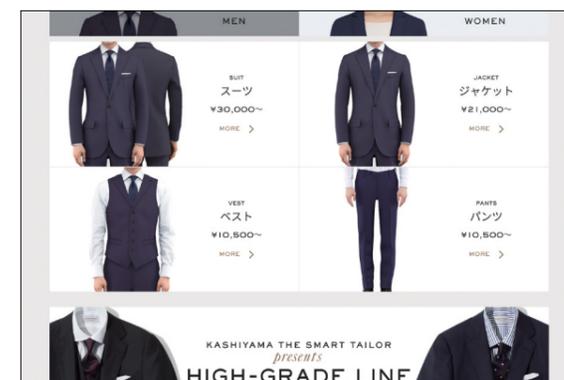


E-Commerce

E-commerce boasts the highest growth potential among the Onward Group's sales channels.

We operate Onward Crosset and brand-specific online stores and also list our products on domestic and overseas online shopping sites. Sales through directly operated e-commerce sites have been growing, and these sales accounted for 75% of the Group's total e-commerce sales and 85% of Onward Kashiya's e-commerce sales in fiscal year 2018. The Onward Group has also begun offering online sales of made-to-order products through KASHIYAMA the Smart Tailor, a scheme launched in 2017.

Looking ahead, we will bolster the lineup of products and services that are available through online venues in order to boost e-commerce sales.



Directly Managed Standalone Stores
These brand flagship stores double as brand billboards.



Outlets
We are expanding our network of outlet stores, which include single-brand stores as well as multi-brand stores that feature selections matched to the characteristics of their area.



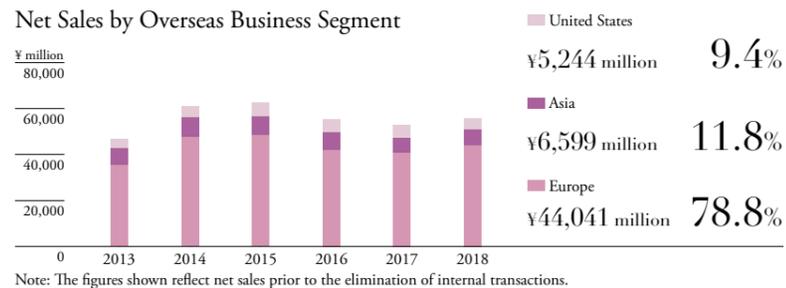
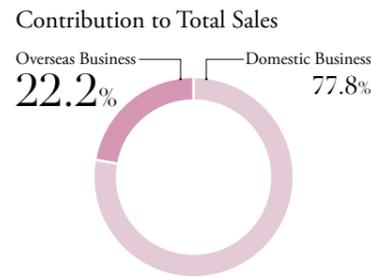
Shopping Centers
Whether in suburban shopping malls or urban department stores that have been converted into shopping centers, the forms of shopping centers are growing more diverse as unique centers are developed in response to diversifying consumer needs. In stores located in shopping centers, the Onward Group arranges brand, product, and service lineups based on the characteristics of the respective regions and customers.



Time Passing is a three-minute short film directed by Wim Wenders featuring the 2018 fall/winter JIL SANDER collection. This collaborative project started with an advertising campaign for the 2018 spring/summer collection, and the film has received many awards, such as being named Best Fashion Film in the 2018 Fashion Film Festival Milano.

Overseas Business

The overseas business consists of operations in Europe, Asia, and the United States and accounts for 22.2% 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.



Europe

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

By generating synergies in the European business, we will be able to leverage the strength of our manufacturing platform in Italy as well as the strengths of the



brand business of JIL SANDER and the retail business of JOSEPH. With this comprehensive range of functions, we will seek to become a unique presence in the European fashion industry.

Business Overview

Onward Luxury Group

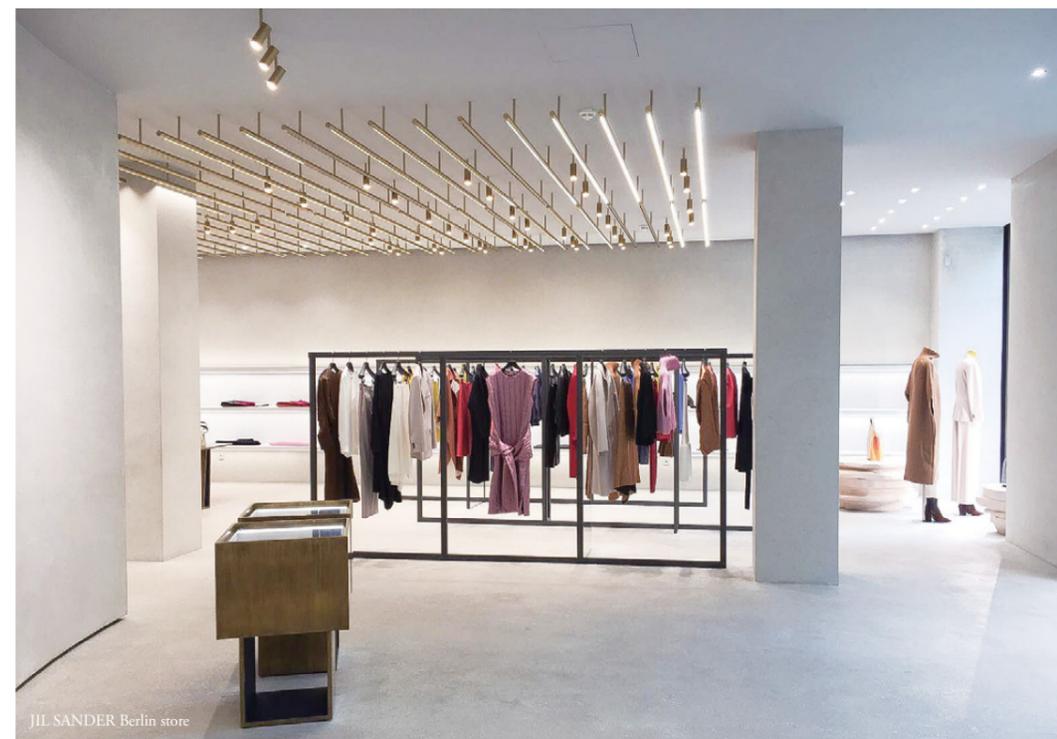
Manufacturing

Onward Luxury Group's manufacturing divisions undertake the production of the principal items that are indispensable to a designer brand line, including apparel as well as shoes, bags, knitwear, and sneakers. Moreover, these divisions are constructing a manufacturing platform capable of providing the utmost levels of quality. In addition to the production of Group brands, manufacturing divisions conduct OEM and contract manufacturing and wholesale of outside brand products based on licensing agreements.

In March 2016, we acquired Moreau Paris, a luxury leather goods and luggage brand. We seek to generate even higher levels of synergies within the Group as we strengthen our fashion accessory business going forward.

JIL SANDER

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



Lucie and Luke Meier have been named as the new creative directors of JIL SANDER, and this brand has been taking advantage of their talents since 2018 spring/summer collection.

We will promote this new JIL SANDER to further its growth as a global brand.

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.

We will be more proactively communicating the message of the JOSEPH brand at storefronts while also expanding e-commerce sales of this brand's products going forward.

To accelerate the brand's global growth, Joseph is boosting planning and manufacturing efficiency and reinforcing its digital strategy.



Asia

In our Asian business, Nijyusanku, ICB, Nijyusanku GOLF, and other Onward Group's brands are sold in department stores and shopping centers in China—including Hong Kong—South Korea, Singapore, and Vietnam. In recent years, we have been working to expand our network of sales channels by forming franchise contracts and strengthening e-commerce businesses.

Furthermore, Asia is an incredibly important production site. To ensure reliable production capabilities in China, which is central to our Asian manufacturing platform, we are expanding the platform through capital alliances while stepping up collaboration with prominent partners. In addition, we have converted our menswear factory in Dalian, which is now Kashiya (Dalian) Co., Ltd., into a wholly owned subsidiary.

We are also improving efficiency and speed along the entire supply chain through logistics reforms, the establishment of a one-stop procurement system, and the use of RFID tags.

United States

U.S. operations comprise retail businesses in the United 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, including the location in the Yale Club in New York City opened in October 2017. This new flagship store will drive efforts to attract new customers.

As we move forward, we will conduct necessary investments from a medium-to-long-term perspective to expand our U.S. operations as we seek to grow the market for our products.

Performance and Outlook

In fiscal year 2018, revenues were up in Europe and Asia due to beneficial foreign exchange rates and growth in new businesses.

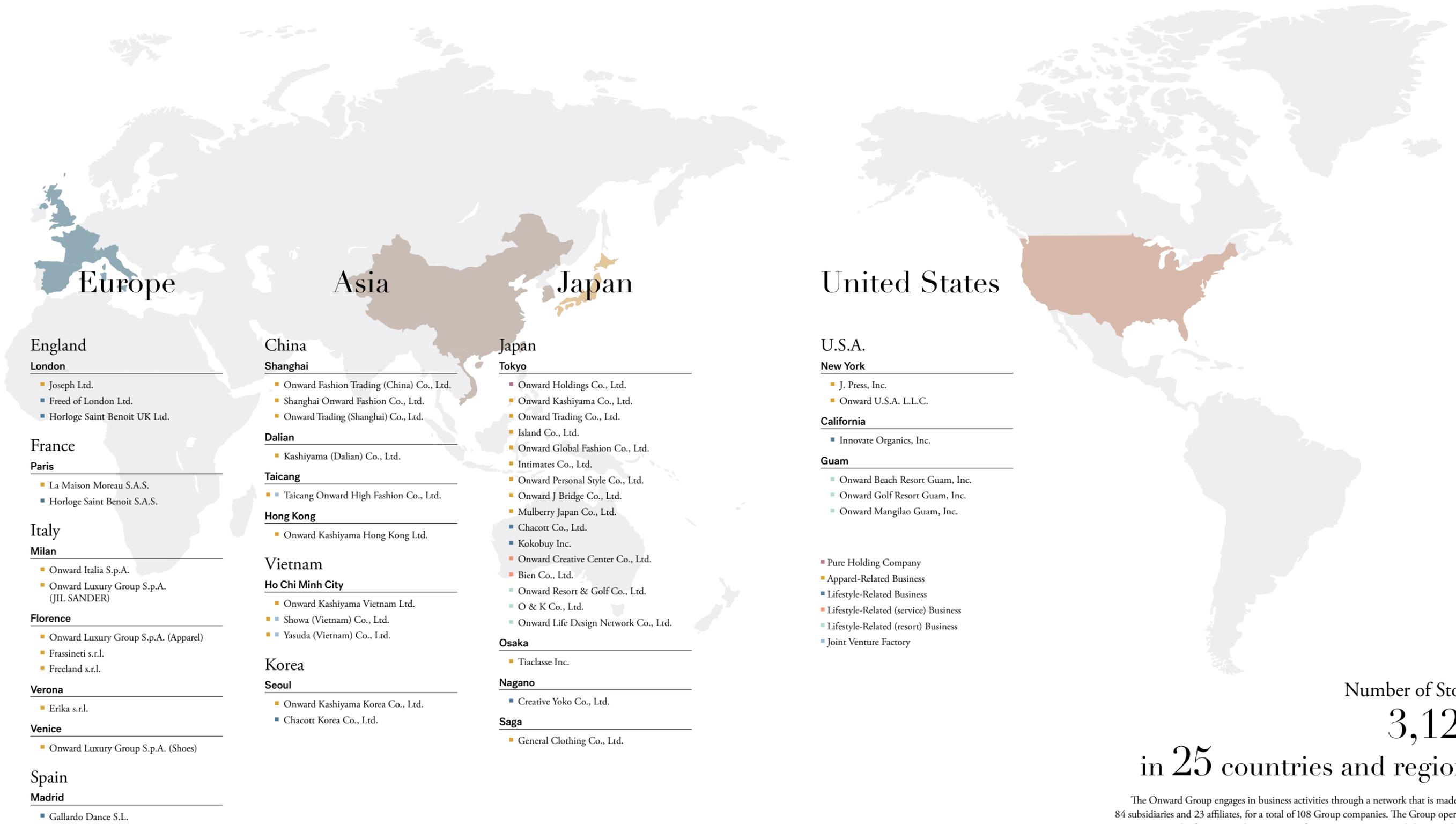
Profits, however, were down following alterations in contracts in manufacturing divisions as well as a persistently stagnant luxury market for the European business and volatile consumption trends in China.

In fiscal year 2019, our goals for the European business will be to grow JIL SANDER sales while instituting structural reforms.

At the same time, we will fortify our manufacturing platform in Asia.

Our Network

(As of August 31, 2018)



Number of Stores
3,127
in 25 countries and regions

The Onward Group engages in business activities through a network that is made up of 84 subsidiaries and 23 affiliates, for a total of 108 Group companies. The Group operates in the four geographic segments of Japan, Europe, Asia, and the United States.

Onward-Approved Factory System

The Onward-Approved Factory System was instituted with the goal of developing a manufacturing platform that can continuously 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 are 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

In fiscal year 2015, the Onward Group introduced the Onward-Approved Factory System, which is used when performing audits of sewing factories in China and the ASEAN region.

To receive certification under the Onward-Approved Factory System, factories must pass CSR and quality control audits

conducted by the Onward Quality Center. The Company will not immediately cease transactions with a factory should it not pass these audits. Rather, discussions will be held with the factory in question and support will be offered in identifying issues and determining priorities in order to provide opportunities for gradual improvement.

Audits Performed

	Number of factories audited	Number of factories that passed compliance audit
Fiscal year 2015–2017 (Actual)	110	87
Fiscal year 2018 (Plan)	110	86 (Expected)

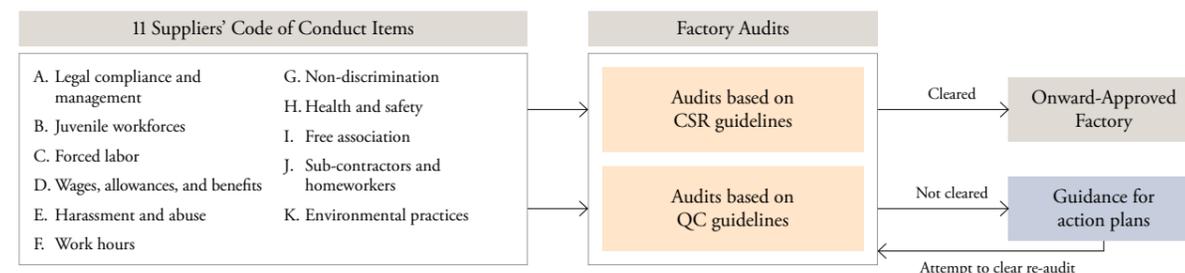
Audit Methods

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 the Onward Quality Center 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 the Onward Quality Center.

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 the Onward Quality Center. The factory is then re-audited after a period of approximately one year.

Audit Procedure



Note: 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 who 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.

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

3,455,575
Items Collected

613,263
Customers Who Donated

76% Recycled
24% Reused

Note : The figures above represent totals since 2009.

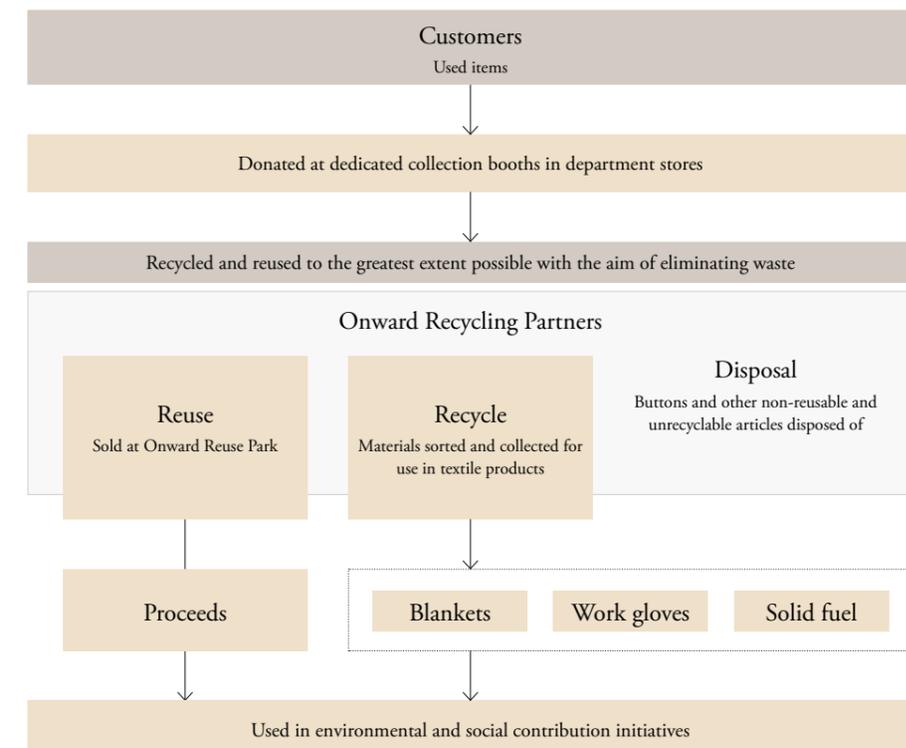


The Onward Green Campaign is designed to create an apparel life-cycle circulation system. In comparison with other consumables, the recycling of textile goods is relatively undeveloped. Onward Kashiyama launched the Onward Green Campaign in 2009 with the objective of encouraging the circulation of apparel 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 43.

Recycling Process



Environmental and Social Responsibility

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

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



First support program:
May 2010

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.)



Fifth support program:
September 2012

8 Vietnam

Impoverished area:
4,000 blankets
Regions primarily in the northern mountain range and central highlands



Eighth support program:
October 2015, April 2016

2 Kazakhstan

Refugee camp:
3,300 blankets
Donated to refugees, orphans, other socially marginalized people, and communities in the city of Almaty



Second support program:
February 2011

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



Sixth support program:
October 2013

9 Nepal

Regions stricken by the Nepal earthquake:
2,000 blankets



Ninth support program:
February 2016

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



Third support program:
September 2011

7 Myanmar

Impoverished area:
4,000 blankets
Donated to impoverished individuals, special needs schools, and children living in orphanages in Myanmar



Seventh support program:
October 2014

10 Indonesia

4,000 blankets
Donated to impoverished individuals, orphanages, and medical facilities in Indonesia in October 2017



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



Fourth support program:
March 2012

11 India

4,000 blankets
To be donated to impoverished individuals in India in November 2018



Other Activities



Onward Reuse Park

Onward Reuse Park—A Base for Conveying Our Environmental and Social Contribution Initiatives

Onward Holdings opened Onward Reuse Park in Kichijoji, Tokyo, in March 2014 as a base for conveying the Group's environmental and social contribution initiatives directly to consumers. Onward Reuse Park sells used products from Onward Group brands at discounted prices, and the proceeds from these sales are used to fund further environmental and social contribution initiatives. In this manner, this shop creates a proprietary circular economy that encompasses everything from the sale of apparel items to collection and recycle and reuse.

The Onward Group also implements other initiatives to create accessible opportunities for customers to become more ecologically active. For example, we hold workshops at which customers can enjoy crafting using old clothing and sell accessories made from used apparel items through cooperation with recycling artists or fashion schools located nearby Onward Reuse Park. Furthermore, the Onward Reuse Park online store was opened in August 2017 to provide a wider range of options for utilizing collected clothing.



Seven Consecutive Years of Participation in KIBOU311 Cherry Tree Planting Events for Great East Japan Earthquake Relief



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 both 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 80 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 performed by Group employees twice a year.



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 are among its most 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 2018

- 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
- Further improvements to the effectiveness of the Board of Directors will require more efficient operation and more extensive provision of information to outside directors and outside Audit & Supervisory Board members

Reasons for the Appointment of Outside Directors

Name	Reasons for Appointment as an Outside Director
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.
Akira Kawamoto	We are expecting Mr. Kawamoto to use his extensive experience gained while working for the government for many years and diverse academic knowledge and insight to enhance the Company’s management.

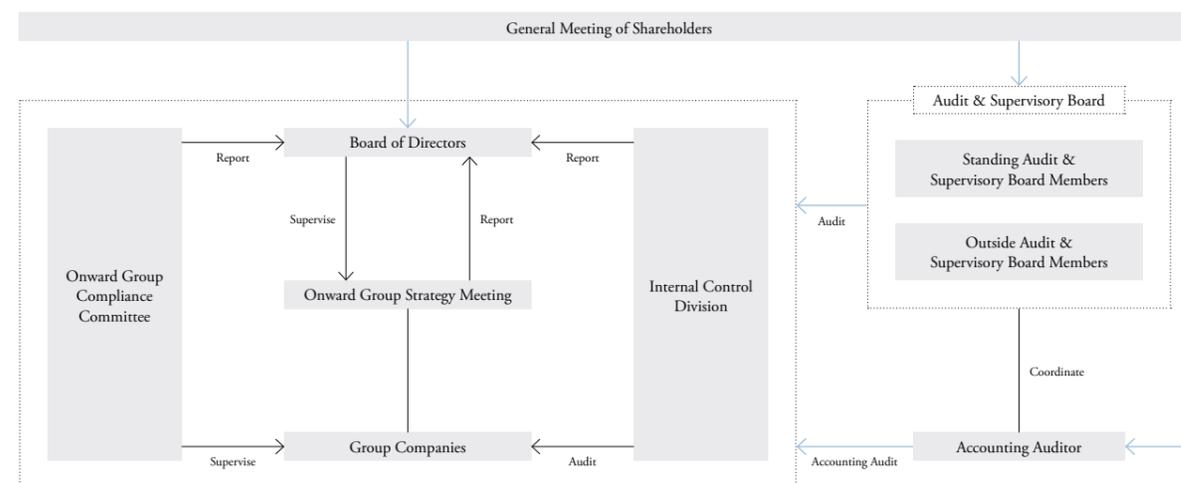
Audit & Supervisory Board Members and the Audit & Supervisory Board

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 Growth-Oriented Management Committee, 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 are 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 Growth-Oriented Management Committee 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 compensation for use in acquiring company stock.

The total amounts of compensation paid by officer classification, the total amounts of compensation paid by type of compensation, and details on 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	
Directors (excluding Outside Directors)	408	210	118	80	5
Audit & Supervisory Board Members (excluding Outside Audit & Supervisory Board Members)	36	36	—	—	2
Outside Officers	40	40	—	—	4

Payments of compensation to persons who 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
Takeshi Hirouchi (Director)	160	Filing company	85	47	27

Corporate Governance

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 organizational 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 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 who 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 continuous 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 system 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 October 1, 2018

Board of Directors

Representative Director, Chairman
Takeshi Hirouchi

Director, Vice Chairman
Masaaki Yoshizawa

Representative Director, President
Michinobu Yasumoto

Senior Managing Director
Hisayuki Ichinose
Michio Osawa

Outside Directors
Yoshihide Nakamura
Akira Kawamoto

Audit & Supervisory Board Members

Standing Audit & Supervisory Board Members

Hitoshi Aoyama
Hirokazu Yoshizato

Outside Audit & Supervisory Board Members

Jotaro Yabe
Katsuaki Ohashi

Executive Officers

Senior Managing Executive Officer
Tsunenori Suzuki

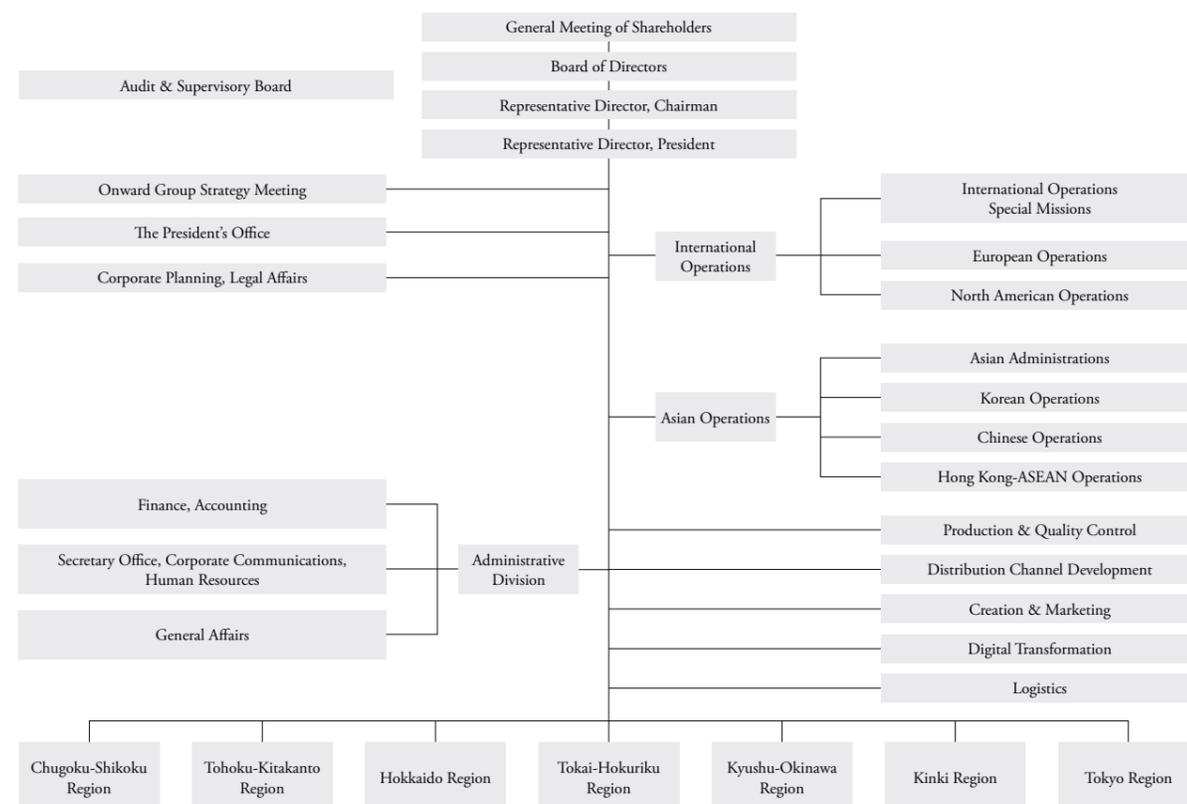
Managing Executive Officers
Masahiko Yoshikawa
Takeshi Egashira

Yoshihiro Higuchi
Akihiko Murata
Takehiro Shiraishi

Executive Officers
Hironobu Mita
Masanori Shozu
Keiko Ueno
Masatsugu Miyoshi
Hidekazu Imamura
Koji Watanabe
Osamu Sato
Daisuke Ikeda

Company Organization

As of September 1, 2018



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Note: In the financial section, reporting is based on the Annual Securities Report (*Yukashoken Hokokusho*) 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

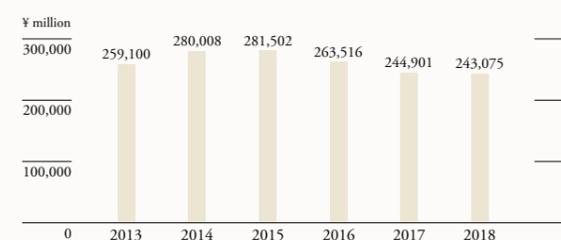
ONWARD HOLDINGS Co., Ltd. and Consolidated Subsidiaries
Years ended February 28 and 29

	Millions of yen						Thousands of U.S. dollars*
	2013	2014	2015	2016	2017	2018	2018
FOR THE YEAR							
Net sales	¥259,100	¥280,008	¥281,502	¥263,516	¥244,901	¥243,075	\$2,263,904
Cost of sales	133,983	149,270	152,438	144,063	131,638	129,499	1,206,099
Selling, general and administrative expenses	113,298	120,538	123,332	115,675	109,059	108,409	1,009,681
Operating profit	11,819	10,200	5,732	3,778	4,204	5,167	48,123
Ordinary profit	13,405	12,211	7,162	5,504	5,577	5,929	55,211
Income taxes, current	7,398	3,112	5,033	8,680	1,534	3,305	30,783
Profit attributable to owners of parent	4,503	4,659	4,204	4,278	4,744	5,367	49,984
CASH FLOWS							
Cash flows from operating activities	10,138	13,362	16,491	3,632	6,844	13,228	123,201
Cash flows from investing activities	(10,683)	(14,301)	(15,657)	1,783	25,271	(7,300)	(67,985)
Cash flows from financing activities	(7,848)	2,122	757	(6,357)	(32,856)	(6,593)	(61,407)
Free cash flow*2	(545)	(939)	834	5,415	32,115	5,928	55,216
Capital expenditures	8,949	16,750	26,884	15,955	10,599	12,058	112,303
Depreciation and amortization	5,721	6,801	7,219	7,799	6,663	6,335	58,998
AT YEAR-END							
Cash and deposits	24,677	27,376	31,123	29,407	26,097	26,335	245,273
Total current assets	100,320	110,349	117,052	121,469	103,573	105,977	987,031
Total property, plant and equipment	86,862	102,879	109,658	106,695	92,269	93,714	872,817
Total assets	286,779	313,431	340,854	313,454	273,227	278,134	2,590,425
Total current liabilities	100,740	101,010	109,619	106,110	85,684	86,384	804,548
Total shareholders' equity	177,142	178,078	179,880	176,264	169,027	168,342	1,567,867
Total net assets	165,372	175,029	185,315	172,337	165,670	168,153	1,566,107

	Yen						U.S. dollars*
	2013	2014	2015	2016	2017	2018	2018
PER SHARE INFORMATION							
Basic earnings per share (EPS)	¥ 28.71	¥ 29.69	¥ 26.78	¥ 28.27	¥ 31.47	¥ 36.97	\$ 0.34
Net assets	1,043.64	1,102.99	1,166.89	1,101.21	1,116.47	1,155.04	10.76
Cash dividends	24.00	24.00	24.00	24.00	24.00	24.00	0.22
Payout ratio (%)	83.6	80.8	89.6	86.5	74.0	63.7	—
RATIOS							
ROE (%)	2.8	2.8	2.4	2.4	2.8	3.3	—
ROA (%)	1.6	1.6	1.3	1.3	1.6	1.9	—
Operating margin (%)	4.6	3.6	2.0	1.4	1.7	2.1	—
Gross profit margin (%)	48.3	46.7	45.8	45.3	46.2	46.7	—
SG&A expenses / Net sales (%)	43.7	43.0	43.8	43.9	44.5	44.6	—
Shareholders' equity ratio (%)	57.1	55.2	53.8	54.2	59.8	59.2	—
OTHER INFORMATION							
Number of full-time employees	5,208	5,224	4,973	5,119	4,456	4,530	—

*1. Yen amounts have been translated, for convenience only, at ¥107.37=US\$1, the rate of exchange as of February 28, 2018.
*2. Free cash flow=Cash flows from operating activities + Cash flows from investing activities

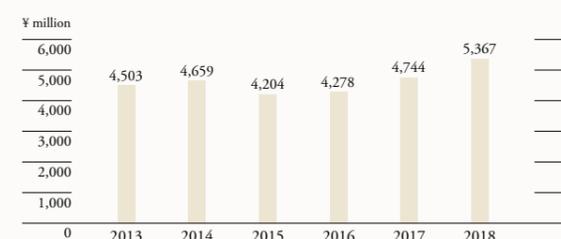
Net Sales



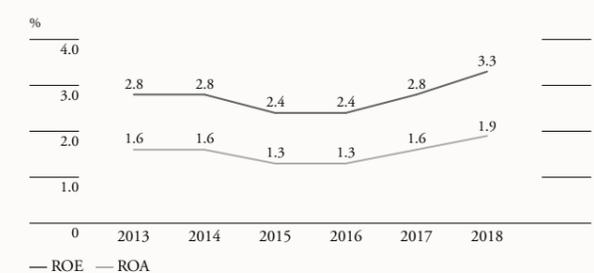
Operating Profit and Operating Margin



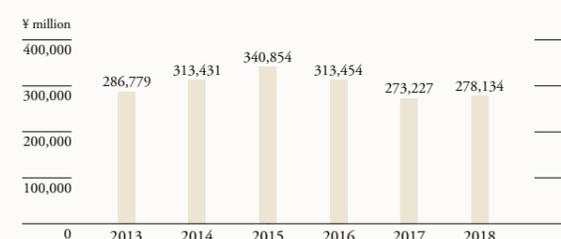
Profit Attributable to Owners of Parent



ROE and ROA



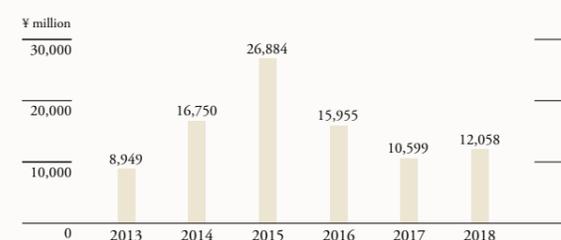
Total Assets



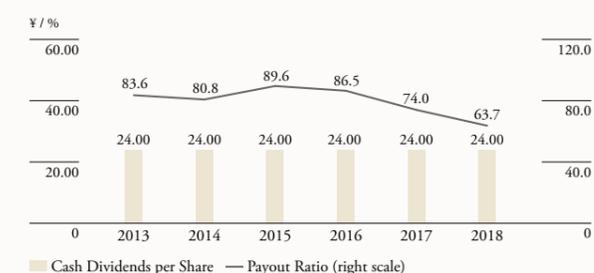
Total Net Assets and Shareholders' Equity Ratio



Capital Expenditures



Cash Dividends per Share and Payout Ratio



Management's Discussion and Analysis

Overview of Operating Results

In fiscal year 2018, ended February 28, 2018, the domestic economy underwent a gradual recovery due to strong corporate earnings supported by government economic stimulus measures and fiscal measures. However, the outlook remained opaque as a result of rising uncertainty in the United States, Europe, and East Asia.

In the domestic apparel and fashion industries, despite signs of recovery, including brisk demand for seasonal items stimulated by temperature trends, the tendency toward thriftiness with regard to clothing among consumers remained strong, once again making for a challenging environment.

In this operating environment, the Onward Group moved forward with the implementation of its medium-term management plan during its second year. Based on this plan, we sought to steadily raise profits by heightening the value of products in core brands and improving customer service. We also advanced selection and concentration measures that included reinforcing our e-commerce operations and other businesses from which we can expect high margins and strong growth.

Net Sales

Sales in the Apparel Business decreased 0.4% year on year, to ¥236,882 million, while sales in the Other Business declined 11.1%, to ¥6,193 million. The main reason behind the lower sales in the Other Business was a drop in revenues in our resort business as a result of a situation that caused concern for the Guam area. As a result, consolidated net sales were down 0.7% compared with the previous fiscal year, to ¥243,075 million.

Gross Profit

The gross profit margin increased 0.5 percentage point, from 46.2% in fiscal year 2017 to 46.7% in fiscal year 2018. However, gross profit decreased ¥314 million, to ¥113,577 million.

Operating Income

The ratio of selling, general and administrative (SG&A) expenses to net sales rose 0.1 percentage point, from 44.5% to 44.6%. Operating profit, meanwhile, increased ¥963 million year on year, to ¥5,167 million, following the rise in the gross profit margin.

Other Income (Expenses)

Other income, net, amounted to ¥4,862 million, compared with ¥6,776 million in the previous fiscal year. Other income was recorded in the forms of gain on sales or disposal of fixed assets, net, of ¥3,645 million and gain on sale of investments in securities, net, of ¥1,711 million. In other expenses, business restructuring expenses decreased from ¥2,085 million in fiscal year 2017 to ¥394 million in fiscal year 2018 and impairment loss on fixed assets decreased from ¥1,659 million in fiscal year 2017 to ¥1,202 million in fiscal year 2018.

Profit before Income Taxes and Profit Attributable to Owners of Parent

Profit before income taxes was ¥10,029 million, a decrease of ¥951 million year on year.

Profit attributable to owners of parent increased ¥623 million, to ¥5,367 million, from the previous fiscal year.

Segment Information

Apparel Business

In fiscal year 2018, sales in the Apparel Business segment declined 0.4% year on year, to ¥236,882 million, while operating profit was up 31.1%, to ¥7,162 million.

Domestic Business

At core operating subsidiary Onward Kashiya, the growth of core brands, such as Nijyusanku, Jiyuku, JOSEPH, TOCCA, and any SiS, contributed to a year-on-year increase in sales of overall existing brands. Although sales at Onward Kashiya were down, we were able to achieve an increase in profit due to improved profitability attributable to business restructuring expenses as well as enhanced sales promotions for core brands and continued efforts to strengthen e-commerce operations. Looking at other Group companies, principal subsidiaries such as Island Co., Ltd., posted increases in sales and profit. As a result, overall sales in the domestic business were down while operating profit was up.

Overseas Business

Sales rose as the yen depreciated in comparison to the euro, the British pound, and other major currencies. However, profits were down due to alterations in contracts in European manufacturing divisions as well as adverse consumption trends pertaining to luxury brands.

Other Business

In fiscal year 2018, sales in the Other Business segment decreased 11.1% year on year, to ¥6,193 million, and operating profit was down 10.6%, to ¥398 million. A situation causing concern for the Guam area impacted our resort business, resulting in overall decreases in sales and profit for the Other Business segment.

Outlook for the Fiscal Year Ending February 28, 2019

For fiscal year 2019, ending February 28, 2019, the Onward Group forecasts that consolidated net sales will increase 2.2%, to ¥248,500 million, and operating profit will grow 39.3% year on year, to ¥7,200 million.

In the apparel and fashion industries, progress in globalization and the trend toward digitalization will serve as a backdrop for the 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 businesses with a promising outlook for growth.

Domestic Business

In the domestic business, we will seek to grow our operations by diversifying the value we provide, expanding our customer base, and evolving in line with the times.

Our focus in existing brands will be to improve the value of products centered on apparel from the perspective of customers in order to increase profitability. At the same time, we will grow operations in non-apparel fields, such as bags and cosmetics.

In addition, we have launched KASHIYAMA the Smart Tailor, a new brand that we anticipate will come to represent a core, next-generation business that is compatible with mass customization. We are also forging ahead with our Omni-channel retailing strategy, which entails expanding our offerings of experiences and services, as part of our efforts to realize higher levels of satisfaction and convenience for the customer.

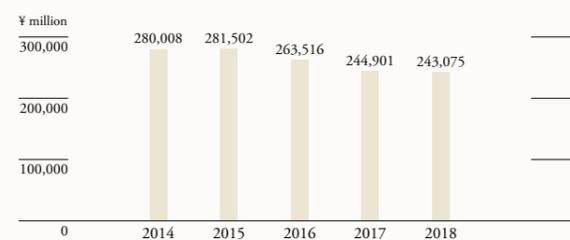
Overseas Business

In Europe, we aim to realize higher profitability by cementing our frameworks for generating synergies between the manufacturing platform of Onward Luxury Group and the brands of JOSEPH and JIL SANDER.

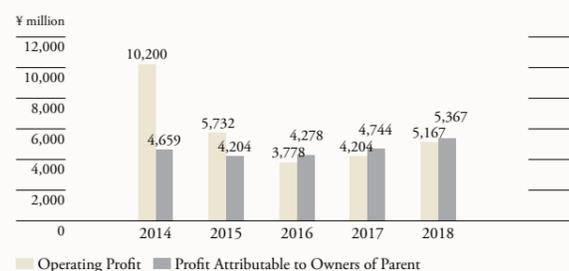
Meanwhile, in Asia we will move ahead with selection and concentration measures in existing business while advancing growth strategies that respond flexibly to market changes through means such as expanding Internet-based businesses and developing new sales channels.

Initiatives in North America will include developing operating structures and carrying out the investments deemed necessary from a medium-term perspective, such as those in the J.PRESS store in Yale Club in New York City. At the same time, we will implement initiatives for growing our business.

Net Sales



Operating Profit and Profit Attributable to Owners of Parent



Segment Sales



Financial Position

Assets

Total assets on February 28, 2018, stood at ¥278,134 million, up ¥4,907 million from the previous fiscal year-end. Total current assets increased ¥2,405 million, mainly from increases in cash and deposits and inventories. Fixed assets were up ¥2,502 million, largely reflecting an increase in buildings and structures following capital expenditures and a rise in investments in securities stemming from higher market values for stocks held by the Company.

Liabilities

Total liabilities as of February 28, 2018, were up ¥2,424 million from the previous fiscal year-end, to ¥109,981 million. Total current liabilities rose ¥700 million, mainly attributable to an increase in accounts and notes payable. Total long-term liabilities were up ¥1,724 million, largely due to an increase in long-term loans payable.

Net Assets

On February 28, 2018, total net assets were up ¥2,483 million from the previous fiscal year-end, to ¥168,153 million. Total shareholders' equity decreased ¥685 million following the acquisition of treasury stock, which counteracted the increase in retained earnings. Total accumulated other comprehensive income increased ¥1,941 million, mainly because of an upward adjustment associated with net unrealized gain on available-for-sale securities, which itself was a result of higher market values for stocks held by the Company, and more beneficial foreign currency translation adjustments.

Cash Flows

Cash Flows from Operating Activities

Net cash provided by operating activities for fiscal year 2018 was ¥13,228 million (¥6,844 million in the previous fiscal year), mainly from profit before income taxes, depreciation and amortization, and income taxes paid.

Cash Flows from Investing Activities

Net cash used in investing activities for fiscal year 2018 totaled ¥7,300 million (net cash provided by investing activities of ¥25,271 million in the previous fiscal year), mainly due to investments in sales facilities and business assets.

Cash Flows from Financing Activities

Net cash used in financing activities for fiscal year 2018 amounted to ¥6,593 million (¥32,856 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 28, 2018, decreased ¥374 million, to ¥25,650 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 capital expenditures are the wellspring that enables us to address the diverse needs of our customers.

In fiscal year 2018, our capital expenditures totaled ¥12,058 million. The details of expenditures by segment are as follows.

In the Apparel Business segment, capital expenditures amounted to ¥8,877 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 network.

In the Other Business segment, we invested ¥457 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 35% or more.

A single dividend payment is issued each year and is decided via approval at the General Meeting of Shareholders. For fiscal year 2018, we resolved to distribute a cash dividend of ¥24 per share, the same level as in fiscal year 2017, based on a comprehensive evaluation of this year's performance and our outlook for the operating environment.

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.

Operating Risks

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

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.

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.

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 acts of dishonesty and 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.

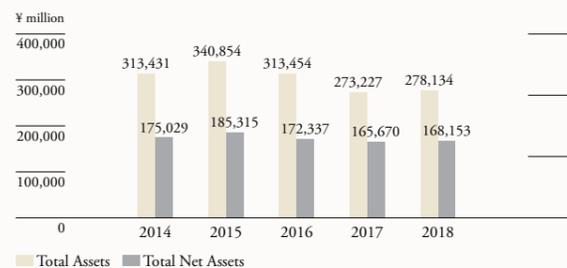
Business and Capital Tie-ups

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.

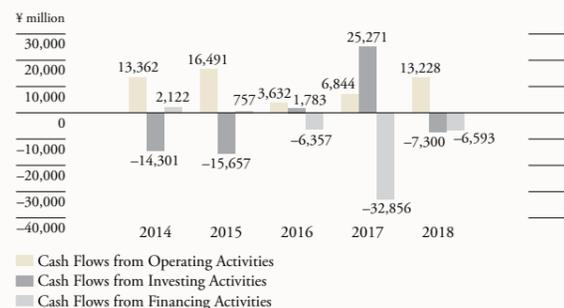
Disasters

The Onward Group has established disaster response handbooks and policies. Regardless, the occurrence of a natural disaster, such as an earthquake, a flood, or a fire; an accident; or an outbreak of an epidemic, such as a new strain of influenza, may compel the Onward Group to suspend its business operations. Such an occurrence may have an adverse impact on our Group's business performance.

Total Assets and Total Net Assets



Cash Flows



Consolidated Balance Sheets

ONWARD HOLDINGS Co., Ltd. and Consolidated Subsidiaries
February 28, 2017 and 2018

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 2. (21))
	2017	2018	2018
Current assets:			
Cash and deposits (Notes 3 and 10)	¥ 26,097	¥ 26,335	\$ 245,273
Accounts and notes receivable (Note 3)	26,008	25,057	233,373
Inventories (Note 2. (4))	40,217	42,980	400,295
Deferred tax assets (Note 12)	3,271	4,130	38,466
Other current assets	8,477	7,827	72,890
Less: Allowance for bad debt	(497)	(351)	(3,266)
Total current assets	103,573	105,978	987,031
Property, plant and equipment:			
Buildings and structures	79,848	80,950	753,931
Leased assets	8,354	8,428	78,496
Other depreciable property	34,241	34,363	320,044
Less: Accumulated depreciation	(76,362)	(77,032)	(717,443)
Land	46,081	46,709	435,028
Total property, plant and equipment	92,269	93,714	872,817
Intangible assets, net:			
Goodwill	18,523	16,228	151,142
Other	7,282	8,284	77,154
Total intangible assets, net	25,805	24,512	228,296
Investments and other assets:			
Investments in securities (Notes 3 and 4)	26,234	30,491	283,978
Long-term loans receivable	2,225	1,888	17,587
Long-term prepaid expenses	580	360	3,357
Net defined benefit asset (Note 8)	3,177	3,847	35,832
Deferred tax assets (Note 12)	8,593	6,971	64,925
Other investments	11,333	10,634	99,029
Less: Allowance for bad debt	(562)	(261)	(2,427)
Total investments and other assets	51,580	53,930	502,281
Total assets	¥273,227	¥278,134	\$2,590,425

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 2. (21))
	2017	2018	2018
Current liabilities:			
Accounts and notes payable (Note 3)	¥ 13,961	¥ 18,059	\$ 168,196
Electronically recorded obligations—operating (Note 3)	17,948	14,873	138,519
Short-term loans payable (Notes 3 and 13)	23,531	29,533	275,055
Current portion of long-term loans payable (Notes 3 and 13)	13,835	5,800	54,022
Accrued income taxes	1,096	2,085	19,415
Accrued bonuses to employees	967	1,052	9,795
Accrued bonuses to directors	182	196	1,829
Allowance for sales returns	304	272	2,531
Provision for point program	575	736	6,859
Other current liabilities (Notes 12 and 13)	13,285	13,778	128,327
Total current liabilities	85,684	86,384	804,548
Long-term liabilities:			
Long-term loans payable (Notes 3 and 13)	3,418	6,819	63,507
Deferred tax liabilities—revaluation of land (Note 12)	2,675	2,259	21,043
Net defined benefit liability (Note 8)	3,988	4,141	38,568
Lease obligations (Note 13)	4,870	4,384	40,834
Accrued retirement benefits for directors and corporate auditors	167	188	1,749
Other long-term liabilities (Note 12)	6,755	5,806	54,069
Total long-term liabilities	21,873	23,597	219,770
Total liabilities	107,557	109,981	1,024,318
Net assets:			
Shareholders' equity (Note 14):			
Common stock:			
Authorized—400,000,000 shares			
Issued—167,921,669 shares at February 28, 2017 and 2018, respectively	30,080	30,080	280,150
Capital surplus	50,043	50,043	466,082
Retained earnings	113,072	115,799	1,078,501
Less: Treasury stock, at cost, 21,609,228 shares and 25,406,796 shares at February 28, 2017 and 2018, respectively	(24,168)	(27,580)	(256,866)
Total shareholders' equity	169,027	168,342	1,567,867
Accumulated other comprehensive income:			
Net unrealized gain on available-for-sale securities (Note 4)	323	1,271	11,833
Deferred gain (loss) on hedging instruments	57	(74)	(689)
Net revaluation loss on land	(6,923)	(7,865)	(73,247)
Foreign currency translation adjustments	528	2,097	19,536
Remeasurements of defined benefit plans (Note 8)	341	838	7,807
Total accumulated other comprehensive income	(5,674)	(3,733)	(34,760)
Stock acquisition rights	780	730	6,796
Non-controlling interests	1,537	2,814	26,204
Total net assets	165,670	168,153	1,566,107
Total liabilities and net assets	¥273,227	¥278,134	\$2,590,425
Per share:		Yen	U.S. dollars (Note 2. (21))
Net assets per share	¥1,116.47	¥1,155.04	\$10.76

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

ONWARD HOLDINGS Co., Ltd. and Consolidated Subsidiaries
Years ended February 28, 2017 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 2. (21))
	2017	2018	2018
Net sales	¥244,901	¥243,075	\$2,263,904
Cost of sales	131,638	129,498	1,206,099
Gross profit	113,263	113,577	1,057,805
Selling, general and administrative expenses	109,059	108,410	1,009,682
Operating profit	4,204	5,167	48,123
Other income (expenses):			
Interest income	47	48	448
Dividend income	289	252	2,351
Land and house rent received	1,121	1,231	11,468
Interest expenses	(400)	(318)	(2,962)
Equity in losses of investees	(316)	(775)	(7,220)
Foreign currency exchange gain (loss)	535	(82)	(766)
Compensation income	—	763	7,104
Rent expenses	(420)	(467)	(4,353)
Gain on sale of investments in securities, net (Note 4)	3,007	1,711	15,933
Gain on sales or disposal of fixed assets, net	6,859	3,645	33,948
Gain on liquidation of subsidiaries and affiliates	—	664	6,183
Impairment loss on fixed assets (Note 6)	(1,659)	(1,202)	(11,198)
Business restructuring expenses (Note 7)	(2,085)	(394)	(3,670)
Loss on liquidation of subsidiaries and affiliates	(458)	(289)	(2,696)
Other, net	256	75	717
Profit before income taxes	10,980	10,029	93,410
Income taxes (Note 12):			
Current	1,534	3,305	30,783
Deferred	4,706	(64)	(594)
Profit	4,740	6,788	63,221
(Profit) loss attributable to non-controlling interests	4	(1,421)	(13,237)
Profit attributable to owners of parent	¥ 4,744	¥ 5,367	\$ 49,984
	Yen		U.S. dollars (Note 2. (21))
Per share (Notes 14, 15 and 17):			
Basic earnings per share	¥31.47	¥36.97	\$0.34
Diluted earnings per share	31.15	36.61	0.34
Cash dividends per share	24.00	24.00	0.22

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

ONWARD HOLDINGS Co., Ltd. and Consolidated Subsidiaries
Years ended February 28, 2017 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 2. (21))
	2017	2018	2018
Profit	¥ 4,740	¥6,788	\$63,221
Other comprehensive income:			
Net unrealized gain (loss) on available-for-sale securities	(593)	750	6,988
Deferred gain (loss) on hedging instruments	360	(131)	(1,223)
Net revaluation gain on land	143	—	—
Foreign currency translation adjustments	(3,098)	1,427	13,287
Remeasurements of defined benefit plans, net of tax	1,316	497	4,632
Share of other comprehensive income of associates accounted for using the equity method	(361)	335	3,120
Total other comprehensive income (Note 9)	(2,233)	2,878	26,804
Comprehensive income	¥ 2,507	¥9,666	\$90,025
Comprehensive income attributable to:			
Owners of the parent	¥ 2,520	¥8,249	\$76,831
Non-controlling interests	(13)	1,417	13,194

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

ONWARD HOLDINGS Co., Ltd. and Consolidated Subsidiaries
Years ended February 28, 2017 and 2018

	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, 2016	167,922	¥30,080	¥50,043	¥114,181	¥(18,040)	¥176,264
Cash dividends	—	—	—	(3,700)	—	(3,700)
Profit attributable to owners of parent	—	—	—	4,744	—	4,744
Purchase of treasury stock	—	—	—	—	(6,299)	(6,299)
Reissuance of treasury stock	—	—	—	(106)	171	65
Reversal of revaluation of land	—	—	—	(2,047)	—	(2,047)
Net changes other than shareholders' equity	—	—	—	—	—	—
Total changes during the year	—	—	—	(1,109)	(6,128)	(7,237)
Balance as at February 28, 2017	167,922	30,080	50,043	113,072	(24,168)	169,027
Cash dividends	—	—	—	(3,511)	—	(3,511)
Profit attributable to owners of parent	—	—	—	5,367	—	5,367
Purchase of treasury stock	—	—	—	—	(3,532)	(3,532)
Reissuance of treasury stock	—	—	—	(70)	120	50
Reversal of revaluation of land	—	—	—	941	—	941
Net changes other than shareholders' equity	—	—	—	—	—	—
Total changes during the year	—	—	—	2,727	(3,412)	(685)
Balance as at February 28, 2018	167,922	¥30,080	¥50,043	¥115,799	¥(27,580)	¥168,342

	Thousands of U.S. dollars (Note 2. (21))				
	Shareholders' equity (Note 14)				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance as at February 28, 2017	\$280,150	\$466,082	\$1,053,103	\$(225,087)	\$1,574,248
Cash dividends	—	—	(32,705)	—	(32,705)
Profit attributable to owners of parent	—	—	49,984	—	49,984
Purchase of treasury stock	—	—	—	(32,893)	(32,893)
Reissuance of treasury stock	—	—	(647)	1,114	467
Reversal of revaluation of land	—	—	8,766	—	8,766
Net changes other than shareholders' equity	—	—	—	—	—
Total changes during the year	—	—	25,398	(31,779)	(6,381)
Balance as at February 28, 2018	\$280,150	\$466,082	\$1,078,501	\$(256,866)	\$1,567,867

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	Foreign currency translation adjustments	Remeasurements of defined benefit plans (Note 8)	Total	Stock acquisition rights	Non-controlling interests	Total net assets
Balance as at March 1, 2016	¥1,118	¥(303)	¥(10,126)	¥ 3,777	¥ (975)	¥(6,509)	¥844	¥1,738	¥172,337
Cash dividends	—	—	—	—	—	—	—	—	(3,700)
Profit attributable to owners of parent	—	—	—	—	—	—	—	—	4,744
Purchase of treasury stock	—	—	—	—	—	—	—	—	(6,299)
Reissuance of treasury stock	—	—	—	—	—	—	—	—	65
Reversal of revaluation of land	—	—	—	—	—	—	—	—	(2,047)
Net changes other than shareholders' equity	(795)	360	3,203	(3,249)	1,316	835	(64)	(201)	570
Total changes during the year	(795)	360	3,203	(3,249)	1,316	835	(64)	(201)	(6,667)
Balance as at February 28, 2017	323	57	(6,923)	528	341	(5,674)	780	1,537	165,670
Cash dividends	—	—	—	—	—	—	—	—	(3,511)
Profit attributable to owners of parent	—	—	—	—	—	—	—	—	5,367
Purchase of treasury stock	—	—	—	—	—	—	—	—	(3,532)
Reissuance of treasury stock	—	—	—	—	—	—	—	—	50
Reversal of revaluation of land	—	—	—	—	—	—	—	—	941
Net changes other than shareholders' equity	948	(131)	(942)	1,569	497	1,941	(50)	1,277	3,168
Total changes during the year	948	(131)	(942)	1,569	497	1,941	(50)	1,277	2,483
Balance as at February 28, 2018	¥1,271	¥ (74)	¥ (7,865)	¥ 2,097	¥ 838	¥(3,733)	¥730	¥2,814	¥168,153

	Thousands of U.S. dollars (Note 2. (21))								
	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	Foreign currency translation adjustments	Remeasurements of defined benefit plans (Note 8)	Total	Stock acquisition rights	Non-controlling interests	Total net assets
Balance as at February 28, 2017	\$ 3,011	\$ 533	\$(64,483)	\$ 4,921	\$3,176	\$(52,842)	\$7,262	\$14,318	\$1,542,986
Cash dividends	—	—	—	—	—	—	—	—	(32,705)
Profit attributable to owners of parent	—	—	—	—	—	—	—	—	49,984
Purchase of treasury stock	—	—	—	—	—	—	—	—	(32,893)
Reissuance of treasury stock	—	—	—	—	—	—	—	—	467
Reversal of revaluation of land	—	—	—	—	—	—	—	—	8,766
Net changes other than shareholders' equity	8,822	(1,222)	(8,764)	14,615	4,631	18,082	(466)	11,886	29,502
Total changes during the year	8,822	(1,222)	(8,764)	14,615	4,631	18,082	(466)	11,886	23,121
Balance as at February 28, 2018	\$11,833	\$ (689)	\$(73,247)	\$19,536	\$7,807	\$(34,760)	\$6,796	\$26,204	\$1,566,107

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

ONWARD HOLDINGS Co., Ltd. and Consolidated Subsidiaries
Years ended February 28, 2017 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 2. (21))
	2017	2018	2018
Cash flows from operating activities:			
Profit before income taxes	¥10,980	¥10,029	\$ 93,410
Adjustments to reconcile profit before income taxes to net cash provided by operating activities:			
Depreciation and amortization	6,663	6,335	58,998
Impairment loss on fixed assets	1,659	1,202	11,198
Net amortization of goodwill on consolidation	2,132	2,563	23,874
Increase (decrease) in allowance for bad debt	(395)	(462)	(4,311)
(Increase) decrease in net defined benefit asset	(1,760)	(670)	(6,246)
Increase (decrease) in net defined benefit liability	(151)	98	916
Interest and dividend income	(336)	(300)	(2,799)
Interest expenses	400	318	2,962
Equity in (earnings) losses of investees	316	775	7,220
(Gain) loss on sales or disposal of fixed assets, net	(6,859)	(3,645)	(33,945)
(Gain) loss on sale of investments in securities, net	(3,007)	(1,711)	(15,933)
(Increase) decrease in trade receivables	912	1,648	15,351
(Increase) decrease in inventories	1,247	(1,980)	(18,439)
Increase (decrease) in trade payables	(2,538)	921	8,580
Other, net	4,696	(1,830)	(17,048)
Subtotal	13,959	13,291	123,788
Interest and dividends received	433	376	3,501
Interest paid	(428)	(323)	(3,011)
Income taxes paid	(7,125)	(1,961)	(18,261)
Refunded income taxes	5	1,845	17,184
Net cash provided by (used in) operating activities	6,844	13,228	123,201
Cash flows from investing activities:			
Increase in time deposits	(5)	(640)	(5,965)
Decrease in time deposits	1,005	29	271
Acquisition of property, plant and equipment	(8,626)	(9,459)	(88,096)
Proceeds from sale of property, plant and equipment	21,764	6,392	59,538
Acquisition of investments in securities	(4,205)	(6,302)	(58,696)
Proceeds from sale of investments in securities	14,471	4,864	45,309
Payments for long-term prepaid expenses	(183)	(256)	(2,388)
Payments for security deposits	(419)	(301)	(2,806)
Proceeds from security deposits	1,377	1,121	10,438
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(5,116)	—	—
Payments for sale of investments in subsidiaries resulting in change in scope of consolidation	(12)	—	—
Proceeds from sale of investments in subsidiaries resulting in change in scope of consolidation	6,058	—	—
Other, net	(838)	(2,748)	(25,590)
Net cash provided by (used in) investing activities	25,271	(7,300)	(67,985)

	Millions of yen		Thousands of U.S. dollars (Note 2. (21))
	2017	2018	2018
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	(19,267)	6,004	55,919
Proceeds from long-term loans payable	383	20,000	186,272
Repayments of long-term loans payable	(3,028)	(24,570)	(228,831)
Acquisition of treasury stock	(6,299)	(3,532)	(32,893)
Dividends paid by the parent company	(3,700)	(3,511)	(32,705)
Dividends paid to non-controlling interests	(95)	(196)	(1,825)
Other, net	(850)	(788)	(7,344)
Net cash provided by (used in) financing activities	(32,856)	(6,593)	(61,407)
Effect of exchange rate changes on cash and cash equivalents	(1,565)	291	2,711
Net increase (decrease) in cash and cash equivalents	(2,306)	(374)	(3,480)
Cash and cash equivalents at beginning of year	28,330	26,024	242,373
Cash and cash equivalents at end of year (Note 10)	¥ 26,024	¥ 25,650	\$ 238,893

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

ONWARD HOLDINGS Co., Ltd. and Consolidated Subsidiaries
Years ended February 28, 2017 and 2018

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 84 subsidiaries as at February 28, 2018 (83 as at February 28, 2017). The accompanying consolidated financial statements include the accounts of the Company and 71 of its subsidiaries (74 for 2017). 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
Onward Luxury Group S.p.A.	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 28, 2018, ONWARD LUXURY GROUP UK Ltd. was newly established, and shares in HORLOGE SAINT BENOIT UK LTD. were acquired; therefore, these companies became consolidated subsidiaries of the Company.

CHARLES & KEITH JAPAN CO., LTD., J. DIRECTION CO., LTD., Candela International Co., Ltd., Dauphin S.a.r.l. and Pretty Yoko Ltd. were liquidated; 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. The fiscal year-end of KOKOBUY Inc. is September 30, 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. Significant adjustments considered necessary between the fiscal year-ends and the Company's closing date have been made for consolidation.

The remaining seven subsidiaries (nine for 2017) 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 non-controlling 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 25 companies (18 companies for 2017) were accounted for by the equity method for the year ended February 28, 2018.

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 the 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, 2017 and 2018 were ¥10,002 million and ¥10,136 million (\$94,398 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 profit 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 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 and facilities attached to buildings and structures acquired on and after April 1, 2016, which are depreciated by the straight-line method pursuant to an amendment to the 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 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.

(16) Application of Consolidated Taxation System

The Company and its certain domestic consolidated subsidiaries apply the consolidated taxation system.

(17) Cash and Cash Equivalents

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

(18) Impairment of Long-Lived Assets

The standard of impairment of long-lived assets requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss 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.

(19) 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.

(20) 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.

(21) U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside of Japan. The rate of ¥107.37=US\$1, the rate of exchange as of February 28, 2018, has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at that rate or any other rate.

(22) Goodwill

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

(23) Additional Information

The Companies adopted the "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (Accounting Standards Board of Japan Guidance No. 26, March 28, 2016) from the beginning of the year ended February 28, 2018.

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 risk 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 risk associated with fluctuations of their market prices.

Accounts and notes payable and electronically recorded obligations—operating are due within one year. Operating payables denominated in foreign currencies, being subject to risk associated with changes in the 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 is 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.

Notes to Consolidated Financial Statements

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, 2017 and 2018.

February 28, 2017	Millions of yen		
	Book value	Fair value	Difference
(a) Cash and deposits	¥ 26,097	¥ 26,097	¥ —
(b) Accounts and notes receivable	26,008	26,008	—
(c) Investments in securities:			
Available-for-sale securities	17,686	17,686	—
Investments in unconsolidated subsidiaries and affiliates	7,965	3,534	(4,431)
(d) Accounts and notes payable	(13,961)	(13,961)	—
(e) Electronically recorded obligations—operating	(17,948)	(17,948)	—
(f) Short-term loans payable	(23,531)	(23,531)	—
(g) Long-term loans payable (including current portion of long-term loans payable)	(17,253)	(17,273)	20
(h) Derivative transactions	136	136	—

February 28, 2018	Millions of yen		
	Book value	Fair value	Difference
(a) Cash and deposits	¥ 26,335	¥ 26,335	¥ —
(b) Accounts and notes receivable	25,057	25,057	—
(c) Investments in securities:			
Available-for-sale securities	20,792	20,792	—
Investments in unconsolidated subsidiaries and affiliates	8,384	3,848	(4,536)
(d) Accounts and notes payable	(18,059)	(18,059)	—
(e) Electronically recorded obligations—operating	(14,873)	(14,873)	—
(f) Short-term loans payable	(29,533)	(29,533)	—
(g) Long-term loans payable (including current portion of long-term loans payable)	(12,619)	(12,635)	16
(h) Derivative transactions	(103)	(103)	—

February 28, 2018	Thousands of U.S. dollars		
	Book value	Fair value	Difference
(a) Cash and deposits	\$ 245,273	\$ 245,273	\$ —
(b) Accounts and notes receivable	233,373	233,373	—
(c) Investments in securities:			
Available-for-sale securities	193,652	193,652	—
Investments in unconsolidated subsidiaries and affiliates	78,081	35,839	(42,242)
(d) Accounts and notes payable	(168,196)	(168,196)	—
(e) Electronically recorded obligations—operating	(138,519)	(138,519)	—
(f) Short-term loans payable	(275,055)	(275,055)	—
(g) Long-term loans payable (including current portion of long-term loans payable)	(117,529)	(117,679)	150
(h) Derivative transactions	(963)	(963)	—

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, (e) Electronically recorded obligations—operating and (f) Short-term loans payable

Since these items are settled in a short period of time, their book values approximate fair values.

(g) 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.

(h) 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, 2017 and 2018 are as follows:

Classification	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Investments in securities:			
Unlisted equity securities	¥583	¥1,315	\$12,245

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, 2017 and 2018 are as follows:

February 28, 2017	Millions of yen			
	Due within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and deposits	¥26,097	¥—	¥—	¥—
Accounts and notes receivable	26,008	—	—	—
Total	¥52,105	¥—	¥—	¥—

February 28, 2018	Millions of yen			
	Due within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and deposits	¥26,335	¥—	¥—	¥—
Accounts and notes receivable	25,057	—	—	—
Total	¥51,392	¥—	¥—	¥—

February 28, 2018	Thousands of U.S. dollars			
	Due within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and deposits	\$245,273	\$—	\$—	\$—
Accounts and notes receivable	233,373	—	—	—
Total	\$478,646	\$—	\$—	\$—

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, 2017

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

Investments in securities whose fair values were readily determinable at February 28, 2017 are summarized as follows:

	Millions of yen		
	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities with unrealized gain:			
Equity securities	¥13,881	¥10,534	¥3,347
Other	3	1	2
Subtotal	13,884	10,535	3,349
Securities with unrealized loss:			
Equity securities	3,802	4,177	(375)
Other	—	—	—
Subtotal	3,802	4,177	(375)
Total	¥17,686	¥14,712	¥2,974

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, 2017

	Millions of yen
Proceeds from sale of securities	¥13,390
Realized gain on sale of securities	3,007
Realized loss on sale of securities	—

(c) The aggregate carrying amount of investments in unconsolidated subsidiaries and affiliates as of February 28, 2017 was ¥8,211 million.

(2) Information as of and for the Year Ended February 28, 2018

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

Investments in securities whose fair values were readily determinable at February 28, 2018 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	¥17,746	¥13,007	¥4,739	\$165,275	\$121,140	\$44,135
Other	3	1	2	27	12	15
Subtotal	17,749	13,008	4,741	165,302	121,152	44,150
Securities with unrealized loss:						
Equity securities	3,044	3,728	(684)	28,350	34,722	(6,372)
Other	—	—	—	—	—	—
Subtotal	3,044	3,728	(684)	28,350	34,722	(6,372)
Total	¥20,793	¥16,736	¥4,057	\$193,652	\$155,874	\$37,778

Note: Non-marketable equity securities of ¥336 million (\$3.131 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 28, 2018

	Millions of yen	Thousands of U.S. dollars
Proceeds from sale of securities	¥4,458	\$41,525
Realized gain on sale of securities	1,715	15,977
Realized loss on sale of securities	(5)	(45)

(c) The aggregate carrying amount of investments in unconsolidated subsidiaries and affiliates as of February 28, 2018 was ¥9,362 million (\$87,196 thousand).

5. Derivative Transactions

The contract or notional amounts and fair values of derivative financial instruments held as of February 28, 2017 and 2018 are summarized as follows:

(1) Derivative transactions to which hedge accounting was not applied

February 28, 2017	Millions of yen		
	Contract or notional amount	Fair value	Valuation gain (loss)
Forward exchange contracts:			
To buy foreign currency:			
U.S. dollar	¥1,138	¥44	¥44
Euro	1,169	(2)	(2)
	¥2,307	¥42	¥42

(2) Derivative transactions to which hedge accounting was applied

February 28, 2017	Millions of yen		
	Hedged item	Contract or notional amount	Fair value
Forward exchange contracts:			
To buy foreign currency:			
U.S. dollar	Accounts payable	¥2,422	¥95
Euro	Accounts payable	567	(0)
Pound	Accounts payable	21	(1)
Chinese yuan	Accounts payable	43	(0)
		¥3,053	¥94

February 28, 2018	Millions of yen		
	Hedged item	Contract or notional amount	Fair value
Forward exchange contracts:			
To buy foreign currency:			
U.S. dollar	Accounts payable	¥4,233	¥(102)
Euro	Accounts payable	2,199	3
Pound	Accounts payable	17	(0)
Chinese yuan	Accounts payable	140	(4)
		¥6,589	¥(103)

February 28, 2018	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	\$39,427	\$(948)
Euro	Accounts payable	20,476	24
Pound	Accounts payable	159	(3)
Chinese yuan	Accounts payable	1,308	(36)
		\$61,370	\$(963)

6. Impairment Loss on Fixed Assets

For the years ended February 28, 2017 and 2018, the Companies reviewed its long-lived assets for impairment and, as a result, recognized an impairment loss as follows:

February 28, 2017

Location	Usage	Description	Millions of yen
Tokyo metropolitan area and other	Business assets	Buildings and structures	¥1,375
		Other	625

February 28, 2018

Location	Usage	Description	Millions of yen	Thousands of U.S. dollars
Tokyo metropolitan area and other	Business assets	Buildings and structures	¥484	\$4,505
		Other	556	5,184
—	—	Goodwill	162	1,509

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, 2017 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Buildings and structures	¥1,375	¥484	\$4,505
Other intangible assets	205	339	3,158
Other	420	168	1,570
Land	—	49	456
Goodwill	—	162	1,509
Total	¥2,000	¥1,202	\$11,198

For the year ended February 28, 2017, ¥341 million of the above amount was recorded as business restructuring expenses. For the year ended February 28, 2018, Tiaclass Inc., a consolidated subsidiary of the Company, recognized an impairment loss of ¥162 million (\$1,509 thousand) on the unamortized balance of goodwill as a result of consideration of its recoverability based on cash flow projections.

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 5.0% and 5.3% for the years ended February 28, 2017 and 2018, respectively.

7. Business Restructuring Expenses

Business restructuring expenses for the years ended February 28, 2017 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Business portfolio restructuring:			
Expenses in relation to elimination of unprofitable brands	¥ 564	¥ —	\$ —
Expenses in relation to withdrawal from unprofitable stores	662	320	2,979
Retirement expenses resulting from logistics and organization restructuring, etc.	859	74	691
Total	¥2,085	¥394	\$3,670

8. 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, which are unfunded plans, some of which are funded plans as a result of the establishment of retirement benefit trusts, the Company and its subsidiaries grant lump-sum payments to their employees as retirement benefits, based on the salary levels and service periods.

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		Thousands of U.S. dollars
	2017	2018	2018
Balance at beginning of year	¥16,206	¥14,982	\$139,534
Service cost	1,076	1,013	9,433
Interest cost	41	39	365
Actuarial differences	(168)	5	44
Benefits paid	(2,018)	(1,783)	(16,602)
Other	(155)	124	1,151
Balance at end of year	¥14,982	¥14,380	\$133,925

(ii) Changes in plan assets

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Balance at beginning of year	¥13,443	¥14,171	\$131,980
Expected return on plan assets	231	222	2,068
Actuarial differences	1,050	200	1,868
Employer contributions	293	310	2,886
Benefits paid	(846)	(817)	(7,613)
Balance at end of year	¥14,171	¥14,086	\$131,189

(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
	2017	2018	2018
Funded projected benefit obligations	¥ 14,339	¥ 13,633	\$ 126,968
Plan assets	(14,171)	(14,086)	(131,189)
	168	(453)	(4,221)
Unfunded projected benefit obligations	643	747	6,957
Net amount of liability and asset recognized in the consolidated balance sheets	811	294	2,736
Net defined benefit liability	3,988	4,141	38,568
Net defined benefit asset	(3,177)	(3,847)	(35,832)
Net amount of liability and asset recognized in the consolidated balance sheets	¥ 811	¥ 294	\$ 2,736

(iv) Net periodic pension expenses and their breakdown

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Service cost	¥1,076	¥1,013	\$ 9,433
Interest cost	41	39	365
Expected return on plan assets	(231)	(222)	(2,068)
Amortization of unrecognized actuarial differences	763	568	5,289
Amortization of unrecognized prior service costs	(50)	(47)	(438)
Other	(118)	(64)	(593)
Net periodic pension expenses	¥1,481	¥1,287	\$11,988

(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
	2017	2018	2018
Prior service costs	¥ (51)	¥ (47)	\$ (437)
Actuarial differences	1,982	764	7,113
Total	¥1,931	¥717	\$6,676

(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
	2017	2018	2018
Unrecognized prior service costs	¥215	¥ 168	\$ 1,569
Unrecognized actuarial differences	276	1,040	9,684
Total	¥491	¥1,208	\$11,253

(vii) Plan assets

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

	2017	2018
Life insurance company general accounts	40%	37%
Equity securities	49%	52%
Debt securities	2%	2%
Short-term funds	9%	9%
Total	100%	100%

Total plan assets include retirement benefit trusts established for defined benefit corporate pension plans and lump-sum retirement payment plans of 55% and 58% for the years ended February 28, 2017 and 2018, respectively.

Notes to Consolidated Financial Statements

(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

	2017	2018
Discount rate	0.3% to 0.7%	0.3% to 0.7%
Long-term expected rate of return on plan assets	1.4% to 2.6%	0.7% to 2.4%

B. Defined contribution plans

The amounts to be paid by the Companies to the defined contribution pension plans for the years ended February 28, 2017 and 2018 were ¥386 million and ¥350 million (\$3,260 thousand), respectively.

9. Notes to Consolidated Statements of Comprehensive Income

Other comprehensive income for the years ended February 28, 2017 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Net unrealized gain (loss) on available-for-sale securities:			
Amount arising during the year	¥ 2,384	¥ 2,869	\$ 26,722
Reclassification adjustment for gain and loss	(3,332)	(1,788)	(16,648)
Amount before income tax effect	(948)	1,081	10,074
Income tax effect	355	(331)	(3,086)
Total	(593)	750	6,988
Deferred gain (loss) on hedging instruments:			
Amount arising during the year	84	(103)	(957)
Reclassification adjustment for gain and loss	442	(83)	(780)
Amount before income tax effect	526	(186)	(1,737)
Income tax effect	(166)	55	514
Total	360	(131)	(1,223)
Revaluation gain on land:			
Income tax effect	143	—	—
Total	143	—	—
Foreign currency translation adjustments:			
Amount arising during the year	(3,117)	1,464	13,633
Reclassification adjustment for gain and loss	19	(37)	(346)
Total	(3,098)	1,427	13,287
Remeasurements of defined benefit plans:			
Amount arising during the year	1,219	196	1,825
Reclassification adjustment for gain and loss	712	521	4,851
Amount before income tax effect	1,931	717	6,676
Income tax effect	(615)	(220)	(2,044)
Total	1,316	497	4,632
Share of other comprehensive income of associates accounted for using the equity method:			
Amount arising during the year	(361)	335	3,120
Total	(361)	335	3,120
Total other comprehensive income	¥(2,233)	¥ 2,878	\$ 26,804

10. Notes to Consolidated Statements of Cash Flows

Cash and cash equivalents at February 28 2017 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Cash and deposits	¥26,097	¥26,335	\$245,273
Time deposits with maturities of more than three months	(73)	(685)	(6,380)
Cash and cash equivalents	¥26,024	¥25,650	\$238,893

11. 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 Companies have adopted a method where leased assets are depreciated on a straight-line basis over the lease periods as their useful lives with no residual value.

12. Income Taxes

The tax effects of temporary differences that give rise to significant components of the deferred tax assets and liabilities as at February 28, 2017 and 2018 consisted of the following elements:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Deferred tax assets:			
Loss on write-down of inventories	¥ 2,133	¥ 2,167	\$ 20,185
Loss on write-down of investments in unconsolidated subsidiaries	191	1,718	15,997
Accrued bonuses to employees	299	325	3,030
Net defined benefit liability	2,685	2,708	25,219
Accrued retirement benefits for directors and corporate auditors	72	78	731
Allowance for bad debt	2,897	1,457	13,573
Tax loss carry forwards	14,399	11,080	103,197
Impairment loss on fixed assets	6,141	4,699	43,768
Investments in securities	25	25	235
Other	4,108	3,641	33,904
Subtotal	32,950	27,898	259,839
Less: Valuation allowance	(18,407)	(13,738)	(127,954)
Total deferred tax assets	14,543	14,160	131,885
Deferred tax liabilities:			
Gain on securities contributed to employee retirement benefit trusts	(56)	(56)	(524)
Net defined benefit asset	(973)	(1,178)	(10,972)
Provision for deferred capital gain on real property for tax purposes	(39)	(38)	(358)
Net unrealized gain on available-for-sale securities	(909)	(1,240)	(11,551)
Other	(718)	(547)	(5,089)
Total deferred tax liabilities	(2,695)	(3,059)	(28,494)
Net deferred tax assets	¥ 11,848	¥ 11,101	\$ 103,391

The reconciliation of the difference between the statutory tax rate and the effective tax rate is as follows:

	%	
	2017	2018
Statutory tax rate	33.1	—
Reconciliation:		
Permanently non-deductible expenses (entertainment expenses, etc.)	1.7	—
Permanently non-taxable income (dividends received, etc.)	(0.2)	—
Per capita inhabitant tax	2.3	—
Amortization of goodwill	6.1	—
Changes in valuation allowance	(0.1)	—
Consolidation adjustments to gain or loss on sale of investments in consolidated subsidiaries	(0.8)	—
Effects due to liquidation of consolidated subsidiaries	7.9	—
Differences in statutory tax rate	3.6	—
Other	3.2	—
Effective tax rate	56.8	—

Note: The details for the year ended February 28, 2018 are omitted as the difference between the statutory tax rate and the effective tax rate is 5% or less of the statutory tax rate.

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

Short-term loans payable at February 28, 2017 and 2018 represented loans, principally from banks. The weighted-average interest rate on these loans was 0.8% and 0.9% in 2017 and 2018, respectively.

Long-term loans payable at February 28, 2017 and 2018 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Unsecured loans, principally from banks, maturing in installments through 2022	¥17,253	¥12,619	\$117,529
Less current portion with weighted-average interest rate of 0.5% at February 28, 2017 and 2018	13,835	5,800	54,022
Long-term loans payable, less current portion, with weighted-average interest rate of 0.6% at February 28, 2017 and 0.3% at February 28, 2018	¥ 3,418	¥ 6,819	\$ 63,507

Lease obligations at February 28, 2017 and 2018 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Lease obligations	¥5,576	¥5,052	\$47,056
Less current portion of lease obligations	706	668	6,222
	¥4,870	¥4,384	\$40,834

The aggregate annual maturities of long-term loans payable after February 28, 2019 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending February 28 or 29:		
2020	¥2,107	\$19,617
2021	2,106	19,617
2022	2,106	19,617
2023	500	4,656

The aggregate annual maturities of lease obligations after February 28, 2019 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending February 28 or 29:		
2020	¥469	\$4,370
2021	402	3,740
2022	331	3,079
2023	289	2,692

Bonds at February 28, 2017 and 2018 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
0.39% in 2017 and 2018 unsecured yen bonds issued by a subsidiary, due 2018	¥50	¥—	\$—
Less current portion	50	—	—
	—	—	—

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 the additional paid-in capital and the legal reserve are available for appropriations by resolution of a shareholder 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, 2017 and 2018 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 24, 2018, are as follows:

(a) Total dividends:	¥3,420 million (\$31,856 thousand)
(b) Source of dividends:	Retained earnings
(c) Cash dividends per common share:	¥24 (\$0.22)
(d) Date to determine which shareholders receive the dividends:	February 28, 2018
(e) Effective date:	May 25, 2018

15. Per Share Information

Earnings 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 earnings per share for the years ended February 28, 2017 and 2018 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Profit attributable to owners of parent	¥4,744	¥5,367	\$49,984
Less: Components not pertaining to common shareholders	—	—	—
Profit pertaining to common shareholders	¥4,744	¥5,367	\$49,984
Average outstanding shares of common stock (thousand shares)	150,758	145,154	
Effect of dilutive stock options (thousand shares)	1,532	1,448	

16. Related-Party Transactions

Year Ended February 28, 2017

The Company leased land from Takeshi Hirouchi, Representative Director and Chairman of ONWARD HOLDINGS Co., Ltd., during the fiscal 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.

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 fiscal year. The transaction amount was ¥46 million, and the balance of relevant accounts receivable as of February 28, 2017 was ¥12 million. Prices and other terms and conditions were determined by reference to market prices or general terms and conditions.

Year Ended February 28, 2018

The Company leased land from Takeshi Hirouchi, Representative Director and Chairman of ONWARD HOLDINGS Co., Ltd., during the fiscal year, and the rental fee was ¥7 million (\$67 thousand). Also, Mr. Hirouchi paid a rental fee of ¥16 million (\$152 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 fiscal year. The transaction amount was ¥57 million (\$531 thousand), and the balance of relevant accounts receivable as of February 28, 2018 was ¥9 million (\$83 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, 2017 and 2018 was nil.

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 (\$4.90)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2018 is as follows:

	2014 stock option plan (No. 16)
Non-vested (shares):	
Outstanding at February 28, 2017	122,900
Granted	—
Forfeited	—
Vested	19,200
Outstanding at February 28, 2018	103,700
Vested (shares):	
Outstanding at February 28, 2017	—
Vested	19,200
Exercised	—
Forfeited	—
Outstanding at February 28, 2018	19,200

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

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 (\$4.34)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2018 is as follows:

	2014 stock option plan (No. 15)
Non-vested (shares):	
Outstanding at February 28, 2017	128,100
Granted	—
Forfeited	—
Vested	28,700
Outstanding at February 28, 2018	99,400
Vested (shares):	
Outstanding at February 28, 2017	11,900
Vested	28,700
Exercised	—
Forfeited	—
Outstanding at February 28, 2018	40,600

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

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 (\$5.86)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2018 is as follows:

	2013 stock option plan (No. 14)
Non-vested (shares):	
Outstanding at February 28, 2017	98,100
Granted	—
Forfeited	—
Vested	16,000
Outstanding at February 28, 2018	82,100
Vested (shares):	
Outstanding at February 28, 2017	8,900
Vested	16,000
Exercised	—
Forfeited	—
Outstanding at February 28, 2018	24,900

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 (\$5.33)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2018 is as follows:

	2013 stock option plan (No. 13)
Non-vested (shares):	
Outstanding at February 28, 2017	116,600
Granted	—
Forfeited	—
Vested	28,000
Outstanding at February 28, 2018	88,600
Vested (shares):	
Outstanding at February 28, 2017	23,800
Vested	28,000
Exercised	—
Forfeited	—
Outstanding at February 28, 2018	51,800

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.

Notes to Consolidated Financial Statements

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 (\$4.27)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2018 is as follows:

	2012 stock option plan (No. 12)
Non-vested (shares):	
Outstanding at February 28, 2017	129,600
Granted	—
Forfeited	—
Vested	21,100
Outstanding at February 28, 2018	108,500
Vested (shares):	
Outstanding at February 28, 2017	11,800
Vested	21,100
Exercised	—
Forfeited	—
Outstanding at February 28, 2018	32,900

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.

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:	¥878 (\$8.18)
Fair value at the grant date:	¥444 (\$4.14)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2018 is as follows:

	2012 stock option plan (No. 11)
Non-vested (shares):	
Outstanding at February 28, 2017	110,600
Granted	—
Forfeited	—
Vested	37,700
Outstanding at February 28, 2018	72,900
Vested (shares):	
Outstanding at February 28, 2017	74,400
Vested	37,700
Exercised	18,600
Forfeited	—
Outstanding at February 28, 2018	93,500

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

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:	¥927 (\$8.63)
Fair value at the grant date:	¥510 (\$4.75)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2018 is as follows:

	2011 stock option plan (No. 10)
Non-vested (shares):	
Outstanding at February 28, 2017	69,400
Granted	—
Forfeited	—
Vested	—
Outstanding at February 28, 2018	69,400
Vested (shares):	
Outstanding at February 28, 2017	44,500
Vested	—
Exercised	32,500
Forfeited	—
Outstanding at February 28, 2018	12,000

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.

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:	¥904 (\$8.42)
Fair value at the grant date:	¥444 (\$4.14)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2018 is as follows:

	2011 stock option plan (No. 9)
Non-vested (shares):	
Outstanding at February 28, 2017	88,400
Granted	—
Forfeited	—
Vested	32,400
Outstanding at February 28, 2018	56,000
Vested (shares):	
Outstanding at February 28, 2017	46,400
Vested	32,400
Exercised	21,100
Forfeited	—
Outstanding at February 28, 2018	57,700

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)
Fair value at the grant date:	¥613 (\$5.71)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2018 is as follows:

	2010 stock option plan (No. 8)
Non-vested (shares):	
Outstanding at February 28, 2017	52,300
Granted	—
Forfeited	—
Vested	—
Outstanding at February 28, 2018	<u>52,300</u>

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:	¥896 (\$8.34)
Fair value at the grant date:	¥475 (\$4.42)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2018 is as follows:

	2010 stock option plan (No. 7)
Non-vested (shares):	
Outstanding at February 28, 2017	68,600
Granted	—
Forfeited	—
Vested	24,500
Outstanding at February 28, 2018	<u>44,100</u>
Vested (shares):	
Outstanding at February 28, 2017	16,200
Vested	24,500
Exercised	3,900
Forfeited	—
Outstanding at February 28, 2018	<u>36,800</u>

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 (\$4.02)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2018 is as follows:

	2009 stock option plan (No. 6)
Non-vested (shares):	
Outstanding at February 28, 2017	72,000
Granted	—
Forfeited	—
Vested	—
Outstanding at February 28, 2018	<u>72,000</u>

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:	¥829 (\$7.72)
Fair value at the grant date:	¥362 (\$3.37)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2018 is as follows:

	2009 stock option plan (No. 5)
Non-vested (shares):	
Outstanding at February 28, 2017	69,100
Granted	—
Forfeited	—
Vested	27,100
Outstanding at February 28, 2018	<u>42,000</u>
Vested (shares):	
Outstanding at February 28, 2017	26,100
Vested	27,100
Exercised	21,400
Forfeited	—
Outstanding at February 28, 2018	<u>31,800</u>

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.

Notes to Consolidated Financial Statements

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:	¥790 (\$7.36)
Fair value at the grant date:	¥905 (\$8.43)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2018 is as follows:

	2008 stock option plan (No. 4)
Non-vested (shares):	
Outstanding at February 28, 2017	20,100
Granted	—
Forfeited	—
Vested	8,700
Outstanding at February 28, 2018	<u>11,400</u>
Vested (shares):	
Outstanding at February 28, 2017	8,200
Vested	8,700
Exercised	6,900
Forfeited	—
Outstanding at February 28, 2018	<u>10,000</u>

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 (\$8.79)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2018 is as follows:

	2008 stock option plan (No. 3)
Non-vested (shares):	
Outstanding at February 28, 2017	32,000
Granted	—
Forfeited	—
Vested	—
Outstanding at February 28, 2018	<u>32,000</u>

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)
Fair value at the grant date:	¥1,284 (\$11.96)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2018 is as follows:

	2007 stock option plan (No. 2)
Non-vested (shares):	
Outstanding at February 28, 2017	16,600
Granted	—
Forfeited	—
Vested	—
Outstanding at February 28, 2018	<u>16,600</u>

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)
Fair value at the grant date:	¥1,541 (\$14.35)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2018 is as follows:

	2006 stock option plan (No. 1)
Non-vested (shares):	
Outstanding at February 28, 2017	14,500
Granted	—
Forfeited	—
Vested	—
Outstanding at February 28, 2018	<u>14,500</u>

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 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."

Profit by reportable segment refers to operating profit. 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, 2017 and 2018 is as follows:

	Millions of yen							Consolidated total (Note 3)
	Apparel				Other	Total	Adjustments (Note 1)	
For the year ended February 28, 2017	Japan	Europe	Asia/North America	Total				
Net sales to outside customers	¥193,462	¥38,591	¥5,881	¥237,934	¥ 6,967	¥244,901	¥ —	¥244,901
Intersegment sales or transfers	1,266	1,969	609	3,844	2,865	6,709	(6,709)	—
Total	¥194,728	¥40,560	¥6,490	¥241,778	¥ 9,832	¥251,610	¥ (6,709)	¥244,901
Segment profit (loss)	¥ 6,378	¥ (459)	¥ (458)	¥ 5,461	¥ 445	¥ 5,906	¥ (1,702)	¥ 4,204
Segment assets	¥140,208	¥32,670	¥5,312	¥178,190	¥26,248	¥204,438	¥68,789	¥273,227
Depreciation and amortization (Note 2)	¥ 4,523	¥ 946	¥ 128	¥ 5,597	¥ 636	¥ 6,233	¥ 430	¥ 6,663
Investments in equity-method affiliates	7,965	81	—	8,046	—	8,046	—	8,046
Increases in property, plant and equipment, and intangible assets (Note 2)	7,766	1,383	171	9,320	622	9,942	657	10,599

Notes: 1. Adjustments consist of the following:

- The adjustment amount for segment profit (loss) of ¥(1,702) million includes amortization of goodwill of ¥(2,132) million, elimination of intersegment transactions of ¥4,263 million, and corporate expenses not allocated to reportable segments of ¥(3,833) million. Corporate expenses are mainly general administrative expenses that are not attributable to reportable segments.
- The adjustment amount for segment assets of ¥68,789 million includes the unamortized balance of goodwill of ¥18,523 million, elimination of intersegment transactions of ¥(123,515) million, and corporate assets not allocated to reportable segments of ¥173,781 million. Corporate assets are mainly assets held by the Company, a pure holding company.
- Depreciation and amortization, and increases in property, plant and equipment, and intangible assets include long-term prepaid expenses (furniture and fixtures).
- Segment profit (loss) coincides with the amount of operating profit in the consolidated statement of operations.

	Millions of yen							Consolidated total (Note 3)
	Apparel				Other	Total	Adjustments (Note 1)	
For the year ended February 28, 2018	Japan	Europe	Asia/North America	Total				
Net sales to outside customers	¥189,528	¥41,636	¥5,718	¥236,882	¥ 6,193	¥243,075	¥ —	¥243,075
Intersegment sales or transfers	1,237	2,090	1,165	4,492	2,649	7,141	(7,141)	—
Total	¥190,765	¥43,726	¥6,883	¥241,374	¥ 8,842	¥250,216	¥ (7,141)	¥243,075
Segment profit (loss)	¥ 9,982	¥ (1,849)	¥ (971)	¥ 7,162	¥ 398	¥ 7,560	¥ (2,393)	¥ 5,167
Segment assets	¥140,004	¥41,629	¥5,926	¥187,559	¥25,003	¥212,562	¥65,572	¥278,134
Depreciation and amortization (Note 2)	¥ 3,945	¥ 1,141	¥ 156	¥ 5,242	¥ 637	¥ 5,879	¥ 456	¥ 6,335
Investments in equity-method affiliates	8,384	842	—	9,226	—	9,226	—	9,226
Increases in property, plant and equipment, and intangible assets (Note 2)	6,002	2,331	544	8,877	458	9,335	2,723	12,058

Thousands of U.S. dollars

	Apparel					Total	Adjustments (Note 1)	Consolidated total (Note 3)
	Japan	Europe	Asia/North America	Total	Other			
For the year ended February 28, 2018								
Net sales to outside customers	\$1,765,189	\$387,775	\$53,258	\$2,206,222	\$ 57,682	\$2,263,904	\$ —	\$2,263,904
Intersegment sales or transfers	11,517	19,475	10,849	41,841	24,670	66,511	(66,511)	—
Total	\$1,776,706	\$407,250	\$64,107	\$2,248,063	\$ 82,352	\$2,330,415	\$(66,511)	\$2,263,904
Segment profit (loss)	\$ 92,967	\$(17,218)	\$(9,043)	\$ 66,706	\$ 3,705	\$ 70,411	\$(22,288)	\$ 48,123
Segment assets	\$1,303,937	\$387,720	\$55,190	\$1,746,847	\$232,864	\$1,979,711	\$610,714	\$2,590,425
Depreciation and amortization (Note 2)	\$ 36,740	\$ 10,633	\$ 1,450	\$ 48,823	\$ 5,928	\$ 54,751	\$ 4,247	\$ 58,998
Investments in equity-method affiliates	78,081	7,845	—	85,926	—	85,926	—	85,926
Increases in property, plant and equipment, and intangible assets (Note 2)	55,902	21,713	5,065	82,680	4,263	86,943	25,362	112,305

Notes: 1. Adjustments consist of the following:

- The adjustment amount for segment profit (loss) of ¥(2,393) million (\$ (2,288) thousand) includes amortization of goodwill of ¥(2,563) million (\$ (2,374) thousand), elimination of intersegment transactions of ¥4,546 million (\$42,344 thousand), and corporate expenses not allocated to reportable segments of ¥(4,376) million (\$ (40,758) thousand). Corporate expenses are mainly general administrative expenses that are not attributable to reportable segments.
- The adjustment amount for segment assets of ¥65,572 million (\$610,714 thousand) includes the unamortized balance of goodwill of ¥16,228 million (\$151,142 thousand), elimination of intersegment transactions of ¥(121,941) million (\$ (1,135,704) thousand), and corporate assets not allocated to reportable segments of ¥171,285 million (\$1,595,276 thousand). Corporate assets are mainly assets held by the Company, a pure holding company.
- Depreciation and amortization, and increases in property, plant and equipment, and intangible assets include long-term prepaid expenses (furniture and fixtures).
- Segment profit (loss) coincides with the amount of operating profit in the consolidated statement of operations.

(4) Segment information by geographical area for the years ended February 28, 2017 and 2018 is as follows:

(a) Sales

For the year ended February 28, 2017	Millions of yen			Total
	Japan	Europe	Other	
	¥195,147	¥29,912	¥19,842	¥244,901

For the year ended February 28, 2018	Millions of yen			Total
	Japan	Europe	Other	
	190,497	¥33,394	¥19,185	¥243,075

For the year ended February 28, 2018	Thousands of U.S. dollars			Total
	Japan	Europe	Other	
	\$1,774,206	\$311,016	\$178,682	\$2,263,904

(b) Property, plant and equipment

For the year ended February 28, 2017				
Millions of yen				
Japan	Europe	Other	Total	
¥73,940	¥7,618	¥10,711	¥92,269	

For the year ended February 28, 2018				
Millions of yen				
Japan	Europe	Other	Total	
¥75,348	¥8,168	¥10,198	¥93,714	

For the year ended February 28, 2018				
Thousands of U.S. dollars				
Japan	Europe	Other	Total	
\$701,761	\$76,072	\$94,983	\$872,817	

(5) Segment information on impairment losses on property, plant and equipment by reportable segment for the years ended February 28, 2017 and 2018 is as follows:

Millions of yen							
	Apparel				Other	Unallocated amounts and elimination	Total
	Japan	Europe	Asia/North America	Total			
For the year ended February 28, 2017							
Impairment loss	¥1,638	¥—	¥21	¥1,659	¥—	¥—	¥1,659

Millions of yen							
	Apparel				Other	Unallocated amounts and elimination	Total
	Japan	Europe	Asia/North America	Total			
For the year ended February 28, 2018							
Impairment loss	¥371	¥—	¥620	¥991	¥—	¥211	¥1,202

Thousands of U.S. dollars							
	Apparel				Other	Unallocated amounts and elimination	Total
	Japan	Europe	Asia/North America	Total			
For the year ended February 28, 2018							
Impairment loss	\$3,455	\$—	\$5,778	\$9,233	\$—	\$1,965	\$11,198

Independent Auditor's Report



Ernst & Young ShinNihon LLC
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www.shinnihon.or.jp

Independent Auditor's Report

The Board of Directors
ONWARD HOLDINGS Co., Ltd.

We have audited the accompanying consolidated financial statements of ONWARD HOLDINGS Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at February 28, 2018, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ONWARD HOLDINGS Co., Ltd. and its consolidated subsidiaries as at February 28, 2018, 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(21).

Ernst & Young ShinNihon LLC

May 25, 2018

A member firm of Ernst & Young Global Limited

Main Subsidiaries

As of August 31, 2018

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

Island Co., Ltd.

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

Onward Global Fashion Co., Ltd.

3-26-8 Sendagaya, Shibuya-ku, Tokyo 151-0051, Japan
Tel: (81) 3-5770-5370

Intimates Co., Ltd.

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

Onward Personal Style Co., Ltd.

3-9-32 Kaigan, Minato-ku, Tokyo 108-8439, Japan
Tel: (81) 3-5476-6131

Onward J Bridge Co., Ltd.

3-9-32 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

Mulberry Japan Co., Ltd.

3-26-8 Sendagaya, Shibuya-ku, Tokyo 151-0051, Japan
Tel: (81) 3-5770-5380

Chacott Co., Ltd.

1-20-8 Jinnan, Shibuya-ku, Tokyo 150-0041, Japan
Tel: (81) 3-3476-1411

Creative Yoko Co., Ltd.

667-16 Takada, Nagano City, Nagano 381-8545, Japan
Tel: (81) 26-226-2001

Kokobuy Inc.

6th Floor, Daikanyama Front, 16-2 Daikanyamacho, Shibuya-ku, Tokyo 150-0034, Japan
Tel: (81) 3-6696-3547

Onward Creative Center Co., Ltd.

3-10-5 Nihonbashi, Chuo-ku, Tokyo 103-8239, Japan
Tel: (81) 3-4512-1140

Bien Co., Ltd.

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

Onward Resort & Golf Co., Ltd.

3-10-5 Nihonbashi, Chuo-ku, Tokyo 103-8239, Japan
Tel: (81) 3-4512-1130

O & K Co., Ltd.

3-10-5 Nihonbashi, Chuo-ku, Tokyo 103-8239, Japan
Tel: (81) 3-4512-1130

Onward Life Design Network Co., Ltd.

3-10-5 Nihonbashi, Chuo-ku, Tokyo 103-8239, Japan
Tel: (81) 3-4512-1133

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

Erika s.r.l.

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

Frassinetti s.r.l.

Via Enrico Fermi, 7 50068 Rufina Firenze, Italy
Tel: (39) 055- 839-7385

Freeland s.r.l.

Via G. da Verrazzano 4/6/8, 50054, Fucecchio Firenze, Italy
Tel: (39) 057-124-4337

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 7DS, U.K.
Tel: (44) 116-254-8010

Horloge Saint Benoit UK Ltd.

190 Strand, 5 Arundel Street, London WC2R 3DX, U.K.
Tel: (44) 20-3915-6976

La Maison Moreau S.A.S.

14 Rue de Savoie, 75006 Paris, France
Tel: (33) 9-7265-3633

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 200333, 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 200333, People's Republic of China
Tel: (86) 21-6466-6466

Onward Trading (Shanghai) Co., Ltd.

14th Floor, Onward Building, No. 1238, Danba Road, Putuo District, Shanghai 200333, People's Republic of China
Tel: (86) 21-6271-3535

Kashiyama (Dalian) Co., Ltd.

North Tie Shan Xi Rd., Dalian Economic and Technical Development Zone, Dalian 116601, People's Republic of China
Tel: (86) 411-8761-2098

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 Vietnam Ltd.

10th Floor, 60 Nguyen Dinh Chieu Street, Da Kao Ward, District 1, Ho Chi Minh City, Vietnam
Tel: (84) 28-3911-8857

United States

J. Press, Inc.

8W 38th Street Suite 200, New York, NY 10018, U.S.A.
Tel: (1) 212-997-3600

Onward U.S.A. L.L.C.

8W 38th Street Suite 200, New York, NY 10018, U.S.A.
Tel: (1) 212-997-3600

Onward Beach Resort Guam, Inc.

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

Onward Golf Resort Guam, Inc.

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

Corporate / Investor Information

As of February 28, 2018

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 25,406,796 shares of treasury stock.

Number of Shareholders 10,778

Stock Exchange Listings Tokyo, Nagoya

Transfer Agent Mitsubishi UFJ Trust & Banking Co., Ltd.
 1-1, Nikkocho, Fuchu, Tokyo 182-0044, Japan

Number of Employees (Consolidated) 4,530

Major Shareholders

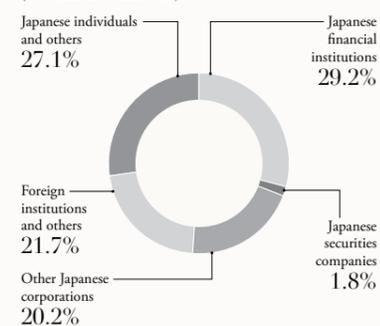
	Number of Shares Held (Thousands)	Percentage of Total Shares Issued (%)
Kashiyama Scholarship Foundation	8,710	6.1
Japan Trustee Services Bank, Ltd. (Trust account 9)	6,249	4.3
The Master Trust Bank of Japan, Ltd. (Trust account)	5,830	4.0
BNYMSANV AS AGENT/CLIENTS LUX UCITS NON TREATY 1	5,396	3.7
Japan Trustee Services Bank, Ltd. (Trust account)	4,898	3.4
Nippon Life Insurance Company	4,671	3.2
Onward Holdings Customers' Shareholding Association	4,662	3.2
The Dai-ichi Mutual Life Insurance Company, Ltd.	4,200	2.9
State Street London Care of State Street Bank and Trust, Boston SSBTC A/C UK London Branch Clients - United Kingdom	3,097	2.1
Sumitomo Mitsui Banking Corporation	2,931	2.0

Notes:

- The Company holds 25,406,796 shares of treasury stock. Treasury stock is not included in the above Major Shareholders information.
- The percentage of total shares issued is calculated after deducting 25,406,796 shares of treasury stock.

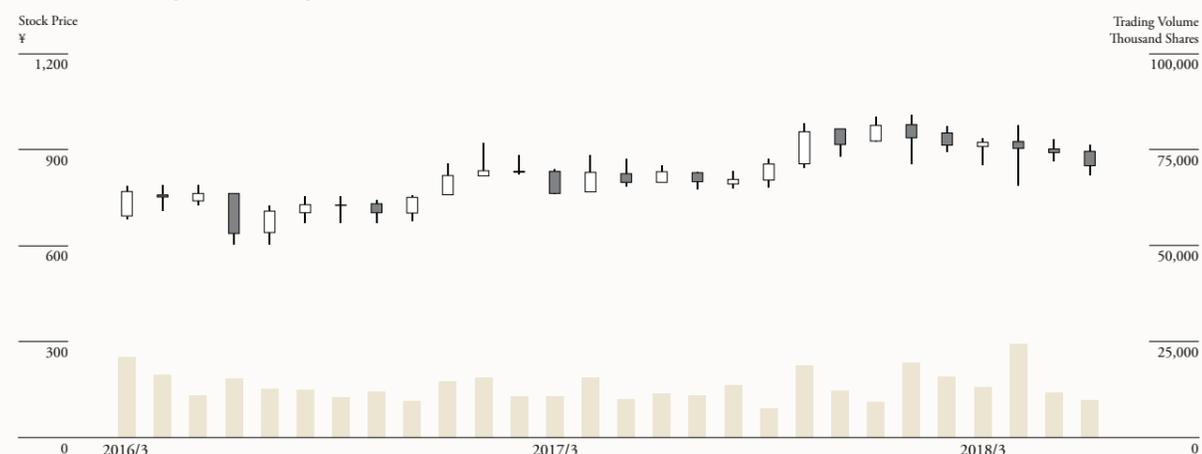
Distribution of Ownership among Shareholders

(On a number of shares basis)



Note: Data regarding Japanese individuals and others includes 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 Manglao Golf Club (currently Onward Manglao Guam, Inc.).
2007	April	Onward Fashion Trading (Shanghai) Co., Ltd., increased its capital and changed its name to Onward Fashion Trading (China) Co., Ltd.
	May	Acquired Frassinetti 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 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 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.).
2016	March	Acquired La Maison Moreau S.A.S.
	April	Acquired Tiaclasse Inc.
	August	Converted Onward Kaisei (Dalian) Co., Ltd. (currently Kashiyama (Dalian) Co., Ltd.), into a wholly owned subsidiary through acquisition of stock.
2017	January	Acquired Kokobuy Inc. and Innovate Organics, Inc.
	December	Acquired Mulberry Japan Co., Ltd. (a joint venture company with Mulberry Group plc).
2018	March	Acquired General Clothing Co., Ltd.

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