Annual Report 2014

Year Ended February 28, 2014

ONWARD HOLDINGS CO., LTD.

Progress

Fiscal year 2014 presented challenges—from Japanese consumers acting in anticipation of the consumption tax hike, to difficult conditions in China, to macro- and micro-level issues confounding our European growth.

However, we are achieving considerable progress in our drive to become a global fashion company. We strengthened our brand offerings in Japan, streamlined our organization, and developed new distribution channels. In Europe, we addressed management challenges and continued to bolster our brand positioning. In Asia, we are diversifying our geographic focus to reduce our dependence on any one single market.

Deflation and polarization have become keywords for global fashion markets, with luxury brands on one end and fast fashion on the other. We trust that adhering to what we believe in—offering classic apparel that represents enduring quality for a diverse customer base—will ensure sustained growth for Onward. Quality is what we do best. Tenacity and progress are in our name.

Contents

Forward-Looking Statements

Future business plans, targets, and related numerical figures presented in this annual report are intended to give an accurate picture of the Onward Group's future prospects. However, no guarantee can be offered that plans, targets, and other numerical figures described herein will be realized. The achievement of stated targets is dependent not only on the efforts of the Company but also the conditions facing the industry as a whole, and we ask for understanding in this regard.

2014-2015 Autumn/Winter
JIL SANDER runway show

Letter to Our Shareholders

Takeshi Hirouchi
Representative Director, Chairman and President

Dear Shareholders,

In fiscal year 2014, ended February 28, 2014, full-year sales slightly outperformed our target due to a robust first-half performance in the domestic business and the boost that the weak yen gave to overseas results. However, profits were below our full-year targets, as second-half domestic sales lost pace and we continued investing for future growth, mainly in Europe. Sales were also slow to pick up in the Chinese market.

As the second year of the Medium-Term Three-Year Plan that we launched in fiscal year 2013, results have deviated from targets. We are aware of the seriousness of falling profits midway through our plan; however, our commitment to growth and our basic strategy remain firm. We will adjust growth strategies across our businesses and reform our organizational structure on the way to achieving our targets for fiscal year 2015. As ever, we placed our brands at the core of our businesses and hope to maximize their value by using our strengths as a leading apparel manufacturer to provide products of value.

Fiscal Year 2014

Abenomics (Prime Minister Shinzo Abe's economic reforms) brought optimism for an economic recovery, leading us to increase our inventories and press ahead with promotional campaigns for our domestic brands. Sales grew at a healthy pace until September 2013. However, growth slowed in October and did not recover enough to meet our targets for the second half.

Typhoons and other poor weather hurt performance, and consumer behavior became extremely polarized after the decision to raise the consumption tax. There was a rush of last-minute demand that was concentrated on big-ticket items and luxury brands but caused consumer appetites to wane for other products. As a result, sales at department stores—our main distribution channel—were exceptionally strong, but other products faced tough conditions, especially our mainstay affordable high-end women's brands.

Overseas, Joseph succeeded in turning earnings around in Europe. However, profits fell at Jil Sander. We acquired Joseph in 2005, followed by Jil Sander in 2008, and have since built our global strategy around these two brands. But demand for high-end apparel slumped worldwide in the wake of the financial crisis of 2008. In response, we have had to make changes to growth strategies and the structure of the brand business.

We have strengthened JOSEPH's brand image by improving our merchandizing and investing in store refurbishments. We have also completely overhauled our management and manufacturing structure. This brand is now on the path to full-fledged growth.

There is still some way to go for JIL SANDER. We have continued to invest in this brand, and the reappointment of the brand's founder, Ms. Jil Sander, as creative director showed our commitment to raising brand value. Ms. Jil Sander brought to the role a founder's passion and experience and made a huge contribution to the brand's value. However, sales did not grow enough to match our considerable investment. She stepped down from the role in October 2013. I feel her creativity took the brand to new heights, and now it is time for us to grow it as a business. Our aim is to preserve the brand value that has been cultivated over the years, while driving up profitability and growing the brand as a core business in Europe.

Profits fell in our other overseas businesses in Asia. Sales of luxury goods were flat due to government cutbacks in China, meaning the recovery in retail sales was slower than we expected.

As a result of the above factors, in fiscal 2014 we reported net sales of ¥279.1 billion, an 8.0% rise from the previous year. Operating income was ¥9.4 billion, down 15.8%. Ordinary income was ¥12.2 billion, down 8.9%.

Fiscal Year 2015

In fiscal year 2015, we will select and concentrate our strategies in businesses both at home and abroad. We are targeting Group sales of ¥290.7 billion, a 4.2% rise from the previous year. We expect operating income of ¥12.3 billion, a 30.5% rise, and ordinary income of ¥13.7 billion, a 12.2% rise.

Uncertainty remains about the future of the Japanese economy, but the recovery is continuing, and the green shoots of higher consumer spending are visible. Protracted deflation has given Japanese consumers an appetite for low prices. But consumers are leaving this mind-set behind and now want quality products of true value. In other words, they want "the real thing."

In times like this, it is imperative that we focus on creating value. We have an established network of quality material manufacturers all over the world and a dedicated in-house planning and manufacturing team. We intend to use these advantages as we focus on quality over quantity. We will not just create products—we will create the styles that lie at their core. Only then can we make products with true value. This will be our strategy as we focus on growing profits at four core domestic brands—Nijyusanku, Kumikyoku, Jiyuku, and Gotairiku—and three global brands—JOSEPH, J.PRESS, and ICB.

We will also accelerate growth through new distribution channels. Where people shop has been changing in the domestic market: together with the growth of e-commerce, we are accelerating store openings at easily accessible train station complexes and fashion malls.

In light of these trends, we are focusing on urban fashion malls as we expand our new brand, SHARE PARK. This brand offers consumers a comfortable and sophisticated lifestyle with a quality casual clothing and accessories collection. We are targeting 40 stores and sales of ¥6.0 billion by fiscal year 2018. We also aim to build a structure that can take advantage of synergies between online sites and brick-and-mortar stores, driving our e-commerce sales to ¥7.0 billion in fiscal year 2015.

Restructuring our European businesses and making them profitable lies at the heart of our overseas strategy. In March 2014, we combined GIBO'Co and Jil Sander to establish Onward Luxury Group S.p.A. We aim to make our European operations, including Joseph, more efficient and profitable by unifying business management, product planning, and showroom functions.

We expect a significant fall in designer-related expenses at Jil Sander in the second half of fiscal 2015. During this year, we will work to improve profitability while pursuing a larger scale of revenues by increasing the number of retail and wholesale locations.

In Asia, we intend to lay the groundwork for future growth strategies. This will include improving profitability in China by ending unprofitable businesses as well as opening stores in shopping centers and expanding e-commerce operations.

I will conclude by saying that in fiscal 2015, we will place the utmost priority on achieving our full-year targets both at home and abroad, in addition to working on the foundations for sustainable growth.

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

August 2014

Takeshi Hirouchi

Takeshi Hirouchi
Representative Director, Chairman and President

Key Performance Trends

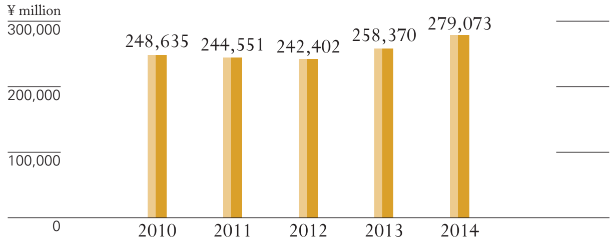
ONWARD HOLDINGS Co., Ltd. and Consolidated Subsidiaries
Years ended February 28 and 29

	Millions of yen					Thousands of U.S. dollars*1
	2010	2011	2012	2013	2014	2014
For the year						
Net sales	¥248,635	¥244,551	¥242,402	¥258,370	¥279,073	$2,737,620
Operating income	4,384	8,929	10,954	11,193	9,422	92,431
Net income	2,188	2,723	3,529	4,503	4,659	45,703
Cash flows from operating activities	14,058	11,207	13,181	10,138	13,362	131,072
Cash flows from investing activities	(26)	(5,152)	(1,962)	(10,683)	(14,301)	(140,288)
Cash flows from financing activities	(4,890)	(9,272)	(7,449)	(7,848)	2,122	20,812
Free cash flow*2	14,032	6,055	11,219	(545)	(939)	(9,216)
Capital expenditures	5,794	5,405	6,230	8,949	16,750	164,313
Depreciation and amortization	5,747	5,642	5,478	5,721	6,801	66,714
At year-end						
Cash and time deposits	34,330	30,939	33,192	24,677	27,376	268,549
Total assets	292,569	281,643	276,939	286,779	313,431	3,074,657
Total net assets	158,164	158,745	157,303	165,372	175,029	1,716,981

	Yen					U.S. dollars*1
Per share information						
Net income (EPS)	¥ 13.97	¥ 17.38	¥ 22.52	¥ 28.71	¥ 29.69	$ 0.29
Net assets	998.98	1,002.34	995.11	1,043.64	1,102.99	10.82
Cash dividends	24.00	24.00	24.00	24.00	24.00	0.24
Payout ratio (%)	171.9	138.1	106.6	83.6	80.8	—
Ratios						
Return on equity (ROE) (%)	1.4	1.7	2.3	2.8	2.8	—
Operating margin (%)	1.8	3.7	4.5	4.3	3.4	—
SGA / Sales (%)	44.2	43.7	43.0	43.9	43.2	—
Shareholders' equity ratio (%)	53.5	55.8	56.3	57.1	55.2	—
Other information						
Overseas sales (%)	17.4	16.0	17.1	17.1	20.9	—
Number of full-time employees	4,008	3,910	3,993	5,208	5,224	—

*1. Yen amounts have been translated, for convenience only, at ¥101.94=US$1, the approximate exchange rate on February 28, 2014.
*2. Free cash flow = Cash flows from operating activities + Cash flows from investing activities

Net Sales

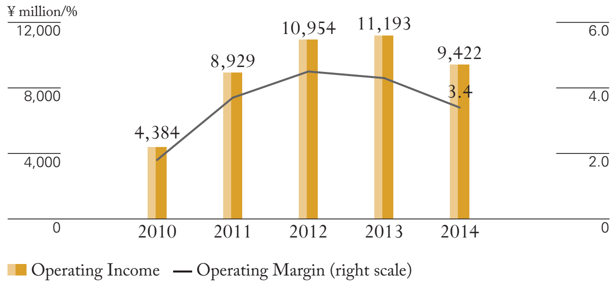


¥279.1 billion

+8.0% (YoY)

Net Sales
Sales of core brands were favorable in the domestic business, whereas the overseas business benefited from recovered conditions in Europe. Net sales increased 8.0% year on year, to ¥279.1 billion, following higher sales in both businesses.

Operating Income and Operating Margin

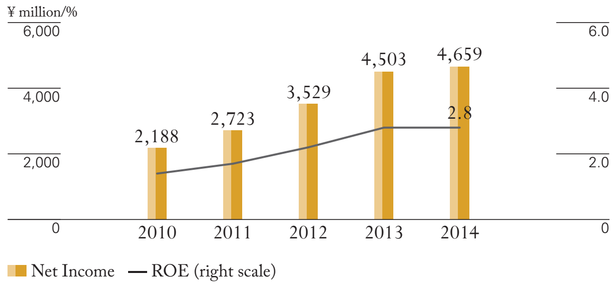


¥9.4 billion

−15.8% (YoY)

Operating Income
In the domestic business, both sales and profit increased in the first half of the fiscal year, but the impact of second-half sales declines weighed heavy, and full-year profits were down as a result. The overseas business also suffered from lower profit. As a result, operating income decreased 15.8% year on year, to ¥9.4 billion.

Net Income and ROE

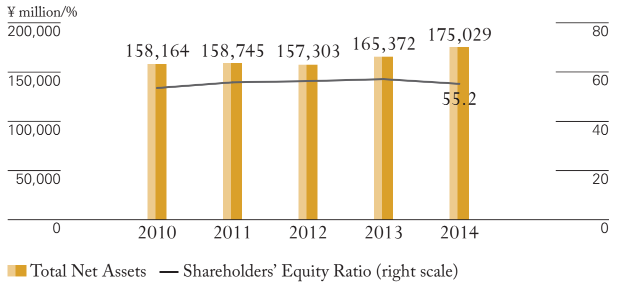


¥4.7 billion

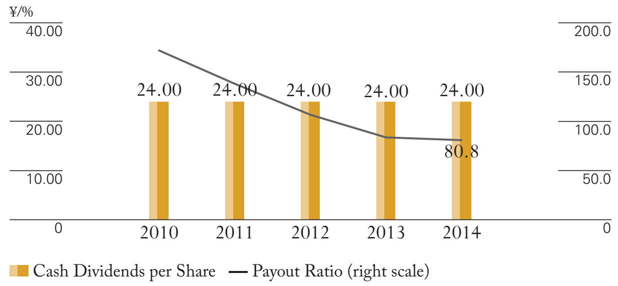
+3.5% (YoY)

Net Income
Net income increased ¥156 million, or 3.5%, to ¥4.7 billion, and ROE was unchanged at 2.8%.

Total Net Assets and Shareholders' Equity Ratio



Cash Dividends per Share and Payout Ratio



Looking Back on Fiscal Year 2014

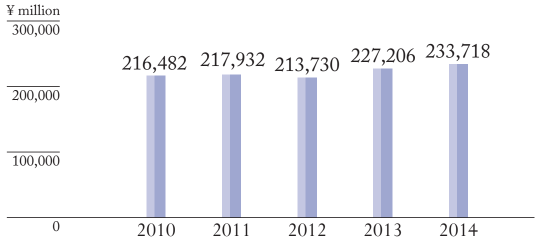
Note: Figures for net sales and operating income (loss) in the Japan and Overseas segments are before eliminations.

Results Overview

In fiscal year 2014, ended February 28, 2014, net sales increased 8.0% year on year, to ¥279,073 million; operating income decreased 15.8%, to ¥9,422 million; ordinary income declined 8.9%, to ¥12,211 million; and net income was up 3.5%, to ¥4,659 million. Onward Kashiyama recorded an increase in profits, while other domestic subsidiaries and the overseas business registered decreases in profits.

Japan

Net Sales



The domestic business is our mainstay business, generating 79.1% of consolidated sales, and the core Onward Kashiyama accounted for 54.0% of domestic sales. In light of economic recovery, aggressive sales plans were promoted, and performance was solid during the first half of the year. However, sales slowed down after the third quarter. In addition, yen depreciation resulted in a rise in manufacturing costs. As a result, operating income from the domestic business decreased 7.3% year on year, to ¥13,850 million.

Achievements

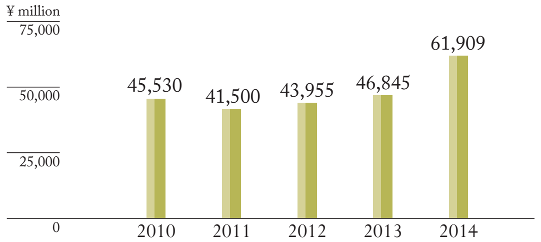
- Sales of high-quality men's suits increased, particularly for the core brand Gotairiku
- E-commerce exceeded sales targets and the sales of the directly managed e-commerce website Onward Crosset grew to ¥5.4 billion

Future Tasks

- Responding to increased costs resulting from yen depreciation, higher factory wages, and rising material prices

Overseas

Net Sales



Joseph recorded profits on a full-year basis as planned. Meanwhile, Jil Sander registered an expansion in losses, reflecting delayed growth in JIL SANDER Navy sales that resulted in a failure to absorb rising designer-related expenses and ongoing investment outlays. The Asian business experienced declines in both revenues and income, following decreased sales through department stores in China. In the U.S. business, upfront investments for the renovation of stores resulted in an operating loss. As a result of the above, the overseas business recorded an operating loss of ¥941 million, down ¥1,194 million year on year.

Achievements

- Full-year profits recorded by Joseph
- JIL SANDER Navy European flagship stores opened in London and Milan

Future Tasks

- Achieving profitability in the Jil Sander business
- Expanding non-department store sales channels in China

The Year in Brief

2013

April

Charles & Keith Japan

Charles & Keith Launched in Japan

Onward has created an alliance with Charles & Keith, a major Singaporean retailer of women's shoes and accessories, to bring this brand to Japanese shores.

August—September

Jil Sander

JIL SANDER Navy Flagship Stores Opened in London and Milan

JIL SANDER Navy's first European flagship stores appeared on London's Draycott Avenue and Milan's Via Sant'Andrea street.

October

Onward Kashiyama

Kabuki Actor Quintet Advertise Gotairiku

A new advertising campaign for the Gotairiku menswear brand was launched, featuring a quintet of Kabuki actors as spokesmen.

October

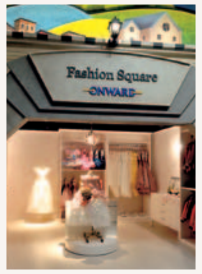
Onward Kashiyama

Missoni Appears at Mercedes-Benz Fashion Week TOKYO

Missoni participated in Mercedes-Benz Fashion Week TOKYO's 2014 Spring/Summer opening show.

December

Onward Kashiyama



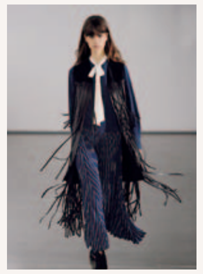
Modeling Experience for Children at Theme Park Kandu

At the work-experience theme park Kandu, Onward Kashiyama provides the "venue" of fashion model, giving children the chance to experience modeling.

2014

February

Joseph



JOSEPH Makes First Appearance at London Fashion Week Autumn/Winter 2014 Show

Celebrating the 25th anniversary of its London flagship store, JOSEPH made its first appearance at London Fashion Week in the Autumn/Winter 2014 show.

Looking Ahead to Fiscal Year 2015

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

Japan

In fiscal year 2015, ending February 28, 2015, sales in the domestic business are forecast to increase 6.5% year on year, to ¥248,917 million, and operating income is projected to rise 19.4%, to ¥16,530 million. We expect earnings to increase year on year during the second half of fiscal year 2015.

Onward Kashiyama

Of these amounts, at Onward Kashiyama we anticipate that sales will increase 2.4%, to ¥163,500 million, and operating income will rise 10.9%, to ¥12,800 million. By sales channel, we forecast that department store sales will edge up 1.6%, and new distribution channel sales will rise 14.2%. In our mainstay department store sales channel, we expect to record our third consecutive year of higher sales, and we plan to expand total sales floor space for the first time in seven years.

In fiscal year 2015, expanding new distribution channels will be at the center of growth strategies. Specific measures will include accelerating store openings in shopping centers and fashion malls, cultivating the new SHARE PARK brand, and strengthening brand promotion activities for the any SiS brand, the flagship brand for new distribution channels.

For e-commerce sales, we are projecting a 30% year-on-year increase in full-year sales, to ¥7,000 million.

Other Domestic Subsidiaries

Other domestic subsidiaries are expected to record a sales increase of 15.4% year on year, to ¥85,417 million, and a rise in operating income of 61.7%, to ¥3,730 million.

Onward Trading will approach new customers with the aim of capturing large-scale orders in its uniform and sales promotion businesses. At the same time, the company will strengthen production and material procurement efforts in the ASEAN region to improve its gross profit margin.

Island will work to attract a greater number of customers by strengthening its lineup of accessories and fashion jewelry.

Chacott plans to increase store openings in its new innerwear business while opening stores in train station complexes.

The Birz Group will concentrate management resources on core brands while eliminating unprofitable businesses to decrease operating loss.

SHARE PARK LaLaport TOKYO-BAY store

any SiS 2014 Autumn/Winter advertising campaign

Chut! INTIMATES

Overseas

The overseas business is expected to see sales decline 1.5% year on year, to ¥60,988 million, and operating income to improve to ¥1,374 million, compared with the operating loss of ¥941 million recorded in fiscal year 2014.

Europe

In Europe, sales are forecast to move up 1.6% year on year, to ¥48,823 million, and operating income is expected to amount to ¥1,438 million, compared with an operating loss of ¥235 million in the fiscal year under review. Onward Luxury Group, formed through a merger of the GIBO'Co Group and the Jil Sander Group, is expected to experience a ¥1,422 million improvement in operating income, compared with the operating loss recorded in the fiscal year under review when combining the results of its predecessors. Meanwhile, operating income for Joseph will rise ¥169 million.

Onward Luxury Group is forecast to see increased orders for GIBO's licensed brands. At the same time, retail operations will be strengthened with the opening of directly managed JIL SANDER Navy stores in Europe and North America. In addition, we plan to boost efficiency by integrating management, product planning, and showroom functions. Furthermore, designer-related costs for JIL SANDER products are forecast to decline, and the gross profit margin for these products is therefore expected to improve during the second half of fiscal year 2015. Meanwhile, the gross profit margin is expected to improve for Joseph following higher sales of full-priced items. In addition, Joseph will strengthen e-commence sales and expand retail operations in North America.

Asia

Sales in Asia are forecast to decrease 15.2% year on year, to ¥7,377 million, and operating income will total ¥68 million, compared with the operating loss of ¥224 million recorded in fiscal year 2014.

In China, we will close unprofitable stores, while improving the profitability of existing stores through the revision of transaction conditions. In the ASEAN region, we will develop manufacturing bases with the aim of lowering production costs.

United States

In the United States, sales are forecast to decrease 7.1% year on year, to ¥4,788 million, and operating loss is expected to total ¥132 million, compared with operating loss of ¥482 million in the previous fiscal year.

In North American brand businesses, we will continue to invest in the reorganization of the ICB and J.PRESS businesses as was done in fiscal year 2014.

In the resort business (Guam), we are aiming to attract tourists from Asia and the United States and will make inroads into the local market. In this manner, we hope to offset the impacts of the anticipated decline in tourism from Japan due to yen depreciation.

2014-2015 Autumn/Winter JIL SANDER Navy

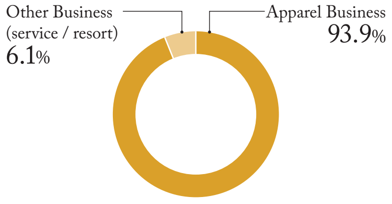
JOSEPH Madison Avenue store

2014-2015 Autumn/Winter ICB runway show, in New York

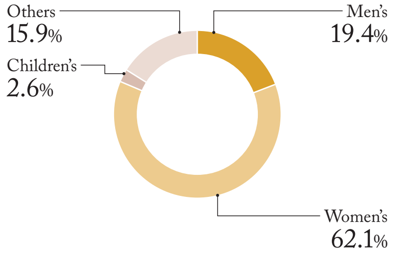
Onward at a Glance

Sales Breakdown

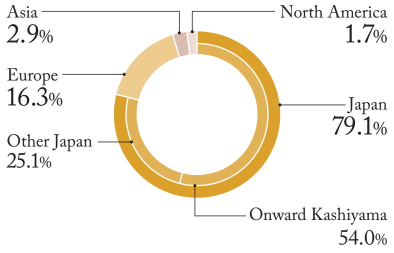
Sales by Business Segment



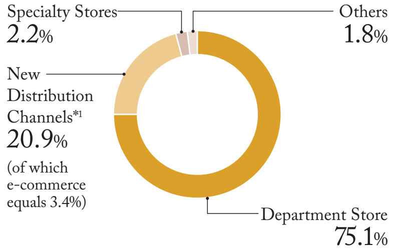
Apparel Business Sales by Clothing Type



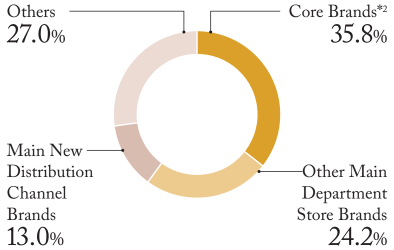
Sales by Geographic Segment



Onward Kashiyama Sales by Channel



Onward Kashiyama Sales by Brand



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

Main Subsidiaries

Japan

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

Overseas

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

This is who we are

23

Launched 1993

Annual Sales
¥27.3 billion

Number of Stores
Over 200

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

組曲

Launched 1992

Annual Sales
¥11.5 billion

Number of Stores
Over 150 stores

Kumikyoku is the second-largest brand of Onward Kashiyama. Based on the concept of "standard clothing that does not stand still," the brand is targeted toward working women aged around 30 years old. The brand is available in department stores across the country.

ICB

ICB

Launched 1995

Annual Sales
¥9.1 billion

Number of Stores
100 stores

One of Onward Kashiyama's original brands, ICB is an international concept brand that targets sophisticated, urban working women in their 30s. The brand was relaunched in the U.S. market in 2012 with the ICB NY Collection, designed by Prabal Gurung.

自由区
AREA FREE

Launched 2000

Annual Sales
¥9.3 billion

Number of Stores
160 stores

Jiyuku is one of the original Onward Kashiyama brands with a core target market of active women aged between 35 and 45 years old. Jiyuku offers modern clothing, perfect for any occasion, and most of the brand's stores are located in department stores.

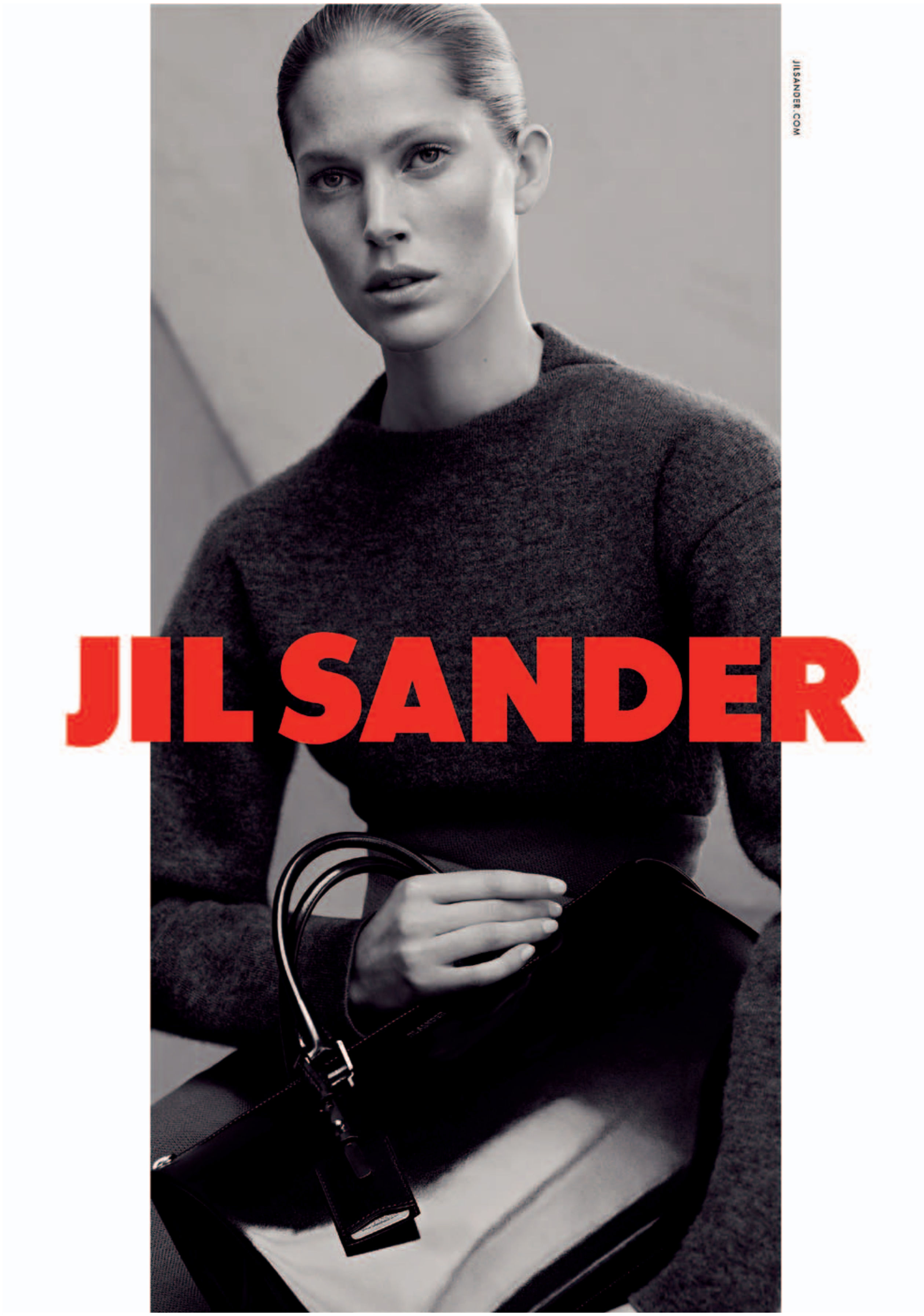
JOSEPH

Launched 1972

Annual Sales
¥11.8 billion

Number of Stores
130 stores

The JOSEPH brand grew from a multi-brand store owned by Joseph Ettedgui, in London. The original label JOSEPH was launched under the concept of "SLICK&CHIC," and the brand was acquired by Onward in 2005. The JOSEPH brand made its first appearance at London Fashion Week in the Autumn/Winter 2014 show.



JIL SANDER

Launched 1973

Annual Sales
¥13.5 billion

Number of Stores
100 stores

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

Our History

1950s–1960s
Ready-Made Clothing Revolution

Onward begins production and sales of ready-made menswear in the 1950s. Taking its cue from apparel manufacturing in the United States, the Company adopts an assembly-line method and Hoffman steam press machines, and these efforts result in substantial improvements in productivity and the quality of ready-made clothing. Together with this success, the Company develops a business format for transactions between apparel companies and department stores, which 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.

1970s–1980s
Overseas Expansion

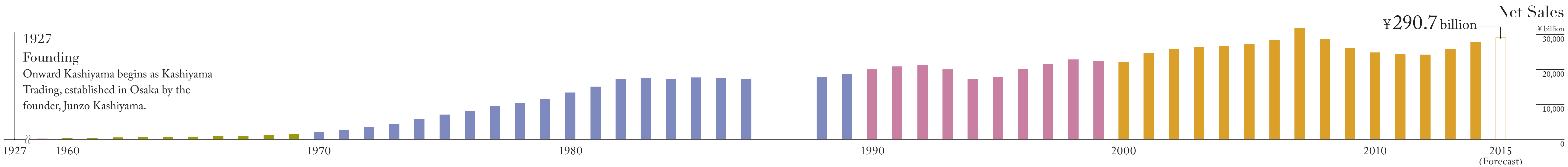
In keeping a step ahead of other Japanese apparel manufacturers, during the 1970s Onward establishes subsidiaries in New York (1972), Paris (1973), and Milan (1974). By establishing local subsidiaries in three major fashion cities over such a short period of time, Onward succeeded in creating the foundations for its overseas business, enabling it to collect the most updated information on global fashion trends. 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.

1990s–2000
Launch of Core Brands

The womenswear business expands dramatically in 1990s with the launch of core brands, starting with Kumikyoku in 1992 and followed by Nijyusanku, ICB, and Jiyuku. 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. They are able to find this style in Japanese brands. Department stores begin expanding womenswear floor spaces and emphasizing new brands from Japanese makers. Thanks to this trend, Onward Kashiyama's store numbers grow rapidly after the new brand's launch, and this impressive growth will form the foundations for future advancement.

2000–Today
To the Next Growth Phase

After the turn of the century, Onward accelerates its international business. Major advancements include its entry into the Chinese market and the establishment of production platforms in Europe. The transition to a holding company system is made in 2007. At the same time, the Company successfully draws strong global brands under the Group's umbrella, acquiring JOSEPH in 2005 and JIL SANDER in 2008. In 2011, Akinori Baba becomes president of Onward Kashiyama, and this change in leadership at the Group's core company signifies the start of our next growth phase. By increasing its global competitiveness, Onward is aggressively pursuing growth in both domestic and overseas operations.

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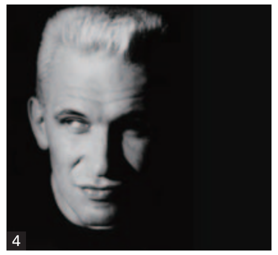
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1 Company founder Junzo Kashiyama 2 Grading machine modifies and cuts basic sewing patterns 3 Jean-Paul Gaultier's debut Paris fashion show, 1978 4 Jean-Paul Gaultier 5 Onward Kashiyama's U.S. offices 6 Bus Stop store on Boulevard Saint-Germain, in Paris


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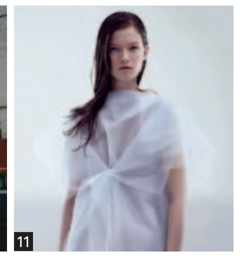
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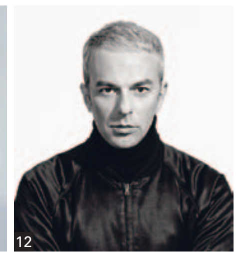
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7 Launches Kumikyoku brand, 1992 8 Launches Nijyusanku brand, 1993 9 Launches ICB (International Concept Brand), 1995
10 Acquires Joseph Group, 2005 11 Acquires Jil Sander Group, 2008 12 Jil Sander's new creative director, Rodolfo Paglialunga

Our Business — Japan

Value Chain

Product Flow (primarily used by Onward Kashiyama)

Onward Research and Development Institute

Established in 1991, the Onward Research and Development Institute is the Group's proprietary center for comprehensive research on new manufacturing technologies and product developments. The Technology Development Center carries out numerous tests and trials to achieve the highest possible level of quality control. For example, fabric is tested for elasticity, tear resistance, friction durability, stretch recovery, and wrinkle resistance. The Onward Advanced Technology Research Center works together with 11 leading companies from the apparel industry, including raw material suppliers and garment material suppliers, to develop new products. The Professional Development Center is responsible for training and human resource development.

Planning and Design

1 Year Before Start of Sales

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 to seek out new, high-quality fabrics.

©Première Vision

6–9 Months Before

Design

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

5 Months Before

Sample Creation

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

4 Months Before

Exhibition

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

3–5 Months Before

Selection

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

Production

3 Months Before

Product Planning

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.

2 Months Before

Production

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

1–2 Weeks Before

Final Check

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

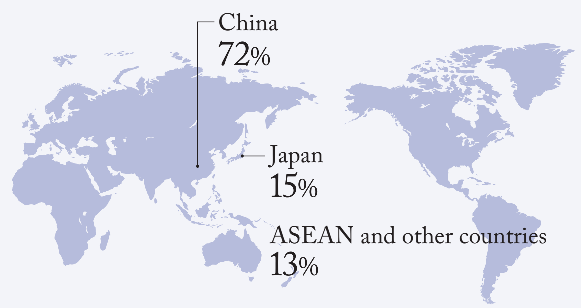
Planning and Production Teams

Onward Kashiyama has approximately 600 professionals in its planning and production control teams. With these strong teams in place, the Company assigns designers, patternmakers, and merchandisers to each brand. The production control teams take care of other aspects of production, ranging from factory selection, technical guidance, and fabric and other material sourcing to quality control.

Production Network

Of Onward Kashiyama's products, 79% are manufactured in co-operation with trading companies or delegated to factories in Japan or overseas. Recently, however, we have been establishing our own production network by strengthening partnerships with highly capable Japanese factories and expanding our low-cost production and sourcing network in China and Vietnam. Currently, about 72% of Onward Kashiyama's products are manufactured in China, with 15% made in Japan, and 13% is produced in the ASEAN and other countries. We are expanding procurement and production in the ASEAN region to ensure that we can always manufacture products in the most suitable location.

Production Areas



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 store 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.
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

1 Week Before

Delivery

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

Sales

Sales

Products are sold at stores and online.

In-house Transportation

Domestic subsidiary Across Transport specializes in the apparel logistics and transportation business. The company offers a total logistics service program that includes warehouse management, transportation, and other logistics functions designed especially for apparel products and accessories. These services are provided for Onward Kashiyama and other domestic brands.

Sales Channels

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

Nijyusanku

Kumikyoku

Department Stores

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

New Distribution Channels

The term "new distribution channels" as used by the Onward Group refers to retail channels other than department stores. These channels are a key focus, even though they only account for 21% of Onward Kashiyama's sales. We aim to expand the number of the stores in the following shopping areas.

Directly Managed Stores

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

Train Station Complexes / Fashion Malls

We offer fashionable and trendy products through this sales channel, which is among the fastest growing in Japan.

Shopping Centers

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

E-Commerce

We conduct e-commerce sales of Group brands through our directly managed e-commerce website Onward Crosset and other domestic and overseas online shopping sites.

Our Business — Overseas

Europe

Established Onward Luxury Group

Our European business consists of three major subsidiaries: GIBO'Co, Jil Sander, and Joseph. In March 2014, we merged the GIBO'Co and the Jil Sander Group to establish Onward Luxury Group. As we progress into the future, we will merge the Joseph Group into Onward Luxury Group and pursue improved managerial efficiency and higher profitability by reorganizing and integrating European operations.

JIL SANDER Taipei store

Jil Sander

Jil Sander offers the luxury menswear and womenswear and accessories from the JIL SANDER and JIL SANDER Navy brands and undertakes manufacturing. Jil Sander has approximately 100 stores mainly in Europe, the United States, and Asia and wholesales throughout the world. Going forward, Jil Sander will accelerate the development of its JIL SANDER Navy brand, primarily through directly managed stores, while expanding its network of sales locations in the Middle East and Asia.

Erika knitwear factory

GIBO'Co.

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

JOSEPH Saint-Germain store

Joseph

With its base in London, Joseph manages 130 stores in major cities throughout the world. In recent years, flagship stores in London and Paris have been renovated to enhance JOSEPH's brand appeal. To strengthen the global competitiveness of this brand, Joseph is improving its product mix by enhancing accessory and menswear lineups, while exploring new markets in Europe, North America, Asia, and the Middle East and also strengthening e-commerce operations.

Asia

Expanding rosebullet as a Strategic Brand in Asia

Beginning with the establishment of its first subsidiary in Shanghai in 1995, the Onward Group has continued to advance its Asian operations. Today, we are operating 266 stores for 12 brands, including Onward Kashiyama's core brands, in department stores and directly managed stores in China, Hong Kong, Korea, Taiwan, Singapore, Thailand, and Vietnam.

In recent years, rosebullet has been winning popularity among young women and has been positioned as a strategic brand. We are accelerating large-scale store openings in shopping centers and fashion malls in China and other Asian countries.

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

rosebullet Edit Tokyo store, in Singapore

ICB Shanghai store

J.PRESS New Haven store

2014-2015 Autumn/Winter ICB runway show, in New York

United States

Pursuing Further Growth in Retail Businesses

U.S. operations include retail businesses in North America as well as hotels and golf course management in Guam.

J.PRESS, acquired in 1986, is a well-loved brand among Ivy Leaguers, with four directly managed stores in North America. In 2013, we launched the new J.PRESS York Street line targeting the youth market, and we are currently selling this brand through directly managed stores as well as shops in department stores.

In 2012, a project to relaunch the ICB brand in North America began with the appointment of up-and-coming New York-based designer Prabal Gurung as chief designer. The new ICB NY Collection is now available through retail, wholesale, and e-commerce sales channels.

Going forward, looking to expand retail operations in the United States, we will conduct investments from a medium-term perspective while steadily advancing business expansion measures.

Our Network

England

London

- Joseph Ltd.
- Freed of London Ltd.

France

Paris

- Horloge Saint Benoit S.A.S.

Caen

- Attitude Diffusion S.A.

China

Shanghai

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

Dalian

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

Taicang

- Taicang Onward High Fashion Co., Ltd.

Nantong

- Nantong Haimeng Garments Co., Ltd.

Hong Kong

- Onward Kashiyama Hong Kong Ltd.

Japan

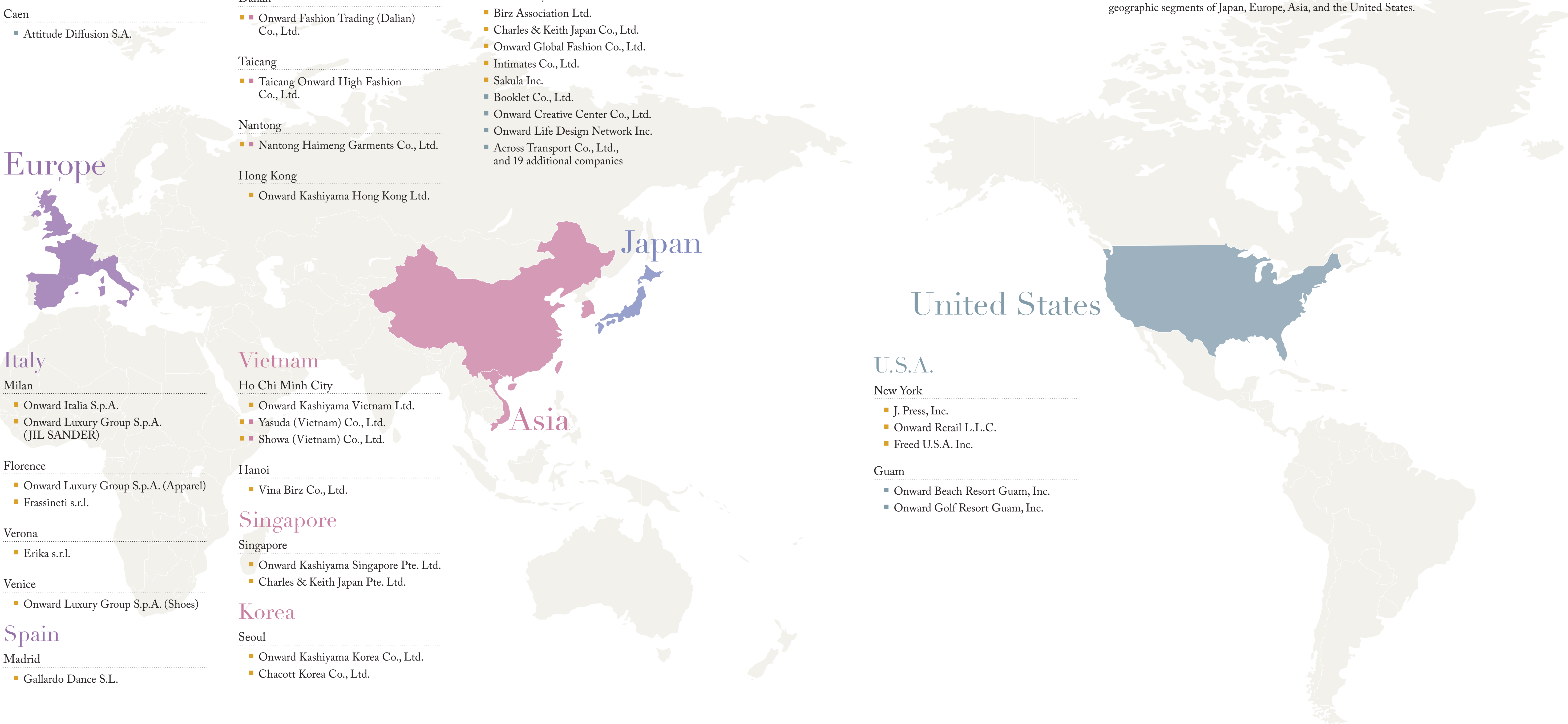
Tokyo

- Onward Holdings Co., Ltd.
- Onward Kashiyama Co., Ltd.
- Onward Trading Co., Ltd.
- Chacott Co., Ltd.
- Bus Stop Co., Ltd.
- Creative Yoko Co., Ltd.
- Island Co., Ltd.
- Birz Association Ltd.
- Charles & Keith Japan Co., Ltd.
- Onward Global Fashion Co., Ltd.
- Intimates Co., Ltd.
- Sakula Inc.
- Booklet Co., Ltd.
- Onward Creative Center Co., Ltd.
- Onward Life Design Network Inc.
- Across Transport Co., Ltd., and 19 additional companies

Number of Stores

4,300 stores in 21 countries and regions

The Onward Group engages in business activities through a network that is made up of 81 subsidiaries and 23 affiliates, for a total of 105 Group companies. The Group operates in the four geographic segments of Japan, Europe, Asia, and the United States.



Italy

Milan

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

Florence

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

Verona

- Erika s.r.l.

Venice

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

Spain

Madrid

- Gallardo Dance S.L.

Vietnam

Ho Chi Minh City

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

Hanoi

- Vina Birz Co., Ltd.

Singapore

Singapore

- Onward Kashiyama Singapore Pte. Ltd.
- Charles & Keith Japan Pte. Ltd.

Korea

Seoul

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

U.S.A.

New York

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

Guam

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

- Apparel
- Other
- Joint Venture Factory

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 implement 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

1,290,000
Items Collected

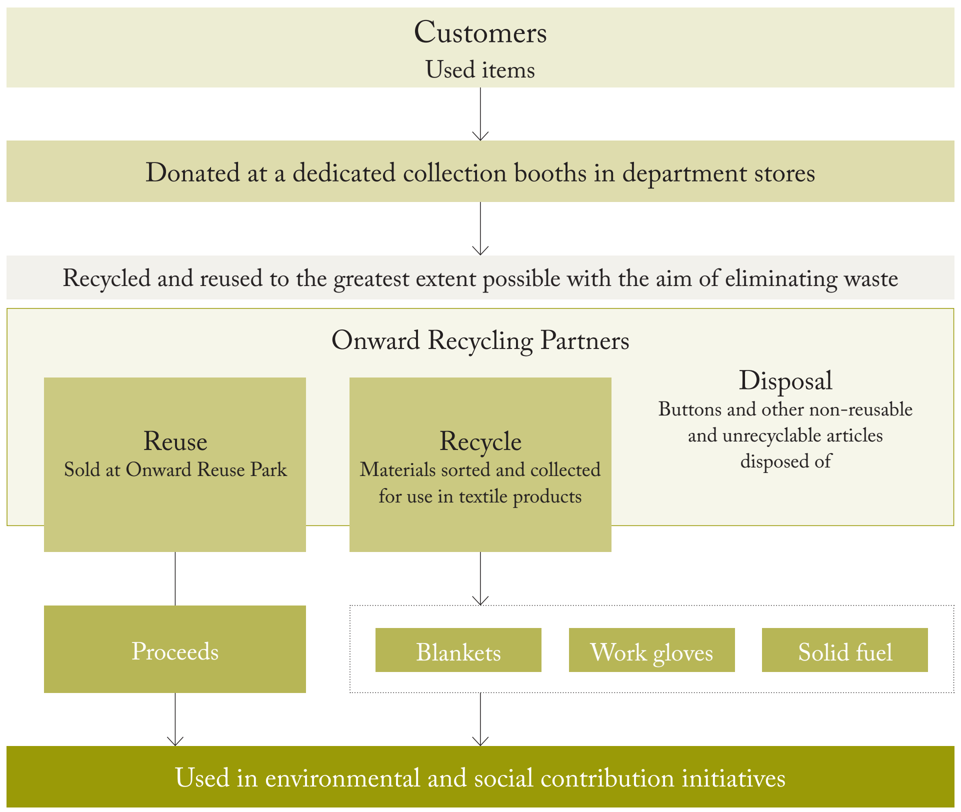
240,000
Customers That Donated

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 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 31.

Recycling Process



Tie-Up with the Japanese Red Cross Society

Under the Onward Green Campaign, and utilizing the extensive Red Cross network that reaches 186 countries throughout the world, Onward 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 Program Using Recycled Blankets

Second support program: February 2011

1 Kazakhstan

Refugee camp:
3,300 blankets

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

Sixth support program: October 2013

4 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

5 Myanmar

Impoverished area:
4,000 blankets

Seventh support program: October 2014

Fifth support program: September 2012

2 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.)

First support program: May 2010

6 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 areas

Fourth support program: March 2012

3 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

Third support program: September 2011

7 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

Other Activities

Onward Reuse Park—Used Onward Products Offered at Discounted Prices

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

With three floors and floor space of approximately 380 square meters, Onward Reuse Park features a lineup of used men's, women's, and children's clothing and other items, all sold at discounted prices. All proceeds from sales at this store are used to fund the Group's environmental and social contribution initiatives. Also, the hangers, chairs, counters, and stationery used in this store are made from thinned wood from Kochi Prefecture, while shopping bags are created from aged rice. In this manner, Onward Reuse Park is a truly eco-friendly store.

Onward Reuse Park

KIBOU311 Participation in Cherry Tree Planting Event

The third annual KIBOU311 cherry tree planting event was held in the town of Minamisanriku, in Miyagi Prefecture, during fiscal year 2014. Onward Kashiyama has participated in this event for three consecutive years, a tradition that began in 2012. 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 these donations in turn to fund cherry tree planting events.

Reduced Environmental Footprint through Low-Emission Vehicles

Across Transport is conducting a number of initiatives to reduce its environmental footprint. These activities include the optimization of vehicle allocation and transport routes; promotion of and education regarding environmentally friendly driving through the use of digital tachographs; promotion of the cessation of vehicle idling; and the introduction of CNG vehicles, hybrid vehicles, and other low-emission vehicles.

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

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

Forest Preservation Initiatives at Tosayama Onward Rainbow Forest

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

Corporate Governance

Our Basic Approach to Corporate Governance

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

Directors and the Board of Directors

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

Reasons for the Appointment of Outside Directors

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

Audit & Supervisory Board Members and the Audit & Supervisory Board

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

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

Reasons for the Appointment of Outside Audit & Supervisory Board Members

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

Business Execution Structure

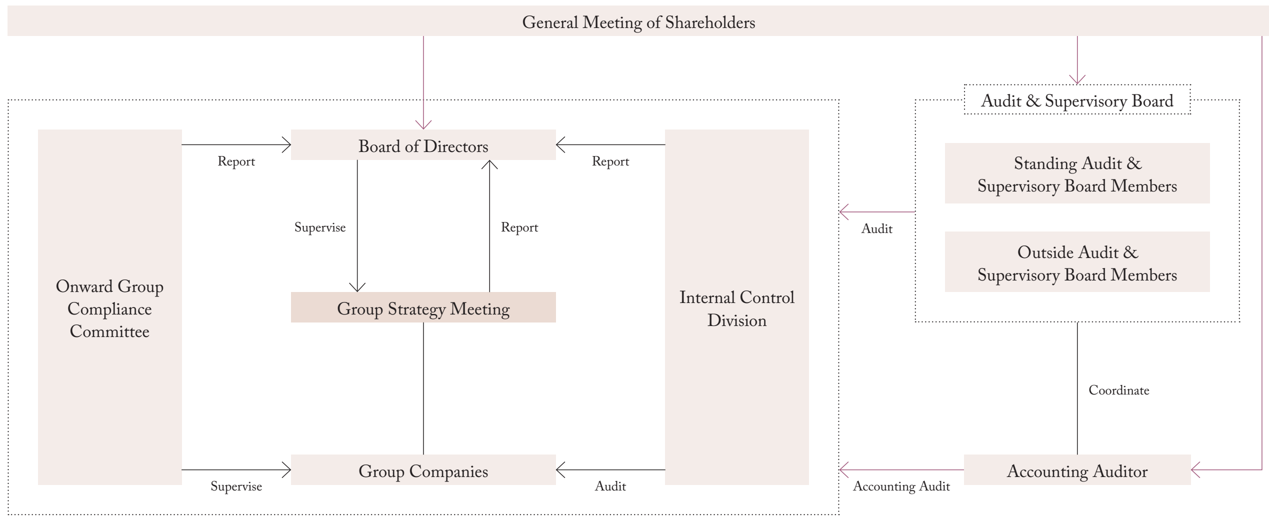
The Onward Group has adopted a holding company structure that allows the Company's Board of Directors to engage in strategic decision making and supervise operating companies. At the same time, the Group has separated the supervisory and execution functions in order to clarify the responsibilities and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

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

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

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

Corporate Governance Structure



Directors and Audit & Supervisory Board Members Compensation

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

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

Officer Classification	Total Amount of Compensation Paid (Millions of Yen)	Total Amount of Compensation Paid by Type of Compensation (Millions of Yen)			Number of Eligible Officers
		Basic Compensation	Bonus	Stock Options	
Directors (excluding outside directors)	406	234	106	66	5
Audit & Supervisory Board Members (excluding outside audit & supervisory board members)	36	36	—	—	3
Outside Officers	40	40	—	—	4

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

Total amount of consolidated compensation by officer

Name (By Officer Classification)	Total Amount of Consolidated Compensation Paid (Millions of Yen)	Company Classification	Total Amount of Consolidated Compensation Paid by Type of Compensation (Millions of Yen)		
			Basic Compensation	Bonus	Stock Options
Takeshi Hirouchi (Director)	163	Filing company	94	42	26

Compliance Structure

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

Risk Management Structure

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

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

As of September 1, 2014

Board of Directors

Representative Director Chairman and President
Takeshi Hirouchi

Senior Managing Director
Masaaki Yoshizawa

Directors
Akinori Baba
Representative Director, President, Onward Kashiyama Co., Ltd.
Hiroaki Yamada
Director, Vice President, Onward Kashiyama Co., Ltd.
Michinobu Yasumoto

Outside Directors
Hachiro Honjo
Yoshihide Nakamura

Audit & Supervisory Board Members

Standing Audit & Supervisory Board Members
Hitoshi Aoyama
Kenichiro Tamai

Outside Audit & Supervisory Board Members
Jotaro Yabe
Katsuaki Ohashi

Executive Officers

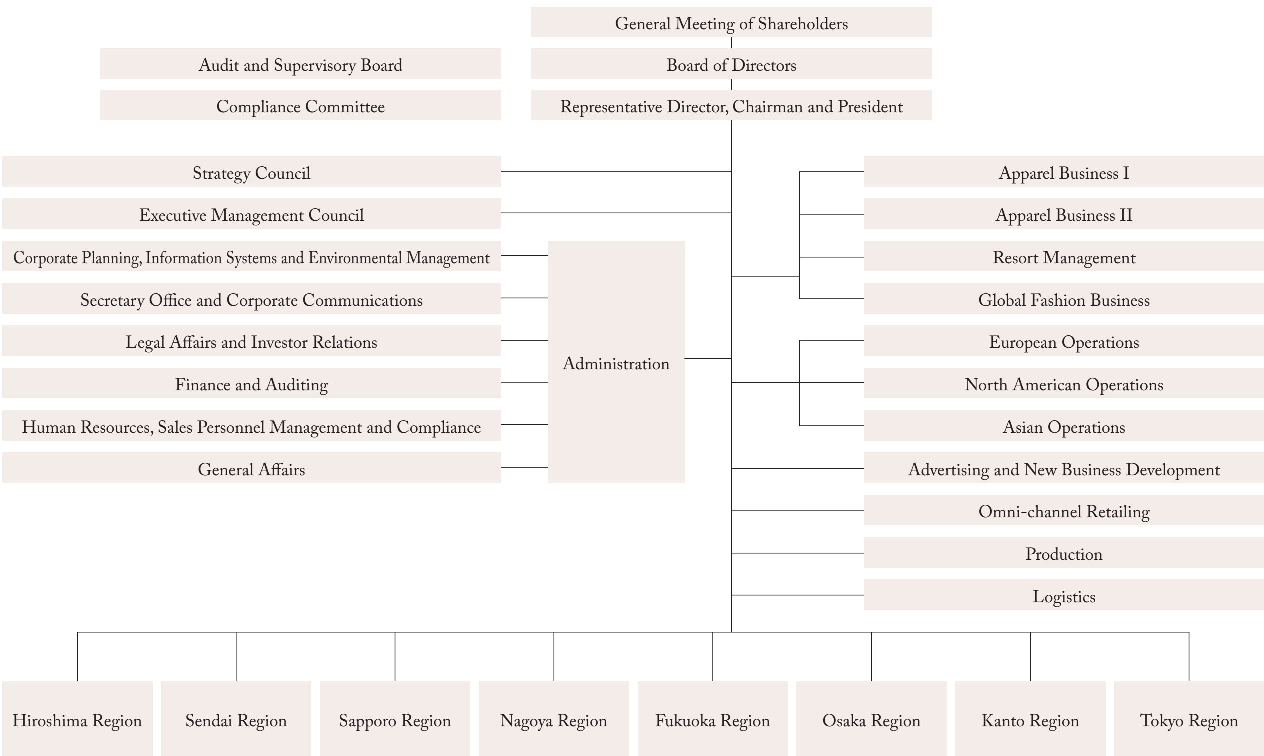
Senior Managing Executive Officer
Hiroshi Ishida

Managing Executive Officers
Kenichi Iizuka
Michio Ohsawa
Hidenobu Tanaka
Hirokazu Yoshizato
Eihachiro Umemiya
Hisayuki Ichinose

Executive Officers
Kazuyuki Suematsu
Tomohiko Sakamoto
Osamu Miwa
Takashi Sudo
Masanori Shozu
Keiko Ueno
Masahiko Yamashita

Organization Chart

As of September 1, 2014



Financial Section

Contents

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

Six-Year Financial Summary

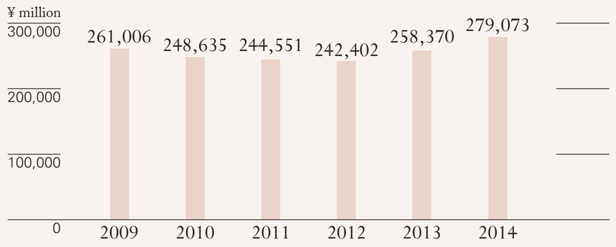
ONWARD HOLDINGS Co., Ltd. and Consolidated Subsidiaries
Years ended February 28 and 29

	Millions of yen						Thousands of U.S. dollars*1
	2009	2010	2011	2012	2013	2014	2014
For the year							
Net sales	¥261,006	¥248,635	¥244,551	¥242,402	¥258,370	¥279,073	$2,737,620
Cost of sales	142,676	134,459	128,726	127,288	133,879	149,113	1,462,754
Selling, general and administrative expenses	109,246	109,792	106,896	104,160	113,298	120,538	1,182,435
Operating income	9,084	4,384	8,929	10,954	11,193	9,422	92,431
Ordinary income	6,285	6,120	10,497	13,330	13,405	12,211	119,790
Income taxes, current	4,639	4,016	5,555	7,528	7,398	3,112	30,522
Net income (loss)	(30,895)	2,188	2,723	3,529	4,503	4,659	45,703
Cash flows							
Cash flows from operating activities	10,839	14,058	11,207	13,181	10,138	13,362	131,072
Cash flows from investing activities	(40,950)	(26)	(5,152)	(1,962)	(10,683)	(14,301)	(140,288)
Cash flows from financing activities	17,972	(4,890)	(9,272)	(7,449)	(7,848)	2,122	20,812
Free cash flow*2	(30,111)	14,032	6,055	11,219	(545)	(939)	(9,216)
Capital expenditures	4,178	5,794	5,405	6,230	8,949	16,750	164,313
Depreciation and amortization	5,986	5,747	5,642	5,478	5,721	6,801	66,714
At year-end							
Cash and time deposits	23,415	34,330	30,939	33,192	24,677	27,376	268,549
Total current assets	98,946	100,680	95,545	98,895	100,320	110,349	1,082,491
Total property, plant and equipment	90,175	89,742	86,623	82,988	86,862	102,879	1,009,210
Total assets	296,283	292,569	281,643	276,939	286,779	313,431	3,074,657
Total current liabilities	92,369	90,929	82,677	84,091	100,740	101,010	990,874
Total shareholders' equity	178,023	175,450	174,454	176,320	177,142	178,078	1,746,888
Total net assets	158,418	158,164	158,745	157,303	165,372	175,029	1,716,981

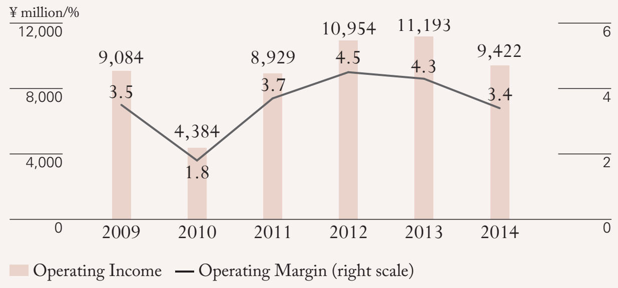
	Yen						U.S. dollars*1
Per share information							
Net income (EPS)	¥ (197.21)	¥ 13.97	¥ 17.38	¥ 22.52	¥ 28.71	¥ 29.69	$ 0.29
Net assets	1,001.36	998.98	1,002.34	995.11	1,043.64	1,102.99	10.82
Cash dividends	30.00	24.00	24.00	24.00	24.00	24.00	0.24
Payout ratio (%)	—	171.9	138.1	106.6	83.6	80.8	—
Ratios							
ROE (%)	(17.6)	1.4	1.7	2.3	2.8	2.8	—
ROA (%)	(10.4)	0.7	1.0	1.3	1.6	1.6	—
Operating margin (%)	3.5	1.8	3.7	4.5	4.3	3.4	—
Gross profit margin (%)	45.3	45.9	47.4	47.5	48.2	46.6	—
SGA / Sales (%)	41.9	44.2	43.7	43.0	43.9	43.2	—
Shareholders' equity ratio (%)	52.9	53.5	55.8	56.3	57.1	55.2	—
Other information							
Number of full-time employees	2,473	4,008	3,910	3,993	5,208	5,224	—

*1. Yen amounts have been translated, for convenience only, at ¥101.94=US$1, the approximate exchange rate on February 28, 2014.
*2. Free cash flow = Cash flows from operating activities + Cash flows from investing activities

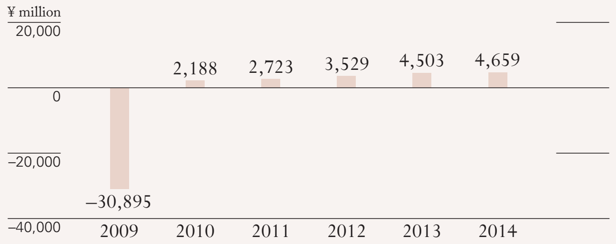
Net Sales



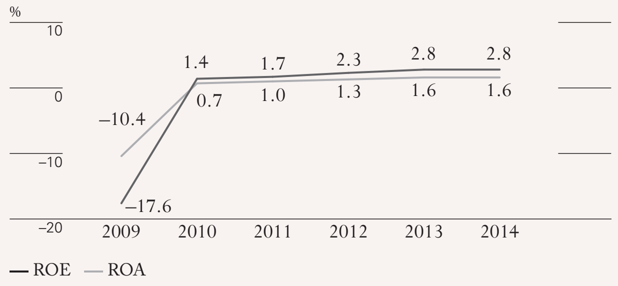
Operating Income and Operating Margin



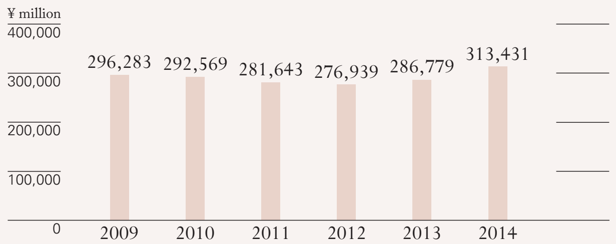
Net Income (Loss)



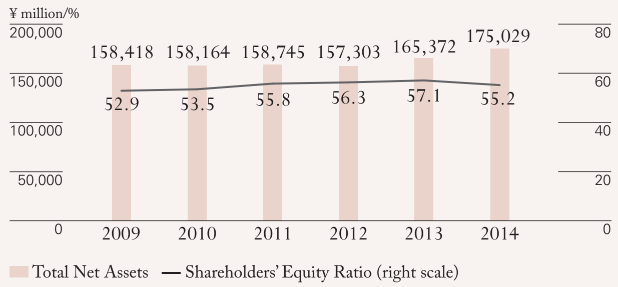
ROE and ROA



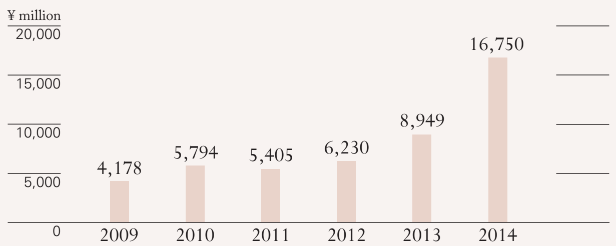
Total Assets



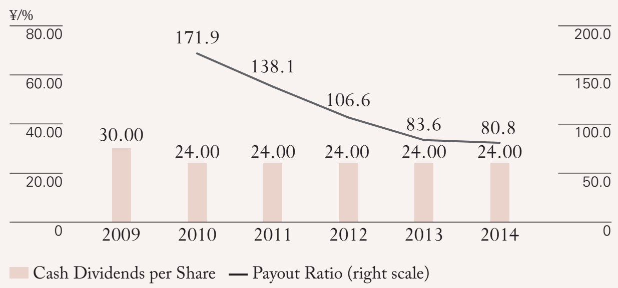
Total Net Assets and Shareholders' Equity Ratio



Capital Expenditures



Cash Dividends per Share and Payout Ratio



Management's Discussion and Analysis

Overview of Operating Results

In fiscal year 2014, ended February 28, 2014, the domestic economy showed signs of a modest recovery. The economic stimulus measures instituted by the Japanese government and the Bank of Japan led to yen depreciation and stock price improvements, and these positive changes drove an improvement in corporate earnings and consumer spending. However, the future of the domestic economy remained uncertain, largely due to the threat of a downturn in the global economy that resulted from the prolonged sovereign debt crisis in Europe and an economic slowdown in emerging countries.

In the domestic apparel and fashion industries, sales of luxury items and other high-value-added products were strong, thanks to improved consumer confidence and increased values of personal assets that stemmed from the higher stock prices. Nevertheless, the operating environment grew difficult in October 2013 and has persisted as a result of the decision to raise the consumption tax, which adversely affected consumer confidence, and harsh weather conditions, such as typhoons. This difficulty persisted thereafter.

Against this background, we at the Onward Group concentrated our strategies in businesses both at home and abroad. In the domestic business, we aggressively pushed for earnings improvement centered on Onward Kashiyama's mainstay businesses and core brands.

In the overseas business, we established Onward Luxury Group S.p.A. by merging the GIBO'Co Group and the Jil Sander Group, of Italy. In Asia, though the economic recovery was slower than we expected, profit levels remained the same in existing businesses. At the same time, we worked to develop new production networks in the ASEAN region. In North America, we continued to invest in merchandising and brand development to facilitate future business expansion.

Net Sales

Sales in the Apparel Business increased 8.0% year on year, to ¥262,076 million, while sales in the Other Business climbed 8.3%, to ¥16,997 million. As a result, consolidated net sales grew ¥20,703 million, or 8.0%, compared with the previous fiscal year, to ¥279,073 million.

Gross Profit

While cost of sales grew 11.4%, to ¥149,113 million, we achieved gross profit of ¥129,960 million, an increase of ¥5,469 million compared with the previous fiscal year. This rise was largely attributable to growth in net sales. The gross profit margin declined 1.6 percentage points, from 48.2% in fiscal year 2013 to 46.6% in fiscal year 2014. This decline was mainly due to a temporary rise in costs of sales for domestic subsidiaries due to the rapid depreciation of the yen and loss on write-down of inventories that resulted from failure to meet second-half sales targets.

Operating Income

Selling, general and administrative (SG&A) expenses grew 6.4% year on year, to ¥120,538 million. The ratio of SG&A expenses to net sales was 43.2%, down 0.7 percentage point from 43.9% in the previous fiscal year. At Onward Kashiyama, we were successful in curtailing SG&A expenses by adjusting costs in conjunction with second-half sales. Regardless, the operating income margin contracted, from 4.3% to 3.4%, following a decline in the gross profit margin. As a result, operating income decreased ¥1,770 million, to ¥9,422 million.

Other Income (Expenses)

Other income, net, amounted to ¥53 million, compared with other expenses, net, of ¥3,444 million in the previous year. Other expenses were recorded in the forms of loss on sales or disposal of fixed assets, net, of ¥1,318 million, and loss from dissolution of corporate pension fund of ¥1,264 million. Also, the gain on transition of retirement benefit plan of ¥1,951 million recorded in fiscal year 2013 was absent in fiscal year 2014, adversely impacting other income. Nonetheless, impairment loss on fixed assets decreased, from ¥6,919 million to ¥323 million, buoying other income together with the recording of gain on sale of investments in securities, net, of ¥891 million.

Income before Income Taxes and Minority Interests and Net Income

Income before income taxes and minority interests was ¥9,475 million, an increase of ¥1,726 million, or 22.3%, year on year. Income taxes climbed ¥1,593 million, or 50.0%, to ¥4,782 million, from ¥3,189 million recorded in the previous fiscal year. Due to these factors, net income was ¥4,659 million, a gain of ¥156 million, or 3.5%, from the previous fiscal year.

Segment Information

Apparel Business

In fiscal 2014, sales in the Apparel Business segment grew 8.0% year on year, to ¥262,076 million, while operating income decreased 19.7%, to ¥11,634 million.

Domestic Business

At Onward Kashiyama, sales of core brands grew favorably throughout the first half of the fiscal year, and a recovery was evident in menswear. However, conditions took a downturn during the second half of the fiscal year due to harsh weather conditions and a trend toward thriftiness. Despite this setback, in the e-commerce business, sales targets were exceeded by both Onward Kashiyama and other domestic subsidiaries.

Overseas Business

In Europe, the Joseph Group enjoyed a notable improvement in performance, while the GIBO'Co Group was able to grow sales and build a stable earnings base. Profit declined for the Jil Sander Group, but this decrease was due to upfront investments for business expansion. We were able to secure a certain level of sales in Asia and North America; however, income was down in these areas as a result of investments for expanding operations as well as instability in global economic, political, and other conditions.

Other Business

In fiscal year 2014, sales in the Other Business segment increased 8.3% compared with the previous fiscal year, to ¥16,997 million, and operating income decreased 13.0%, to ¥290 million.

In our service-related businesses, sales exceeded targets for both Onward Creative Center, which designs and constructs commercial facilities, and Across Transport, which provides apparel logistics and transportation services. Nevertheless, income was down year on year following a rise in costs.

Our resort business performed favorably, posting higher sales and profits.

Outlook for the Fiscal Year Ending February 28, 2015

For fiscal year 2015, ending February 28, 2015, we at the Onward Group forecast that operating income will grow 30.5% year on year, to ¥12,300 million, supported by a 4.2% gain in consolidated net sales, to ¥290,700 million.

While the domestic economy is displaying a modest recovery, the outlook remains unclear. Reasons for this uncertainty include the consumption tax hike that was instituted in April 2014 and the instability in the global economy resulting from political unrest.

Under these circumstances, we will concentrate our investments in mainstay businesses and core brands to build a business structure that ensures sustainable growth in profits. In new businesses, we will promote business development in fields and markets that have significant growth potential.

Domestic Business

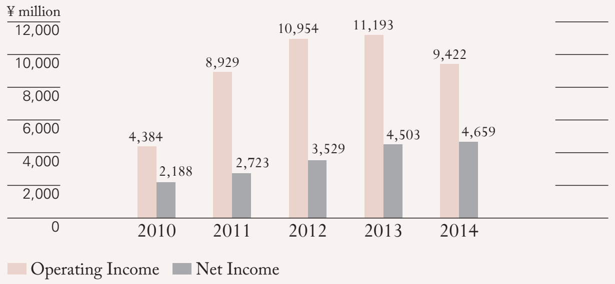
Onward Kashiyama and other domestic apparel subsidiaries will work to further improve their products, services, and store environments to attract more customers. By taking advantage of our synergies in domestic businesses, we will focus on expanding profits in new business fields.

Overseas Business

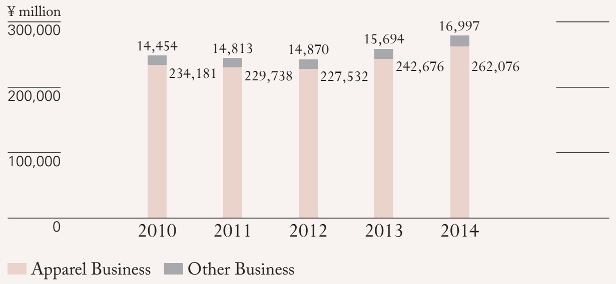
In Europe, we will boost profitability by expanding our production capacity and brand business. Through organizational reforms, we will improve management efficiency by unifying business management and product functions. In Asia and North America, we will conduct investments as necessary from a medium-term standpoint to increase our growth potential.

Net Sales

Operating Income and Net Income



Segment Sales



Financial Position

Assets
As of February 28, 2014, total assets increased ¥26,652 million from the previous fiscal year-end, to ¥313,431 million. Total current assets grew ¥10,029 million, mainly from gains in cash and time deposits, accounts and notes receivable, and inventories. Fixed assets expanded ¥16,623 million, largely owing to rises in buildings and structures on the back of capital expenditure as well as increases in lease assets and in investments in securities, which was a reflection of higher market values of stockholdings.

Liabilities
Total liabilities as of February 28, 2014, expanded ¥16,995 million from the previous fiscal year-end, to ¥138,402 million. Despite a decrease in accrued income taxes, total current liabilities grew ¥270 million, mainly attributable to an increase in accounts and notes payable. Total long-term liabilities rose ¥16,725 million, due to an increase in long-term loans payable.

Net Assets
As of February 28, 2014, total net assets increased ¥9,657 million from the previous fiscal year-end, to ¥175,029 million. Total shareholders' equity rose ¥936 million, reflecting growth in retained earnings. Accumulated other comprehensive income expanded ¥8,440 million, mainly attributable to a rise in net unrealized gains on available-for-sale securities given the improvement in market values of our stockholdings as well as more beneficial foreign currency translation adjustments.

Cash Flows

Cash Flows from Operating Activities
Net cash provided by operating activities for fiscal year 2014 grew ¥3,224 million from the previous fiscal year, to ¥13,362 million, mainly due to an increase in income before income taxes and minority interests of ¥1,726 million.

Cash Flows from Investing Activities
Net cash used in investing activities for fiscal year 2014 totaled ¥14,301 million, an increase of ¥3,618 million from the previous fiscal year, mainly due to investments in sales facilities.

Cash Flows from Financing Activities
Net cash provided by financing activities for fiscal year 2014 amounted to ¥2,122 million, compared with net cash used in financing activities of ¥7,848 million in fiscal year 2013, following changes in borrowings and dividends paid.

Cash and cash equivalents as of February 28, 2014, moved up ¥2,686 million, to ¥27,231 million.

Capital Expenditures

We at the Onward Group undertake capital expenditures on a continuous basis to upgrade and expand our planning, production, sales, and logistics structures and systems. Our Group's capital expenditures are the wellspring that enables us to address the diverse needs of our customers. In fiscal year 2014, our capital expenditures totaled ¥16,750 million.

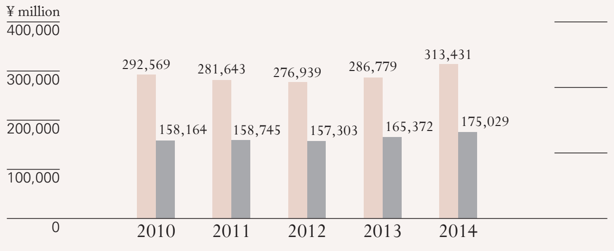
In the Apparel Business segment, capital expenditures amounted to ¥10,066 million, the majority of which was channeled to sales floors at department stores and directly managed stores with the aim of strengthening the Group's sales structure and systems. In the Other Business segment, we at the Onward Group invested ¥879 million to upgrade commercial facilities and enhance operational efficiency.

Profit Distribution Policy

At Onward Holdings, we recognize that the distribution of profits to shareholders is one of our top priorities. Our basic policy is to distribute regular and stable dividends to shareholders based on our business performance, and we target a dividend payout ratio of at least 35%. Taking into consideration our business results and the future outlook for the Group's operating environment, we decided to distribute a cash dividend of ¥24.00 per share for fiscal year 2014, the same payout as in the previous fiscal year.

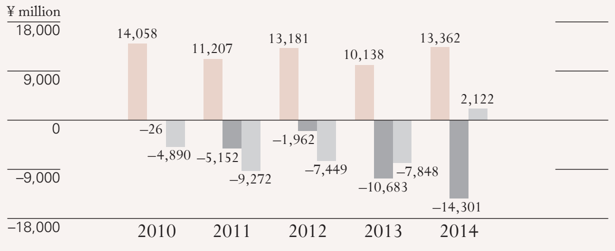
Treasury stock acquisitions will be conducted based on funding requirements. Additionally, we intend to utilize our retained earnings flexibly and adopt a balanced approach to meet our funding requirements. Based on this policy, our retained earnings will be used for strategic investments to build a solid business foundation and strengthen our financial position as and when we consider appropriate.

Total Assets and Total Net Assets



Total Assets Total Net Assets

Cash Flows



Cash Flows from Operating Activities Cash Flows from Investing Activities Cash Flows from Financing Activities

Operating Risks

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

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

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

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

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

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

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

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

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

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

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

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

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

Consolidated Balance Sheets

ONWARD HOLDINGS Co., Ltd. and Consolidated Subsidiaries
February 28, 2013 and February 28, 2014

ASSETS	Millions of yen 2013	Millions of yen 2014	Thousands of U.S. dollars (Note 2. (21)) 2014
Current assets:			
Cash and time deposits (Notes 3 and 10)	¥ 24,677	¥ 27,376	$ 268,549
Accounts and notes receivable (Note 3)	25,864	28,251	277,133
Inventories (Note 2. (4))	34,476	40,680	399,062
Deferred tax assets (Note 12)	7,932	5,109	50,115
Other current assets	7,823	9,568	93,864
Less: Allowance for bad debt	(452)	(635)	(6,232)
Total current assets	100,320	110,349	1,082,491
Property, plant and equipment (Note 6):			
Buildings and structures	78,572	80,723	791,864
Leased assets	2,360	8,073	79,196
Other depreciable property	28,438	33,089	324,590
Less: Accumulated depreciation	(72,570)	(75,328)	(738,946)
	36,800	46,557	456,704
Land (Note 13)	50,062	56,322	552,506
Total property, plant and equipment	86,862	102,879	1,009,210
Intangible assets, net:			
Goodwill	32,770	29,741	291,748
Other	2,688	4,536	44,492
Total intangible assets, net	35,458	34,277	336,240
Investments and other assets:			
Investments in securities (Notes 3 and 4)	42,730	49,162	482,261
Long-term loans receivable	5,276	5,446	53,427
Long-term prepaid expenses	1,212	1,182	11,598
Deferred tax assets (Note 12)	3,601	3,079	30,208
Other investments	13,862	10,029	98,376
Less: Allowance for bad debt	(2,542)	(2,972)	(29,154)
Total investments and other assets	64,139	65,926	646,716
Total assets	¥286,779	¥313,431	$3,074,657

LIABILITIES AND NET ASSETS	Millions of yen 2013	Millions of yen 2014	Thousands of U.S. dollars (Note 2. (21)) 2014
Current liabilities:			
Accounts and notes payable (Note 3)	¥ 33,513	¥ 38,306	$ 375,768
Short-term loans payable (Notes 3 and 15)	28,614	41,825	410,287
Current portion of long-term loans payable (Notes 3 and 15)	18,967	3,132	30,726
Accrued income taxes	4,830	956	9,375
Accrued bonuses to employees	1,290	1,286	12,618
Accrued bonuses to directors	252	186	1,829
Allowance for sales returns	528	497	4,875
Provision for point program	249	264	2,590
Other current liabilities (Note 15)	12,497	14,558	142,806
Total current liabilities	100,740	101,010	990,874
Long-term liabilities:			
Bonds (Note 15)	250	150	1,471
Long-term loans payable (Notes 3 and 15)	1,324	13,902	136,370
Deferred tax liabilities—revaluation of land (Notes 12 and 13)	3,966	3,966	38,909
Accrued retirement benefits (Note 8)	3,058	3,421	33,557
Lease obligations (Note 15)	1,063	5,981	58,675
Accrued retirement benefits for directors and corporate auditors	153	137	1,342
Other	10,853	9,835	96,478
Total long-term liabilities	20,667	37,392	366,802
Total liabilities	121,407	138,402	1,357,676
Commitments and contingent liabilities (Note 14)			
Net assets:			
Shareholders' equity (Note 16):			
Common stock:			
Authorized—400,000,000 shares			
Issued—172,921,669 shares at February 28, 2013 and February 28, 2014, respectively	30,080	30,080	295,072
Capital surplus	50,043	50,043	490,909
Retained earnings	120,165	121,008	1,187,045
Less: Treasury stock, at cost, 16,046,184 shares and 15,988,357 shares at February 28, 2013 and February 28, 2014, respectively	(23,146)	(23,053)	(226,138)
Total shareholders' equity	177,142	178,078	1,746,888
Accumulated other comprehensive income:			
Net unrealized gain on available-for-sale securities (Note 4)	1,532	5,005	49,092
Deferred gain (loss) on hedging instruments	34	(33)	(327)
Net revaluation loss of land (Note 13)	(12,503)	(12,503)	(122,646)
Foreign currency translation adjustments	(2,484)	2,550	25,016
Total accumulated other comprehensive income	(13,421)	(4,981)	(48,865)
Stock acquisition rights	724	823	8,078
Minority interests in consolidated subsidiaries	927	1,109	10,880
Total net assets	165,372	175,029	1,716,981
Total liabilities and net assets	¥ 286,779	¥ 313,431	$3,074,657

Per share :	Yen 2013	Yen 2014	U.S. dollars (Note 2. (21)) 2014
Net assets per share	¥1,043.64	¥1,102.99	$10.82

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

ONWARD HOLDINGS Co., Ltd. and Consolidated Subsidiaries
February 28, 2013 and February 28, 2014

	Millions of yen		Thousands of U.S. dollars (Note 2. (21))
	2013	2014	2014
Net sales	¥258,370	¥279,073	$2,737,620
Cost of sales	133,879	149,113	1,462,754
Gross profit	124,491	129,960	1,274,866
Selling, general and administrative expenses	113,298	120,538	1,182,435
Operating income	11,193	9,422	92,431
Other income (expenses):			
Interest income	119	139	1,362
Dividend income	417	440	4,315
Land and house rent received	623	717	7,036
Interest expenses	(636)	(575)	(5,637)
Royalty income	730	935	9,170
Royalty payment	(104)	(157)	(1,541)
Equity in earnings (losses) of investees	251	(29)	(284)
Foreign currency exchange gain (loss)	(238)	465	4,561
Gain on sale of investments in securities, net (Note 4)	—	891	8,743
Loss on write-down of investments in securities (Note 4)	(415)	—	—
Loss on sales or disposal of fixed assets, net	(106)	(1,318)	(12,933)
Impairment loss on fixed assets (Note 7)	(6,919)	(323)	(3,164)
Gain on transition of retirement benefit plan	1,951	—	—
Loss from dissolution of corporate pension fund	—	(1,264)	(12,399)
Other, net	883	132	1,283
Income before income taxes and minority interests	7,749	9,475	92,943
Income taxes (Note 12):			
Current	7,398	3,112	30,522
Deferred	(4,209)	1,670	16,384
Income before minority interests	4,560	4,693	46,037
Minority interests in subsidiaries	(57)	(34)	(334)
Net income	¥ 4,503	¥ 4,659	$ 45,703

Per share (Notes 16, 17 and 19):	Yen		U.S. dollars (Note 2. (21))
Net income—basic	¥28.71	¥29.69	$0.29
Diluted net income per share	28.46	29.40	0.29
Cash dividends	24.00	24.00	0.24

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

ONWARD HOLDINGS Co., Ltd. and Consolidated Subsidiaries
February 28, 2013 and February 28, 2014

	Millions of yen		Thousands of U.S. dollars (Note 2. (21))
	2013	2014	2014
Income before minority interests	¥ 4,560	¥ 4,693	$ 46,037
Other comprehensive income			
Net unrealized gain on available-for-sale securities	4,954	3,389	33,246
Deferred gain (loss) on hedging instruments	24	(67)	(663)
Foreign currency translation adjustments	1,599	4,768	46,772
Share of other comprehensive income of associates accounted for using the equity method	387	451	4,427
Total other comprehensive income (Note 9)	6,964	8,541	83,782
Comprehensive income	¥11,524	¥13,234	$129,819
Comprehensive income attributable to:			
Owners of the parent	¥11,411	¥13,098	$128,488
Minority interests	113	136	1,331

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

ONWARD HOLDINGS Co., Ltd. and Consolidated Subsidiaries
February 28, 2013 and February 28, 2014

		Millions of yen					
		Shareholders' equity					
	Number of shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings (Note 16)	Treasury stock	Total
Balance as at March 1, 2012	172,922	¥30,080	¥50,043	¥119,524	¥(23,327)	¥176,320
Cash dividends	—	—	—	(3,762)	—	(3,762)
Net income	—	—	—	4,503	—	4,503
Purchase of treasury stock	—	—	—	—	(3)	(3)
Reissuance of treasury stock	—	—	—	(100)	184	84
Net changes other than shareholders' equity	—	—	—	—	—	—
Total changes during the year	—	—	—	641	181	822
Balance as at February 28, 2013	172,922	30,080	50,043	120,165	(23,146)	177,142
Cash dividends	—	—	—	(3,765)	—	(3,765)
Net income	—	—	—	4,659	—	4,659
Purchase of treasury stock	—	—	—	—	(7)	(7)
Reissuance of treasury stock	—	—	—	(51)	100	49
Net changes other than shareholders' equity	—	—	—	—	—	—
Total changes during the year	—	—	—	843	93	936
Balance as at February 28, 2014	172,922	¥30,080	¥50,043	¥121,008	¥(23,053)	¥178,078

	Thousands of U.S. dollars (Note 2. (21))				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings (Note 16)	Treasury stock	Total
Balance as at February 28, 2013	$295,072	$490,909	$1,178,780	$(227,055)	$1,737,706
Cash dividends	—	—	(36,934)	—	(36,934)
Net income	—	—	45,703	—	45,703
Purchase of treasury stock	—	—	—	(72)	(72)
Reissuance of treasury stock	—	—	(504)	989	485
Net changes other than shareholders' equity	—	—	—	—	—
Total changes during the year	—	—	8,265	917	9,182
Balance as at February 28, 2014	$295,072	$490,909	$1,187,045	$(226,138)	$1,746,888

See accompanying notes to consolidated financial statements.

	Millions of yen							
	Accumulated other comprehensive income							
	Net unrealized gain (loss) on available-for-sale securities (Note 4)	Deferred gain (loss) on hedging instruments	Net revaluation loss of land (Note 13)	Foreign currency translation adjustments	Total	Stock acquisition rights	Minority interests in consolidated subsidiaries	Total net assets
Balance as at March 1, 2012	¥(3,792)	¥ 10	¥(12,503)	¥(4,043)	¥(20,328)	¥653	¥ 658	¥157,303
Cash dividends	—	—	—	—	—	—	—	(3,762)
Net income	—	—	—	—	—	—	—	4,503
Purchase of treasury stock	—	—	—	—	—	—	—	(3)
Reissuance of treasury stock	—	—	—	—	—	—	—	84
Net changes other than shareholders' equity	5,324	24	—	1,559	6,907	71	269	7,247
Total changes during the year	5,324	24	—	1,559	6,907	71	269	8,069
Balance as at February 28, 2013	1,532	34	(12,503)	(2,484)	(13,421)	724	927	165,372
Cash dividends	—	—	—	—	—	—	—	(3,765)
Net income	—	—	—	—	—	—	—	4,659
Purchase of treasury stock	—	—	—	—	—	—	—	(7)
Reissuance of treasury stock	—	—	—	—	—	—	—	49
Net changes other than shareholders' equity	3,473	(67)	—	5,034	8,440	99	182	8,721
Total changes during the year	3,473	(67)	—	5,034	8,440	99	182	9,657
Balance as at February 28, 2014	¥ 5,005	¥(33)	¥(12,503)	¥ 2,550	¥ (4,981)	¥823	¥1,109	¥175,029

	Thousands of U.S. dollars (Note 2. (21))							
	Accumulated other comprehensive income							
	Net unrealized gain (loss) on available-for-sale securities (Note 4)	Deferred gain (loss) on hedging instruments	Net revaluation loss of land (Note 13)	Foreign currency translation adjustments	Total	Stock acquisition rights	Minority interests in consolidated subsidiaries	Total net assets
Balance as at February 28, 2013	$15,027	$ 336	$(122,646)	$(24,367)	$(131,650)	$7,105	$ 9,092	$1,622,253
Cash dividends	—	—	—	—	—	—	—	(36,934)
Net income	—	—	—	—	—	—	—	45,703
Purchase of treasury stock	—	—	—	—	—	—	—	(72)
Reissuance of treasury stock	—	—	—	—	—	—	—	485
Net changes other than shareholders' equity	34,065	(663)	—	49,383	82,785	973	1,788	85,546
Total changes during the year	34,065	(663)	—	49,383	82,785	973	1,788	94,728
Balance as at February 28, 2014	$49,092	$(327)	$(122,646)	$ 25,016	$ (48,865)	$8,078	$10,880	$1,716,981

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

ONWARD HOLDINGS Co., Ltd. and Consolidated Subsidiaries
February 28, 2013 and February 28, 2014

	Millions of yen		Thousands of U.S. dollars (Note 2. (21))
	2013	2014	2014
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 7,749	¥ 9,475	$ 92,943
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	5,721	6,801	66,714
Impairment loss on fixed assets	6,919	323	3,164
Net amortization of goodwill on consolidation	3,938	3,313	32,501
Increase (decrease) in provision for allowance for bad debt	(285)	515	5,053
Increase (decrease) in provision for accrued retirement benefits	(5,419)	1,944	19,073
Interest and dividend income	(536)	(579)	(5,677)
Interest expenses	636	575	5,637
Equity in (earnings) losses of investees	(251)	29	284
(Gain) loss on sales or disposal of fixed assets, net	106	1,318	12,933
(Gain) loss on sale of investments in securities, net	—	(891)	(8,743)
Loss on write-down of investments in securities	415	—	—
(Increase) decrease in trade receivables	455	(325)	(3,188)
(Increase) decrease in inventories	(2,094)	(4,025)	(39,486)
Increase (decrease) in trade payables	(655)	2,515	24,673
Other, net	894	(3,047)	(29,889)
Subtotal	17,593	17,941	175,992
Interest and dividends received	769	812	7,967
Interest paid	(647)	(593)	(5,819)
Income taxes paid	(9,289)	(6,283)	(61,635)
Refunded income taxes	1,712	1,485	14,567
Net cash provided by operating activities	10,138	13,362	131,072
Cash flows from investing activities:			
Increase in time deposits	(68)	(32)	(315)
Decrease in time deposits	1,087	35	344
Acquisition of property, plant and equipment	(6,411)	(13,678)	(134,175)
Proceeds from sale of property, plant and equipment	23	694	6,809
Acquisition of investments in securities	(994)	(125)	(1,231)
Proceeds from sale of investments in securities	—	2,268	22,252
Payments for long-term prepaid expenses	(635)	(871)	(8,540)
Payments for security deposits	(1,001)	(1,333)	(13,080)
Proceeds from security deposits	769	1,275	12,506
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(1,940)	(13)	(126)
Payment for additional acquisition of shares of consolidated subsidiaries	(16)	—	—
Other, net	(1,497)	(2,521)	(24,732)
Net cash used in investing activities	(10,683)	(14,301)	(140,288)

	Millions of yen		Thousands of U.S. dollars (Note 2. (21))
	2013	2014	2014
Cash flows from financing activities:			
Increase (decrease) in short-term loans payable	(368)	10,504	103,036
Proceeds from long-term loans payable	2,205	15,354	150,617
Repayments of long-term loans payable	(5,038)	(19,015)	(186,528)
Acquisition of treasury stock	(3)	(7)	(72)
Dividends paid by the parent company	(3,762)	(3,765)	(36,934)
Dividends paid to minority shareholders	(54)	(58)	(567)
Other, net	(828)	(891)	(8,740)
Net cash provided by (used in) financing activities	(7,848)	2,122	20,812
Effect of exchange rate changes on cash and cash equivalents	850	1,486	14,580
Net increase (decrease) in cash and cash equivalents	(7,543)	2,669	26,176
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	—	17	170
Cash and cash equivalents at beginning of year	32,088	24,545	240,779
Cash and cash equivalents at end of year (Note 10)	¥24,545	¥27,231	$267,125

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

ONWARD HOLDINGS Co., Ltd. and Subsidiaries
For the years ended February 28, 2013 and February 28, 2014

1. Basis of Presentation of the Consolidated Financial Statements

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

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

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

2. Summary of Significant Accounting Policies

(1) Scope of Consolidation

The Company had 81 subsidiaries as at February 28, 2014 (86 as at February 28, 2013). The accompanying consolidated financial statements include the accounts of the Company and 69 of its subsidiaries (73 for 2013). Major consolidated subsidiaries are listed below (the Company and the consolidated subsidiaries are collectively referred to as the "Companies"):

Name of subsidiary	Equity ownership percentage	Closing date
Onward KASHIYAMA Co., Ltd.	100.0%	February 28
Onward Trading Co., Ltd.	100.0	February 28
Chacott Co., Ltd.	100.0	February 28
Creative Yoko Co., Ltd.	100.0	February 28
Island Co., Ltd.	100.0	February 28
Birz Association Co., Ltd.	100.0	February 28
Bus Stop Co., Ltd.	100.0	February 28
Project Sloane Ltd.	100.0	November 30
Joseph Ltd.	100.0	November 30
Onward Luxury Group S.p.A.	100.0	November 30
Jil Sander Italy S.p.A	100.0	November 30
Onward Fashion Trading (China) Co., Ltd.	100.0	December 31
J. Press, Inc.	100.0	December 31
Across Transport Co., Ltd.	100.0	February 28
Onward Creative Center Co., Ltd.	100.0	February 28
Booklet Co., Ltd.	100.0	February 28
Excel Co., Ltd.	100.0	February 28
Onward Resort & Golf Co., Ltd.	100.0	February 28
Onward Life Design Network Co., Ltd.	100.0	February 28
Onward Beach Resort Guam, Inc.	100.0	December 31
Onward Mangilao Guam, Inc.	100.0	December 31

MONTE NAPOLEONE LLC. was acquired during the year ended February 28, 2014; therefore, it became a consolidated subsidiary of the Company.

Onward KASHIYAMA Co., Ltd. merged with Donna Karan Japan K.K. and Birz Association Co., Ltd. merged with Naima Co., Ltd. and Birth Village Co., Ltd.

Also, Gibo' Co. S.p.A. merged with Iris S.p.A. and changed its name to Onward Luxury Group S.p.A.
Onward Fashion Trading (Shanghai) Co., Ltd., which was the Company's unconsolidated subsidiary in the previous year, has been included in the scope of consolidation from the year ended February 28, 2014, since its importance has increased.

Grace Continental Korea Co., Ltd. and O.K.N. Amsterdam B.V. were liquidated and removed from the scope of consolidation.

The financial statements of the aforementioned subsidiaries with fiscal year-ends of December 31 or November 30 have been used for consolidation. Significant adjustments considered necessary due to different closing date from February 28 have been made with consolidation.

The remaining 12 subsidiaries (13 for 2013) were not consolidated because their total assets, net sales, net income and retained earnings were not material individually or in the aggregate compared with those of the consolidated financial statements of the Companies.

(2) Consolidation and Elimination

For the purposes of preparing the consolidated financial statements of the Companies, all significant intercompany transactions, account balances and unrealized profits among the Companies have been entirely eliminated, and the portion attributable to minority interests is credited/charged thereto.

The assets and liabilities of newly acquired subsidiaries are measured at fair value at the time of acquisition, and the differences between the cost of investments in the consolidated subsidiaries and the equity in their net assets at fair value are accounted for as goodwill, which is amortized on a straight-line basis within 20 years.

(3) Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates are accounted for by the equity method. A total of 19 companies (19 companies for 2013) are accounted for by the equity method for the year ended February 28, 2014.

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

The Company applied the equity method by using the November 30 financial statements of Gailyglen Ltd., which has a fiscal year-end of November 30. Also, the December 31 financial statements of Daidoh Limited, which has a fiscal year-end of March 31, prepared on a basis similar to that for year-end closing, were used for consolidation purposes.

(4) Inventories

Inventories held for sale in the ordinary course of business are measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses, determined principally by the specific identification method. For the year ended February 28, 2014, the recorded write-downs were ¥12,247 million ($120,141 thousand). For the year ended February 28, 2013, the recorded write-downs were ¥10,769 million.

(5) Investments in Securities

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

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

(6) Derivative Transactions

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

(7) Hedge Accounting

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

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

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

(8) Property, Plant and Equipment

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

Overseas consolidated subsidiaries provide depreciation by the straight-line method.
The useful lives of property, plant and equipment are summarized as follows:

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

(9) Intangible Assets and Long-term Prepaid Expenses

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

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

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

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

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

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

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

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

(15) Accounting for Leases
Leased assets related to finance lease transactions without title transfer are depreciated on a straight-line basis, over the lease periods as their useful lives and no residual value. Regarding finance leases transactions without title transfer for which the starting date for the lease transactions is prior to February 28, 2009, the Company and its domestic consolidated subsidiaries have continued to recognize lease payments as expenses.

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

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

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

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

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

(21) United States Dollar Amounts
Amounts in U.S. dollars are included solely for the convenience of readers outside of Japan. The rate of ¥101.94=US$1, the rate of exchange as of February 28, 2014, 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) Reclassifications
Certain reclassifications have been made to the prior year's consolidated financial statements to conform with the presentation used for the year ended February 28, 2014.

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

(24) Change of accounting policies which is difficult to distinguish from change in accounting estimates
As a result of revision of the Corporation Tax Act in Japan, the Company and its domestic consolidated subsidiaries changed their depreciation method for property, plant and equipment acquired on or after March 1, 2013 to the method stipulated under the revised Corporation Tax Act from the fiscal year ended February 28, 2014.

The effect of this change on operating income and income before income taxes and minority interests for the current fiscal year was immaterial.

(25) Unapplied Accounting Standards
"Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan (hereinafter "ASBJ") Statement No. 26, May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012)

(1) Overview
Accounting standard for retirement benefits has been revised from the viewpoint of improvements to financial reporting and international convergence, mainly focusing on (a) how unrecognized actuarial differences and unrecognized prior service costs should be accounted for, (b) how retirement benefit obligations and service costs should be determined and (c) enhancement of disclosures.

(2) Date of adoption
The Company will adopt the accounting standards effective from the fiscal year ending February 28, 2015. However, the Company will adopt the amendments to the method for calculating projected benefit obligations and service costs from the beginning of the fiscal year ending February 29, 2016.

(3) The effect of adopting the accounting standards
The effect is under evaluation at the time consolidated financial statements were prepared.

3. Financial Instruments

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

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

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

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

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

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

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

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

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

(c) Monitoring of liquidity risk related to fund procurement (the risk that the Company and its consolidated subsidiaries may not be able to meet their obligations on scheduled due dates)

In order to manage liquidity risk, the Company and its consolidated subsidiaries timely prepare and update the cash flow plans based upon the report and maintain fund liquidity.

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

2. Matters related to fair values of financial instruments
The following are the consolidated balance sheet amounts, the fair values and the differences between them as of February 28, 2014 and February 28, 2013 (the closing dates of the consolidated account).

	Millions of yen		
February 28, 2014	Book value	Fair value	Difference
(a) Cash and time deposits	¥ 27,376	¥ 27,376	¥ —
(b) Accounts and notes receivable	28,251	28,251	—
(c) Investment in securities			
Available-for-sale securities	39,322	39,322	—
Investment to affiliates	9,024	5,001	(4,023)
(d) Accounts and notes payable	(38,306)	(38,306)	—
(e) Short-term loans payable	(41,825)	(41,825)	—
(f) Long-term loans payable (Cover current portion of long-term loans payable)	(17,034)	(17,206)	172
(g) Derivative transactions	(41)	(41)	—

	Thousands of U.S. dollars		
February 28, 2014	Book value	Fair value	Difference
(a) Cash and time deposits	$ 268,549	$ 268,549	$ —
(b) Accounts and notes receivable	277,133	277,133	—
(c) Investment in securities			
Available-for-sale securities	385,734	385,734	—
Investment to affiliates	88,526	49,056	(39,470)
(d) Accounts and notes payable	(375,768)	(375,768)	—
(e) Short-term loans payable	(410,287)	(410,287)	—
(f) Long-term loans payable (Cover current portion of long-term loans payable)	(167,096)	(168,782)	1,686
(g) Derivative transactions	(402)	(402)	—

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

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

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

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

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

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

2. Book values of financial instruments deemed extremely difficult to determine their fair value as of February 28, 2013 and February 28, 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
Classification	February 28, 2013	February 28, 2014	February 28, 2014
Investments in securities			
Unlisted equity securities	¥779	¥816	$8,001

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

3. The redemption schedule for monetary receivables and marketable securities with maturities as of February 28, 2014 and February 28, 2013 is as follows:

	Millions of yen			
February 28, 2014	Due within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and time deposits	¥27,376	¥—	¥—	¥ —
Accounts and notes receivable	28,251	—	—	—
Marketable and investment securities				
Available for sale securities with maturities	57	—	—	500
Total	¥55,684	¥—	¥—	¥500

	Thousands of U.S. dollars			
February 28, 2014	Due within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and time deposits	$268,549	$—	$—	$ —
Accounts and notes receivable	277,133	—	—	—
Marketable and investment securities				
Available for sale securities with maturities	557	—	—	4,905
Total	$546,239	$—	$—	$4,905

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

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

4. Investments in Securities

(1) Information as of and for the Year Ended February 28, 2014

(a) Available-for-sale securities with readily determinable fair value:
Investments in securities whose fair values were readily determinable at February 28, 2014 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	¥31,905	¥21,645	¥10,260	$312,980	$212,333	$100,647
Other	422	226	196	4,134	2,212	1,922
Total	32,327	21,871	10,456	317,114	214,545	102,569
Securities with unrealized loss:						
Equity securities	6,995	7,426	(431)	68,620	72,848	(4,228)
Other	—	—	—	—	—	—
Total	6,995	7,426	(431)	68,620	72,848	(4,228)
Total	¥39,322	¥29,297	¥10,025	$385,734	$287,393	$ 98,341

Note: Non-Marketable equity securities of ¥336 million ($3,300 thousand) are not included in the above table because there were no quoted market prices available and they are extremely difficult to determine the fair value.

(b) Available-for-sale securities sold during the year ended February 28, 2014:

	Millions of yen	Thousands of U.S. dollars
Proceeds from sale of securities	¥2,268	$22,252
Realized gain on sale of securities	891	8,473
Realized loss on sale of securities	—	—

(c) The aggregate carrying amount of investments in unconsolidated subsidiaries and affiliates as of February 28, 2014 was ¥9,504 million ($93,227 thousand).

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

(a) Available-for-sale securities with readily determinable fair value:
Investments in securities whose fair values were readily determinable at February 28, 2013 are summarized as follows:

	Millions of yen		
	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities with unrealized gain:			
Equity securities	¥25,786	¥20,149	¥5,637
Other	254	194	60
Total	26,040	20,343	5,697
Securities with unrealized loss:			
Equity securities	6,934	7,918	(984)
Other	125	131	(6)
Total	7,059	8,049	(990)
Total	¥33,099	¥28,392	¥4,707

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

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

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

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

5. Derivative Transactions

The contract or notional amounts and fair value of derivative financial instruments held as of February 28, 2014 and February 28, 2013 are summarized as follows:
(1) Derivative transactions not subject to hedge accounting:

	Millions of yen		
February 28, 2014	Contract or notional amounts	Fair value	Valuation gain (loss)
Currency option contracts:			
Buy: U.S. dollar call	¥ 97	¥ 5	¥ 5
Sell: U.S. dollar put	211	(5)	(5)
	¥308	¥(0)	¥(0)
Interest rate swap agreements:			
Variable rate received for variable rate	¥300	¥ 2	¥ 2
Variable rate received for fixed rate	3	(0)	(0)
Fixed rate received for variable rate	100	1	1
	¥403	¥ 3	¥ 3

	Thousands of U.S. dollars		
February 28, 2014	Contract or notional amounts	Fair value	Valuation gain (loss)
Currency option contracts:			
Buy: U.S. dollar call	$ 950	$46	$46
Sell: U.S. dollar put	2,074	(47)	(47)
	$3,024	$ (1)	$ (1)
Interest rate swap agreements:			
Variable rate received for variable rate	$2,943	$26	$26
Variable rate received for fixed rate	32	(0)	(0)
Fixed rate received for variable rate	981	8	8
	$3,956	$34	$34

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

(2) Derivative transactions processed by hedge accounting:

	Millions of yen		
February 28, 2014	Hedged Items	Contract or notional amounts	Fair value
Forward exchange contracts:			
To buy foreign currency:			
U.S. dollar	Accounts payable	¥2,249	¥(31)
Euro	Accounts payable	2,509	(20)
Pound	Accounts payable	121	4
Chinese Yuan	Accounts payable	126	(1)
To sell foreign currency:			
U.S. dollar	Accounts receivable	140	4
		¥5,145	¥(44)

February 28, 2014	Hedged Items	Thousands of U.S. dollars Contract or notional amounts	Fair value
Forward exchange contracts:			
To buy foreign currency:			
U.S. dollar	Accounts payable	$22,064	$(307)
Euro	Accounts payable	24,610	(196)
Pound	Accounts payable	1,192	38
Chinese Yuan	Accounts payable	1,234	(10)
To sell foreign currency:			
U.S. dollar	Accounts receivable	1,374	40
		$50,474	$(435)

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

6. Property, Plant and Equipment

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

Property, plant and equipment at February 28, 2013 and February 28, 2014 were reduced by ¥8,079 million and ¥8,035 million ($78,825 thousand), respectively, representing accumulated deferred gains from eligible sales.

7. Impairment Loss on Fixed Assets

For the years ended February 28, 2014 and February 28, 2013, the Company reviewed its long-lived assets for impairment and, as a result, recognized an impairment loss as follows:

February 28, 2014

Location	Usage	Description	Millions of yen	Thousands of U.S. dollars
Tokyo metropolitan area and other	Business assets	Buildings and structures	¥211	$2,069
		Other	112	1,095

February 28, 2013

Location	Usage	Description	Millions of yen
Tokyo metropolitan area and other	Business assets	Buildings and structures	¥ 79
		Other intangible assets	1
		Other	135
		Goodwill	6,704

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

The impairment loss on long-lived assets for the years ended February 28, 2013 and February 28, 2014 consisted of the following:

	Millions of yen February 28, 2013	February 28, 2014	Thousands of U.S. dollars February 28, 2014
Buildings and structures	¥ 79	¥211	$2,069
Other intangible assets	1	—	—
Other	135	112	1,095
Goodwill	6,704	—	—
Total	¥6,919	¥323	$3,164

Based on the result of future cash flow analysis that the recoverable amount of goodwill on Project Sloane Ltd., which is the considered subsidiary of the Company was less than the carrying amount, the Company recognized impairment loss of ¥6,704 million on the remaining unamortized portion of the goodwill for the year ended February 28, 2013.

The net realizable value for these assets is based on their net selling price or their value in use. The net selling price is estimated by using their estimated disposal price. The value in use is calculated by discounting the future cash flow with 4.6% and 5.1% discount rates for the years ended February 28, 2013 and February 28, 2014, respectively.

8. Retirement Plan and Retirement Benefits

The Company and its certain subsidiaries have defined benefit pension plan and plans for lump-sum retirement benefits as defined benefit retirement plans, as well as defined contribution pension plans as defined contribution retirement plans.

The corporate pension fund, which the Company and its certain subsidiaries have adopted, were dissolved on February 27, 2014, by the approval of dissolution obtained from the Minister of Health, Labour and Welfare. As a result of this dissolution, loss from dissolution of corporate pension fund of ¥1,264 million ($12,399 thousand) was recognized in other expenses.

The reserve for retirement benefits as of February 28, 2013 and February 28, 2014 is analyzed as follows:

	Millions of yen February 28, 2013	February 28, 2014	Thousands of U.S. dollars February 28, 2014
Projected benefit obligations	¥(28,122)	¥(18,592)	$(182,377)
Plan assets (including employee retirement benefit fund)	25,801	13,859	135,952
Funded status	(2,321)	(4,733)	(46,425)
Unrecognized prior service costs	(427)	(371)	(3,640)
Unrecognized actuarial differences	4,042	2,106	20,661
Subtotal	1,294	(2,998)	(29,404)
Prepaid pension cost	4,352	423	4,153
Accrued retirement benefits	¥ (3,058)	¥ (3,421)	$ (33,557)

The net periodic pension expenses for the years ended February 28, 2013 and February 28, 2014 are as follows:

	Millions of yen 2013	2014	Thousands of U.S. dollars 2014
Service cost	¥1,495	¥1,301	$12,766
Interest cost	515	381	3,733
Expected return on plan assets	(207)	(182)	(1,787)
Amortization of unrecognized prior service costs	(57)	(54)	(526)
Amortization of unrecognized actuarial differences	949	269	2,637
Contributions paid to the defined contribution pension plans	55	464	4,551
Net periodic pension expenses	¥2,750	¥2,179	$21,374

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

	As of February 28, 2013	As of February 28, 2014
Method of attributing the projected benefits to periods of service	Straight-line basis	Straight-line basis
Discount rate	1.5%	1.5%
Expected rate of return on plan assets	0.2~1.5%	0.0~1.5%
Amortization of unrecognized prior service costs	5~10 years	5~10 years
Amortization of unrecognized actuarial differences	5~10 years	5~10 years

9. Notes to Consolidated Statements of Comprehensive Income

Other Comprehensive income for the years ended February 28, 2013 and February 28, 2014 consisted of the following:

	Millions of yen February 28, 2013	February 28, 2014	Thousands of U.S. dollars February 28, 2014
Net unrealized gain on available-for-sales securities:			
Amount arising during the year	¥ 6,196	¥ 6,302	$ 61,819
Reclassification adjustment for gain and loss	415	(984)	(9,651)
Amount before income tax effect	6,611	5,318	52,168
Income tax effect	(1,657)	(1,929)	(18,922)
Total	4,954	3,389	33,246
Deferred gain (loss) on hedging instruments:			
Amount arising during the year	70	(44)	(436)
Reclassification adjustment for gain and loss	(22)	(70)	(687)
Amount before income tax effect	48	(114)	(1,123)
Income tax effect	(24)	47	460
Total	24	(67)	(663)
Foreign currency translation adjustments:			
Amount arising during the year	1,599	4,768	46,772
Total	1,599	4,768	46,772
Share of other comprehensive income of associates accounted for using the equity-method:			
Amount arising during the year	387	451	4,427
Total	387	451	4,427
Total other comprehensive income	¥ 6,964	¥ 8,541	$ 83,782

10. Notes to Consolidated Statements of Cash Flows

Cash and cash equivalents at February 28, 2013 and February 28, 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	February 28, 2013	February 28, 2014	February 28, 2014
Cash and time deposits	¥24,677	¥27,376	$268,549
Time deposits with maturities of more than three months	(132)	(145)	(1,424)
Cash and cash equivalents	¥24,545	¥27,231	$267,125

11. Lease Transactions

Certain finance lease contracts that are not deemed to transfer the ownership of the leased assets to lessees are accounted for as operating leases, which is still permitted by Japanese accounting principles. Certain key information on such lease contracts of the Companies for the years ended February 28, 2013 and February 28, 2014 are as follows:

(Lessee)
Assumed data as to acquisition cost, accumulated depreciation, accumulated impairment loss and net book value of the leased assets, which included the portion of interest thereon, as of February 28, 2013 and February 28, 2014 are summarized as follows:

	Millions of yen						Thousands of U.S. dollars		
	February 28, 2013			February 28, 2014			February 28, 2014		
	Tools, furniture, and fixtures	Other	Total	Tools, furniture, and fixtures	Other	Total	Tools, furniture, and fixtures	Other	Total
Acquisition cost	¥ 353	¥ 258	¥ 611	¥ 157	¥ 108	¥ 265	$ 1,539	$ 1,058	$ 2,597
Accumulated depreciation	(334)	(242)	(576)	(157)	(106)	(263)	(1,537)	(1,040)	(2,577)
Net book value	¥ 19	¥ 16	¥ 35	¥ 0	¥ 2	¥ 2	$ 2	$ 18	$ 20

The scheduled maturities of future lease payments on such lease contracts as of February 28, 2013 and February 28, 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	February 28, 2013	February 28, 2014	February 28, 2014
Scheduled maturities of future leases:			
Due within one year	¥32	¥2	$20
Due over one year	3	—	—
	¥35	¥2	$20

Lease expenses, reversal of impairment loss of leased assets, depreciation and impairment loss for the years ended February 28, 2013 and February 28, 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	February 28, 2013	February 28, 2014	February 28, 2014
Lease expenses for the year	¥145	¥32	$309
Depreciation	145	32	309

The Companies' operating lease contracts:
The scheduled maturities of future lease payments on operating lease contracts as of February 28, 2013 and February 28, 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	February 28, 2013	February 28, 2014	February 28, 2014
Scheduled maturities of future leases:			
Due within one year	¥64	¥27	$262
Due over one year	27	—	—
	¥91	¥27	$262

(Lessor)
Disclosure is omitted because it is immaterial as of February 29, 2013 and February 28, 2014.

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, 2013 and February 28, 2014 consisted of the following elements:

	Millions of yen		Thousands of U.S. dollars
	February 28, 2013	February 28, 2014	February 28, 2014
Deferred tax assets:			
Loss on write-down of inventories	¥ 2,127	¥ 2,697	$ 26,453
Loss on write-down of investments in unconsolidated subsidiaries	192	184	1,803
Accrued bonuses to employees	490	490	4,809
Accrued retirement benefits	3,698	2,620	25,704
Accrued retirement benefits for directors and corporate auditors	58	53	516
Allowance for bad debt	937	2,400	23,546
Tax loss carry forwards	12,518	10,256	100,604
Impairment loss on fixed assets	6,284	6,023	59,084
Investments in securities	433	432	4,242
Net unrealized loss on available-for-sale securities	1	37	360
Other	5,381	5,382	52,796
Subtotal	32,119	30,574	299,917
Less: Valuation allowance	(16,544)	(19,071)	(187,083)
Total deferred tax assets	15,575	11,503	112,834
Deferred tax liabilities:			
Prepaid pension cost	(1,653)	—	—
Gain on securities contributed to an employee retirement benefit trust	(141)	(126)	(1,238)
Provision for deferred capital gain on real property for tax purposes	(18)	(18)	(168)
Net unrealized gain on available-for-sale securities	(1,657)	(3,585)	(35,180)
Other	(1,451)	(597)	(5,850)
Total deferred tax liabilities	(4,920)	(4,326)	(42,436)
Net deferred tax assets	¥ 10,655	¥ 7,177	$ 70,398

The reconciliation of the difference between the statutory tax rate and the effective tax rate for the years ended February 28, 2013 and February 28, 2014 is as follows:

	%	
	2013	2014
Statutory tax rate	—	38.0
Reconciliation:		
Permanently non-deductible expenses (entertainment expenses, etc.)	—	2.6
Income not taxable for tax purposes (dividends received, etc.)	—	(1.5)
Amortization of goodwill	—	12.3
Other	—	(0.9)
Effective tax rate	—	50.5

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

(Change in tax rates after the closing dates of the consolidated accounts)
On March 31, 2014, "Partial Amendment of the Income Tax Act" (Act No.10 of 2014) was promulgated, according to which the Special Reconstruction Corporation Tax will no longer be imposed from the consolidated fiscal years beginning on or after April 1, 2014. Accordingly, for temporary differences expected to be reversed in the fiscal year beginning on March 1, 2015, the statutory tax rates applied to the calculation of deferred tax assets and liabilities, will be lowered from 38.0% to 35.6%.
The effect of adopting the revised statutory tax rates for the fiscal year ended February 28, 2014 will be immaterial.

(Application of consolidated taxation system)
The Company and its certain subsidiaries applied consolidated taxation system from the fiscal year ended February 28, 2014.

13. Revaluation of Land

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

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

The difference between the market value of land subject to the revaluation and the book value as at February 28, 2013 and 2014 was ¥3,467 million and ¥3,460 million ($33,943 thousand), respectively.

14. Commitments and Contingent Liabilities

The Company was contingently liable as a guarantor for certain affiliates' bank loans. The outstanding balance of such bank loans guaranteed as at February 28, 2013 and February 28, 2014 aggregated to ¥39 million and ¥46 million ($455 thousand), respectively.

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

Short-term loans payable at February 28, 2013 and February 28, 2014 represented loans, principally from banks. The weighted-average interest rate on these loans was 0.8% in 2013 and 2014.

Long-term loans payable at February 28, 2013 and February 28, 2014 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	February 28, 2013	February 28, 2014	February 28, 2014
Unsecured loans, principally from banks, maturing in installments through 2018	¥20,291	¥17,034	$167,096
Less current portion with weighted average interest of 0.8% at February 28, 2014	18,967	3,132	30,726
Long-term loans payable, less current portion with weighted average interest of 1.0% at February 28, 2014	¥ 1,324	¥13,902	$136,370

Lease obligations at February 28, 2013 and February 28, 2014 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	February 28, 2013	February 28, 2014	February 28, 2014
Lease obligations	¥1,648	¥6,862	$67,316
Less current portion of lease obligations	585	881	8,641
	¥1,063	¥5,981	$58,675

The aggregate annual maturities of long-term loans payable after February 28, 2015 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending February 28 or 29:		
2016	¥3,164	$31,034
2017	3,178	31,177
2018	4,558	44,717
2019	3,002	29,442

The aggregate annual maturities of lease obligations after February 28, 2015 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending February 28 or 29:		
2016	¥724	$ 7,101
2017	572	5,608
2018	412	4,046
2019	316	3,100

Bonds at February 28, 2013 and February 28, 2014 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	February 28, 2013	February 28, 2014	February 28, 2014
0.56% unsecured yen bonds issued by a subsidiary, due 2013	¥ 10	¥ —	$ —
0.90% unsecured yen bonds issued by a subsidiary, due 2014	80	40	392
0.45% unsecured yen bonds issued by a subsidiary, due 2018	250	200	1,962
0.45% unsecured yen bonds issued by a subsidiary, due 2013	20	—	—
0.99% unsecured yen bonds issued by a subsidiary, due 2014	20	10	98
0.40% unsecured yen bonds issued by a subsidiary, due 2013	33	—	—
	413	250	2,452
Less current portion	163	100	981
	¥250	¥150	$1,471

The aggregate annual maturities of bonds after February 28, 2015 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending February 28 or 29:		
2016	¥50	$490
2017	50	490
2018	50	491
2019	—	—

16. Shareholders' Equity

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

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

Cash dividends charged to retained earnings for the years ended February 28, 2013 and February 28, 2014 represent dividends paid out during those years. The amount available for dividends is based on the amount recorded in the Company's non-consolidated books of account in accordance with the Corporation Law of Japan.

Dividends to be paid after the balance sheet date, which were approved by the general meeting of shareholders held on May 22, 2014, are as follows:

(a) Total dividends	¥3,766 million ($36,947 thousand)
(b) Source of dividends	Retained earnings
(c) Cash dividends per common share	¥24 ($0.24)
(d) Date to determine which shareholders receive the dividends	February 28, 2014
(e) Effective date	May 23, 2014

17. Per Share Information

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

The basis for the calculation of basic and diluted net income per share for the years ended February 28, 2013 and February 28, 2014 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Net income	¥ 4,503	¥ 4,659	$45,703
Less: Components not pertaining to common shareholders	—	—	—
Net income pertaining to common stock	¥ 4,503	¥ 4,659	$45,703
Average outstanding shares of common stock (thousand shares)	156,836	156,904	
Effect of dilutive stock options (thousand shares)	1,390	1,581	

18. Related-Party Transactions

Year Ended February 28, 2014

The Company leased land from Takeshi Hirouchi, Representative Director, Chairman and President of ONWARD HOLDINGS Co., Ltd., during the year and the rental fee was ¥7 million ($71 thousand). Also, Mr. Hirouchi paid a rental fee of ¥16 million ($160 thousand) to the Company for a house. The rental fees were determined by the average market prices.

Year Ended February 28, 2013

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

19. Stock Options

The cost recognized for the stock options for the years ended February 28, 2013 and February 28, 2014 was ¥171 million and ¥149 million ($1,457 thousand), respectively, which is included in selling, general and administrative expenses.

2013 Stock Option Plan (No. 14)

Under the 2013 stock option plan (No. 14), stock options were granted to 5 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.

Number of stock options granted by the 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 ($6.17)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2014 is as follows:

	2013 stock option plan (No. 14)
Non-vested:	
Outstanding at February 28, 2013	—
Granted	107,000
Forfeited	—
Vested	—
Outstanding at February 28, 2014	107,000

The fair value of the 2013 stock options (No. 14) was estimated using the Black-Scholes option-valuation model with the following assumptions:

Expected volatility	32.64%
Expected lives	7 years and 4 months
Expected dividend	¥24 per share
Risk-free interest rate	0.588%

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, 6 directors and 9 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 officer of the Company, directors or executive officers of the Company's subsidiary.

Number of stock options granted by the 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 ($5.61)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2014 is as follows:

	2013 stock option plan (No. 13)
Non-vested:	
Outstanding at February 28, 2013	—
Granted	151,300
Forfeited	8,100
Vested	—
Outstanding at February 28, 2014	143,200

The fair value of the 2013 stock options (No. 13) was estimated using the Black-Scholes option-valuation model with the following assumptions:

Expected volatility	31.46%
Expected lives	9 years and 0 months
Expected dividend	¥24 per share
Risk-free interest rate	0.524%

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

2012 Stock Option Plan (No. 12)

Under the 2012 stock option plan (No. 12), stock options were granted to 5 directors of the Company on June 20, 2012. They are exercisable in the period from June 21, 2012 to June 20, 2042. The terms of the options include certain limitations on the exercisability under which grantees can exercise their options during a five-year period starting a year after they lose their positions as directors of the Company.

Number of stock options granted by the 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 ($4.49)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2014 is as follows:

	2012 stock option plan (No. 12)
Non-vested:	
Outstanding at February 28, 2013	141,400
Granted	—
Forfeited	—
Vested	—
Outstanding at February 28, 2014	141,400

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

2012 Stock Option Plan (No. 11)

Under the 2012 stock option plan (No. 11), stock options were granted to 1 executive officer of the Company, 9 directors and 18 executive officers of the Company's subsidiary on March 19, 2012. They are exercisable in the period from March 20, 2012 to February 28, 2042. The terms of the options include certain limitations on the exercisability under which grantees can exercise their options during a five-year period starting a year after they lose their positions as executive officer of the Company, directors or executive officers of the Company's subsidiary.

Number of stock options granted by the 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)
Fair value at the grant date	¥444 ($4.36)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2014 is as follows:

	2012 stock option plan (No. 11)
Non-vested:	
Outstanding at February 28, 2013	197,300
Granted	—
Forfeited	—
Vested	23,300
Outstanding at February 28, 2014	174,000
Vested:	
Outstanding at February 28, 2013	—
Vested	23,300
Exercised	—
Forfeited	—
Outstanding at February 28, 2014	23,300

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

2011 Stock Option Plan (No. 10)

Under the 2011 stock option plan (No. 10), stock options were granted to 5 directors of the Company on June 20, 2011. They are exercisable in the period from June 21, 2011 to June 20, 2041. The terms of the options include certain limitations on the exercisability under which grantees can exercise their options during a five-year period starting a year after they lose their positions as directors of the Company.

Number of stock options granted by the 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)
Fair value at the grant date	¥510 ($5.00)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2014 is as follows:

	2011 stock option plan (No. 10)
Non-vested:	
Outstanding at February 28, 2013	144,800
Granted	—
Forfeited	—
Vested	65,400
Outstanding at February 28, 2014	79,400
Vested:	
Outstanding at February 28, 2013	—
Vested	65,400
Exercised	—
Forfeited	—
Outstanding at February 28, 2014	65,400

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

2011 Stock Option Plan (No. 9)

Under the 2011 stock option plan (No. 9), stock options were granted to 1 executive officer of the Company, 12 directors and 18 executive officers of the Company's subsidiary on March 18, 2011. They are exercisable in the period from March 19, 2011 to February 28, 2041. The terms of the options include certain limitations on the exercisability under which grantees can exercise their options during a five-year period starting a year after they lose their positions as executive officer of the Company, directors or executive officers of the Company's subsidiary.

Number of stock options granted by the 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	¥893 ($8.76)
Fair value at the grant date	¥444 ($4.36)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2014 is as follows:

	2011 stock option plan (No. 9)
Non-vested:	
Outstanding at February 28, 2013	181,500
Granted	—
Forfeited	—
Vested	38,200
Outstanding at February 28, 2014	143,300
Vested:	
Outstanding at February 28, 2013	—
Vested	38,200
Exercised	7,200
Forfeited	—
Outstanding at February 28, 2014	31,000

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.

2010 Stock Option Plan (No. 8)

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

Number of stock options granted by the 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 ($6.01)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2014 is as follows:

	2010 stock option plan (No. 8)
Non-vested:	
Outstanding at February 28, 2013	104,800
Granted	—
Forfeited	—
Vested	52,500
Outstanding at February 28, 2014	52,300
Vested:	
Outstanding at February 28, 2013	—
Vested	52,500
Exercised	—
Forfeited	—
Outstanding at February 28, 2014	52,500

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.

2010 Stock Option Plan (No. 7)

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

Number of stock options granted by the 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	¥893 ($8.76)
Fair value at the grant date	¥475 ($4.66)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2014 is as follows:

	2010 stock option plan (No. 7)
Non-vested:	
Outstanding at February 28, 2013	152,500
Granted	—
Forfeited	—
Vested	37,600
Outstanding at February 28, 2014	114,900
Vested:	
Outstanding at February 28, 2013	9,400
Vested	37,600
Exercised	7,800
Forfeited	—
Outstanding at February 28, 2014	39,200

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.

2009 Stock Option Plan (No. 6)

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

Number of stock options granted by the 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)
Average stock price on the date the option was exercised	¥696 ($6.83)
Fair value at the grant date	¥432 ($4.24)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2014 is as follows:

	2009 stock option plan (No. 6)
Non-vested:	
Outstanding at February 28, 2013	141,500
Granted	—
Forfeited	—
Vested	69,500
Outstanding at February 28, 2014	72,000
Vested:	
Outstanding at February 28, 2013	—
Vested	69,500
Exercised	12,300
Forfeited	—
Outstanding at February 28, 2014	57,200

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.

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.

Number of stock options granted by the 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	¥857 ($8.41)
Fair value at the grant date	¥362 ($3.55)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2014 is as follows:

	2009 stock option plan (No. 5)
Non-vested:	
Outstanding at February 28, 2013	165,100
Granted	—
Forfeited	—
Vested	37,500
Outstanding at February 28, 2014	127,600
Vested:	
Outstanding at February 28, 2013	7,800
Vested	37,500
Exercised	10,500
Forfeited	—
Outstanding at February 28, 2014	34,800

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

2008 Stock Option Plan (No. 4)

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

Number of stock options granted by the 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	¥862 ($8.46)
Fair value at the grant date	¥905 ($8.88)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2014 is as follows:

	2008 stock option plan (No. 4)
Non-vested:	
Outstanding at February 28, 2013	44,900
Granted	—
Forfeited	—
Vested	10,000
Outstanding at February 28, 2014	34,900
Vested:	
Outstanding at February 28, 2013	1,600
Vested	10,000
Exercised	3,200
Forfeited	—
Outstanding at February 28, 2014	8,400

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

2008 Stock Option Plan (No. 3)

Under the 2008 stock option plan (No. 3), stock options were granted to 5 directors of the Company on June 20, 2008. They are exercisable in the period from June 21, 2008 to June 20, 2038. The terms of the options include certain limitations on the exercisability under which grantees can exercise their options during a five-year period starting a year after they lose their positions as directors of the Company.

Number of stock options granted by the 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)
Average stock price on the date the option was exercised	¥736 ($7.22)
Fair value at the grant date	¥944 ($9.26)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2014 is as follows:

	2008 stock option plan (No. 3)
Non-vested:	
Outstanding at February 28, 2013	65,000
Granted	—
Forfeited	—
Vested	33,000
Outstanding at February 28, 2014	32,000
Vested:	
Outstanding at February 28, 2013	—
Vested	33,000
Exercised	13,000
Forfeited	—
Outstanding at February 28, 2014	20,000

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

2007 Stock Option Plan (No. 2)

Under the 2007 stock option plan (No. 2), stock options were granted to 5 directors and 2 corporate auditors of the Company on July 20, 2007. They are exercisable in the period from July 21, 2007 to July 20, 2037. The terms of the options include certain limitations on the exercisability under which grantees can exercise their options during a five-year period starting a year after they lose their positions as directors or corporate auditors.

Number of stock options granted by the type of shares is 40,000 shares of common stock.

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

Exercise price	¥1 ($0.01)
Average stock price on the date the option was exercised	¥795 ($7.80)
Fair value at the grant date	¥1,284 ($12.60)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2014 is as follows:

	2007 stock option plan (No. 2)
Non-vested:	
Outstanding at February 28, 2013	23,300
Granted	—
Forfeited	—
Vested	5,200
Outstanding at February 28, 2014	18,100
Vested:	
Outstanding at February 28, 2013	—
Vested	5,200
Exercised	5,200
Forfeited	—
Outstanding at February 28, 2014	—

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

2006 Stock Option Plan (No. 1)

Under the 2006 stock option plan (No. 1), stock options were granted to 12 directors and 2 corporate auditors of the Company on June 20, 2006. They are exercisable in the period from July 1, 2006 to June 30, 2036. The terms of the options include certain limitations on the exercisability under which grantees can exercise their options during a five-year period starting a year after they lose their positions as directors or corporate auditors.

Number of stock options granted by the type of shares is 63,000 shares of common stock.

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

Exercise price	¥1 ($0.01)
Average stock price on the date the option was exercised	¥758 ($7.44)
Fair value at the grant date	¥1,541 ($15.12)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2014 is as follows:

	2006 stock option plan (No. 1)
Non-vested:	
Outstanding at February 28, 2013	20,000
Granted	—
Forfeited	—
Vested	4,500
Outstanding at February 28, 2014	15,500
Vested:	
Outstanding at February 28, 2013	3,000
Vested	4,500
Exercised	7,500
Forfeited	—
Outstanding at February 28, 2014	—

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

20. Segment Information

(1) Summary of reportable segments

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

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

The reportable segments of the Onward Group comprise the "Apparel Business", which has been divided geographically into 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. "Other Business" operates the logistics, sports facilities and resort facilities businesses.

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

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

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

(3) Information on sales, profit or loss, assets, liabilities and other items by reportable segment for the years ended February 28, 2014 and February 28, 2013 are as follows:

	Millions of yen							
	Apparel							
For the year ended February 28, 2014	Japan	Europe	Asia/North America	Total	Other	Total	Adjustments (Note 1)	Consolidated total (Note 3)
Sale to outside customers	¥208,095	¥45,524	¥ 8,457	¥262,076	¥16,997	¥279,073	¥ —	¥279,073
Intersegment sales	1,438	601	441	2,480	8,354	10,834	(10,834)	—
Total	¥209,533	¥46,125	¥ 8,898	¥264,556	¥25,351	¥289,907	¥(10,834)	¥279,073
Segment income (loss)	¥ 13,877	¥(1,235)	¥(1,008)	¥ 11,634	¥ 290	¥ 11,924	¥ (2,502)	¥ 9,422
Segment assets	¥142,327	¥35,557	¥ 6,038	¥183,922	¥27,756	¥211,678	¥101,753	¥313,431
Depreciation and amortization (Note 2)	¥ 3,910	¥ 1,069	¥ 466	¥ 5,445	¥ 959	¥ 6,404	¥ 397	¥ 6,801
Investments in equity-method affiliates	9,024	91	—	9,115	—	9,115	—	9,115
Increases in property, plant and equipment, and intangible assets (Note 2)	13,471	1,156	762	15,389	1,270	16,659	5,805	22,464

	Thousands of U.S. dollars							
	Apparel							
For the year ended February 28, 2014	Japan	Europe	Asia/North America	Total	Other	Total	Adjustments (Note 1)	Consolidated total (Note 3)
Sale to outside customers	$2,041,347	$446,575	$82,962	$2,570,884	$166,736	$2,737,620	$ —	$2,737,620
Intersegment sales	14,108	5,896	4,324	24,328	81,955	106,283	(106,283)	—
Total	$2,055,455	$452,471	$87,286	$2,595,212	$248,691	$2,843,903	$(106,283)	$2,737,620
Segment income (loss)	$ 136,132	$ (12,111)	$ (9,891)	$ 114,130	$ 2,842	$ 116,972	$ (24,541)	$ 92,431
Segment assets	$1,396,184	$348,802	$59,235	$1,804,221	$272,275	$2,076,496	$ 998,161	$3,074,657
Depreciation and amortization (Note 2)	$ 38,354	$ 10,486	$ 4,571	$ 53,411	$ 9,406	$ 62,817	$ 3,897	$ 66,714
Investments in equity-method affiliates	88,527	890	—	89,417	—	89,417	—	89,417
Increases in property, plant and equipment, and intangible assets (Note 2)	132,145	11,340	7,475	150,960	12,464	163,424	56,942	220,366

(Notes) 1. Adjustments consist of the following:

(1) The adjustment amount for segment income (loss) of ¥(2,502) million ($(24,541) thousand) includes amortization of goodwill of ¥(3,313) million ($(32,501) thousand), elimination of intersegment sales of ¥3,984 million ($39,080 thousand), and corporate expenses not allocated to reportable segments of ¥(3,173) million ($(31,120) thousand). Corporate expenses are mainly general administrative expenses not allocated to reportable segments.

(2) The adjustment amount for segment assets of ¥101,753 million ($998,161 thousand) includes the unamortized balance of goodwill of ¥29,741 million ($291,748 thousand), elimination of intersegment sales of ¥(130,059) million ($(1,275,836) thousand), and corporate assets not allocated to reportable segments of ¥202,071 million ($1,982,249 thousand). Corporate assets are mainly assets held by the Company, a pure holding company.

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

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

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

(Notes) 1. Adjustments consist of the following:

(1) The adjustment amount for segment income (loss) of ¥(3,629) million includes amortization of goodwill of ¥(3,938) million, elimination of intersegment sales of ¥3,869 million, and corporate expenses not allocated to reportable segments of ¥(3,560) million. Corporate expenses are mainly general administrative expenses not allocated to reportable segments.

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

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

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

(4) Segment information by geographical areas for the year ended February 28, 2014 and February 28, 2013 are as follows:

(a) Sales

For the year ended February 28, 2014 — Millions of yen

Japan	Europe	Other	Total
¥225,057	¥26,086	¥27,930	¥279,073

For the year ended February 28, 2014 — Thousands of U.S. dollars

Japan	Europe	Other	Total
$2,207,743	$255,896	$273,981	$ 2,737,620

For the year ended February 28, 2013 — Millions of yen

Japan	Europe	Other	Total
¥218,018	¥18,813	¥21,539	¥258,370

(b) Property, plant and equipment

For the year ended February 28, 2014 — Millions of yen

Japan	Europe	Other	Total
¥83,440	¥9,366	¥10,073	¥102,879

For the year ended February 28, 2014 — Thousands of U.S. dollars

Japan	Europe	Other	Total
$818,518	$91,880	$98,812	$1,009,210

For the year ended February 28, 2013 — Millions of yen

Japan	Europe	Other	Total
¥70,915	¥7,664	¥8,283	¥86,862

(5) Segment information on impairment losses on property, plant and equipment by reportable segment for the year ended February 28, 2014 and February 28, 2013 are as follows:

For the year ended February 28, 2014	Millions of yen						
	Apparel						
	Japan	Europe	Asia/North America	Total	Other	Elimination of intersegment amounts	Total
Impairment loss	¥251	¥—	¥51	¥302	¥21	¥—	¥323

For the year ended February 28, 2014	Thousands of U.S. dollars						
	Apparel						
	Japan	Europe	Asia/North America	Total	Other	Elimination of intersegment amounts	Total
Impairment loss	$2,463	$—	$503	$2,966	$198	$—	$3,164

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

Independent Auditor's Report

EY
Building a better working world

Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg.
2-2-3 Uchisaiwai-cho, Chiyoda-ku
Tokyo, Japan 100-0011

Tel: +81 3 3503 1100
Fax: +81 3 3503 1197
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, 2014, and the consolidated statements of operations, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ONWARD HOLDINGS Co., Ltd. and its consolidated subsidiaries as at February 28, 2014, 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

Ernst & Young ShinNihon LLC

May 27, 2014

A member firm of Ernst & Young Global Limited

Main Subsidiaries

Japan

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

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

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

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

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

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

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

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

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

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

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

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

Sakula Inc.
8-1 Nishinokyo Ikenouchi-cho,
Nakagyo-ku, Kyoto City, Kyoto 604-8375, Japan
Tel: (81) 75-384-0988

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

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

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

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

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

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

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

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

Overseas

Europe

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

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

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

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

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

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

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

Onward Kashiyama Hong Kong Ltd.
Unit 1208-9, Lippo Sun Plaza,
28 Canton Road, Tsim Sha Tsui, Kowloon,
Hong Kong, People's Republic of China
Tel: (852) 2367-2055

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

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

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

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

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

United States

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

Onward Retail L.L.C.
29th Floor, 530 7th Ave., 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, 2014

Head Office	Toda Building, 7-1, Kyobashi 1-chome, Chuo-ku, Tokyo 104-8329, Japan Tel: (81) 3-4512-1020 Fax: (81) 3-4512-1021 URL: http://www.onward-hd.co.jp/
Established	September 1947
Capital	¥30,079 million
Common Stock	Authorized—400,000,000 shares Issued—172,921,669 shares Note: The total number of issued and outstanding shares included 15,988,000 shares of treasury stock.
Number of Shareholders	12,386
Stock Exchange Listings	Tokyo, Nagoya
Transfer Agent	Mitsubishi UFJ Trust & Banking Co., Ltd. 10-11, Higashisuna 7-chome, Koto-ku, Tokyo 137-8081, Japan
Number of Employees (Consolidated)	5,224

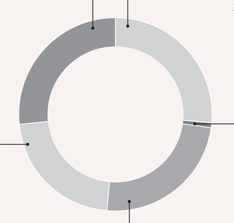
Major Shareholders

	Number of Shares Held (Thousands)	Percentage of Total Shares Issued (%)
Kashiyama Scholarship Foundation	8,710	5.5
Nippon Life Insurance Company	5,727	3.6
Isetan Mitsukoshi, Ltd.	5,001	3.1
Northern Trust Co. AVFC Account Non Treaty	4,228	2.6
The Dai-ichi Mutual Life Insurance Company Ltd.	4,200	2.6
Japan Trustee Services Bank, Ltd. (Trust account)	4,168	2.6
Onward Holdings Customers' Shareholding Association	3,730	2.3
JAPAN RE FIDELITY	3,586	2.2
The Master Trust Bank of Japan, Ltd. (Trust account)	3,448	2.1
MARUI GROUP CO., LTD.	3,417	2.1

Notes:
1. The Company holds 15,988,000 shares of treasury stock. Treasury stock is not included in the above Major Shareholders information.
2. Percentage of total shares issued are calculated after deducting 15,988,000 shares of treasury stock.

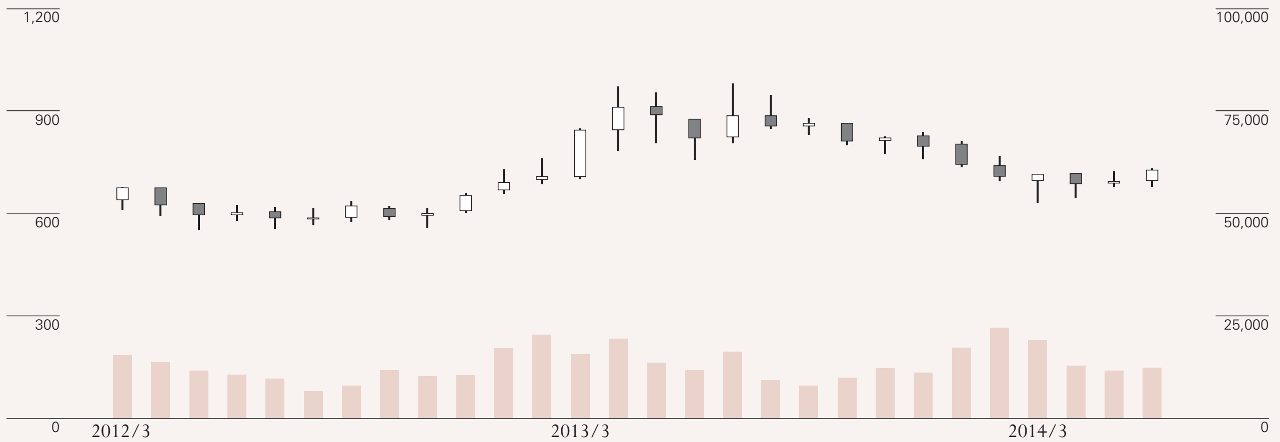
Distribution of Ownership among Shareholders

(On a number of shares basis)



Note: Japanese individuals and others data include treasury stock.

Stock Price Range and Trading Volume



History

1927	February	Junzo Kashiyama established Kashiyama Trading.
1947	September	Established Kashiyama Co., Ltd., in Oimatsu-cho, Kita-ku, Osaka City, Osaka (later relocated to Honmachi, Higashi-ku in 1952).
1960	October	Listed on the second sections of the Tokyo, Osaka, and Nagoya stock exchanges.
1962	April	Established Onward Sales Co., Ltd. (formerly Oak Co., Ltd.; currently Onward Trading Co., Ltd.).
1964	July	Listing was transferred to the first sections of the Tokyo, Osaka, and Nagoya stock exchanges.
1966	September	Transferred head office from Honmachi, Kita-ku, Osaka, to Nihonbashi, Chuo-ku, Tokyo.
1972	July	Established Onward Transport Co., Ltd. (currently Across Transport Co., Ltd.).
	September	Established Onward Kashiyama U.S.A. INC.
1973	February	Established Onward Kashiyama France S.A.
1974	February	Established Onward Kashiyama Italia S.p.A. (currently Onward Italia S.p.A.).
1986	October	Acquired J. Press, Inc.
1988	February	Established Onward Kashiyama Hong Kong Ltd.
	September	Company name changed to Onward Kashiyama Co., Ltd. (currently Onward Holdings Co., Ltd.).
1989	December	Established Onward Kashiyama U.K. Ltd.
1990	January	Acquired GIBO' S.p.A. (name was changed to GIBO' Co. S.p.A. in April 1994).
	July	Acquired Chacott Co., Ltd.
1991	February	Launched Onward Research and Development Institute.
1992	May	Opened Onward Agana Beach Hotel, in Guam (currently Onward Beach Resort Guam, Inc.).
1994	May	Established Bus Stop Co., Ltd.
1995	June	Established Shanghai Onward Fashion Co., Ltd.
1997	June	Established Onward Kashiyama Korea Co., Ltd.
2004	January	Acquired Erika s.r.l.
2005	May	Acquired Project Sloane Ltd. (Joseph Group).
	July	Acquired Iris S.p.A.
2006	October	Acquired Mangilao Golf Club (currently Onward Mangilao Golf Club).
2007	April	Onward Fashion Trading (Shanghai) Co., Ltd., increased its capital and changed its name to Onward Fashion Trading (China) Co., Ltd.
	May	Acquired Frassineti s.r.l.
	June	Established J. Direction Co., Ltd.
	September	Changed to a holding company structure through corporate restructuring under the new company name, Onward Holdings Co., Ltd.
		Established new companies, Onward Kashiyama Co., Ltd., and Onward Trading Co., Ltd.
	October	Acquired Corporate s.r.l.
2008	October	Acquired Creative Yoko Co., Ltd.
		Acquired Jil Sander A.G.
2009	December	Acquired a controlling interest in Island Co., Ltd.
2010	June	Established Onward Kashiyama Singapore Pte. Ltd.
2011	August	Established Onward Kashiyama Vietnam Ltd.
2012	April	Acquired a controlling interest in the Birz Group, including Birz Association Ltd.
	May	Established Onward Fashion Trading (Shanghai) Co., Ltd.
	December	Established Charles & Keith Japan Co., Ltd.
2013	February	Acquired Sakula Inc.
	June	Established Onward Luxury Group S.p.A.
2014	March	Established Onward Global Fashion Co., Ltd.

ONWARD HOLDINGS CO., LTD.

Head Office:
Toda Building, 7-1, Kyobashi 1-chome,
Chuo-ku, Tokyo 104-8329, Japan
Tel: +81-3-4512-1020
http://www.onward-hd.co.jp/

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