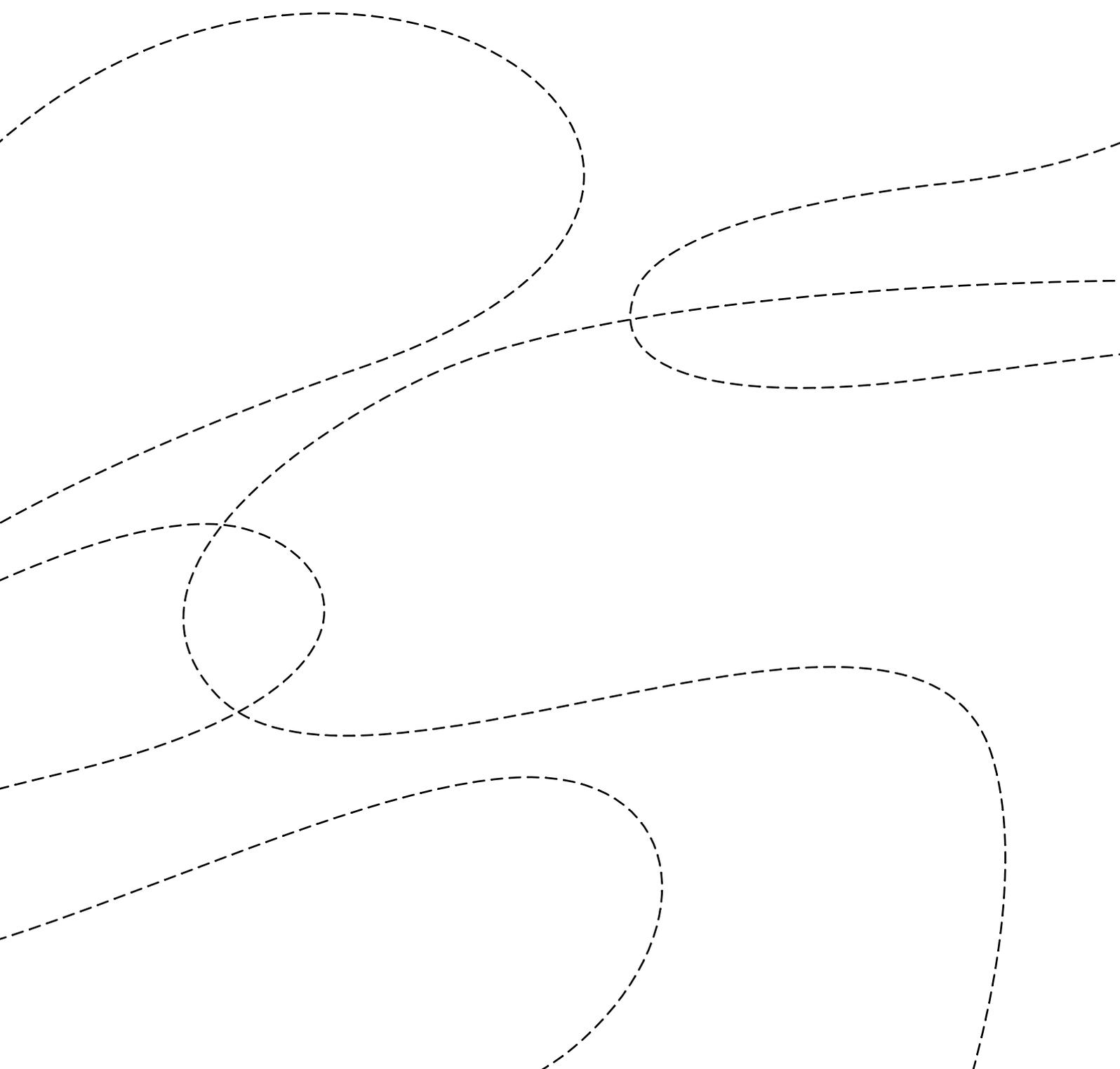




ANNUAL REPORT 2017

Year Ended February 28, 2017

Onward Holdings Co., Ltd.





Onward Kashiwama's production team participated in a textile project that was featured in ART BY THE HAND EXHIBITION.



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Forward-Looking Statements

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

Onward at a Glance

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



Nijyusanku GINZA

Ever Onward

The Onward Group was founded in 1927 and has pushed ever onward for the 90 years that followed. Establishing systems for the production of menswear in the 1950s and later transforming into a comprehensive apparel manufacturer offering womenswear and children's clothing, Onward made strong strides in its early years. Progress continued in the following decades with Onward expanding overseas in the 1970s, launching core brands originating in Japan in the 1990s, and growing its operations on a global scale in the 2000s. The Onward Group eventually transitioned to a holding company system in 2007. Looking ahead, we will continue to march onward, evolving in line with the times, no matter how they may change, and calling upon the techniques and expertise cultivated over our long history as we pursue future growth.

➤ See "Our History" on pages 12–15 for details.

Brand-Centric Management

At the Onward Group, we practice brand-centric management to further refine our brands and maximize their value. To facilitate the enhancement of brand value, we adopt a product-out approach that entails proposing products characterized by the utmost levels of quality and value with one eye toward the future. Bolstering our competitiveness through this approach constitutes our brand business strategy. Currently, we are operating roughly 40 major brands. We will heighten the profitability of our brand business by growing sales and improving operational efficiency.

➤ See "Core Brands" on pages 16–23 for details.

Global Network

The Onward Group develops its business in four geographic segments: Japan, Europe, Asia, and the United States. In the domestic business, which accounts for almost 80% of consolidated net sales, we are pursuing stable growth at core company Onward Kashiyama, as well as major subsidiaries such as Onward Trading, Chacott, Island, and Creative Yoko. In the overseas business, we strive to increase our presence in Europe, where we function as a fashion conglomerate that possesses manufacturing, retail, and brand business functions. At the same time, we are moving forward with the expansion of markets and production networks in Asia.

➤ See "Our Business in Japan" on pages 24–25, "Overseas Business" on pages 26–27, and "Our Network" on pages 34–35 for details.

Sales Channel Strategy

The expansion of e-commerce operations has been positioned as a priority measure in the medium-term management plan started from fiscal year 2017. Accordingly, we will seek to raise e-commerce sales to ¥36.0 billion and 12% of total net sales by fiscal year 2019.

As we move forward, we will advance our Omni-channel retailing strategy, which merges the strengths of both physical and online stores, to further expand our customer base.

▶ See “Our Sales Channels” on pages 32–33 for details.



Sustainable Growth

We launched the Onward-Approved Factory System in 2015 with the goal of developing a manufacturing platform that can continuously supply impeccable quality products.

Safe and appropriate work environments at production sites are crucial to improving employee retention rates and thereby securing manufacturing techniques and ensuring stable product quality.

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

▶ See “Onward-Approved Factory System” on pages 36–37 for details.



Erika the luxury knit manufacture

A Letter to Our Shareholders



Takeshi Hirouchi
Representative Director, Chairman

Dear Shareholders,

The strong consumption by the middle class that has supported the apparel market to date is dwindling amidst a persistent consumption slump, which is contributing to a rising trend toward thriftiness. As a result, apparel purchases have increasingly been concentrated on the two extremes of the market: luxury apparel and fast fashion. If we are to rectify this situation, we will need to inspire society by proposing a world of fashion, which has traditionally been an integral part of apparel businesses.

Accomplishing this objective will require that we devote ourselves to constantly stimulating new demand with high-quality, made-in-Japan products tailored to meet refined tastes.

The 90th anniversary of the Onward Group's founding took place in 2017.

Reflecting on this milestone, we aim to get back to the basics. Cultivating the DNA of Onward—its unrelenting commitment to progress—within all employees, we will move customers to more actively enjoy their lifestyles. This is our important mission as a lifestyle culture enterprise.

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

August 2017

Takeshi Hirouchi
Representative Director, Chairman

A Message from the President



Michinobu Yasumoto
Representative Director, President

We will fundamentally strengthen the Group's business foundations and achieve growth through growth strategies and structural reforms.

In fiscal year 2017, ended February 28, 2017, the Onward Group launched a new medium-term management plan that covers the period leading up to fiscal year 2019. I would like to take this opportunity to review fiscal year 2017, the first year of this plan, and to explain our management policies for the future.

Review of Fiscal Year 2017

Faced with a challenging operating environment, we moved forward with growth strategies and structural reforms in the pursuit of recovery in our earnings capacity.

In fiscal year 2017, the first year of the new medium-term management plan, net sales decreased 7.1% year on year, to ¥244.9 billion, while operating profit increased 11.3%, to ¥4.2 billion, and profit attributable to owners of parent rose 10.9%, to ¥4.7 billion. The operating environment remained challenging in the midst of a declining population in Japan, diversifying consumer values, and increases in production costs stemming from economic growth in Asia as well as rises in other operating costs.

Faced with this challenging operating environment, net sales fell slightly short of the Onward Group's target. Conversely, operating profit and profit attributable to owners of parent both increased year on year and climbed above our targets. I therefore feel comfortable in saying that our progress in the plan's first year was more or less in line with our expectations.

Throughout the year, we sought to stably expand earnings by increasing the value of core brand products and enhancing customer service. At the same time, we practiced selection and concentration by stepping up efforts in fields in which we anticipate high margins and strong growth, such as e-commerce. As a result, our e-commerce operations achieved substantial growth domestically and abroad, contributing to higher sales and income for our core brands Nijyusanku, any SiS, and TOCCA even in the midst of this challenging operating environment.

In the second half of fiscal year 2017, we extensively examined the need for Groupwide structural reforms. We thus chose to undertake the reorganization of unprofitable businesses and stores.

Furthermore, we plan to institute reforms to logistics and organizational structures in fiscal year 2018. The benefits of these reforms are

expected to become clearly apparent in the future.

By developing our business through both growth strategies and structural reforms, we have succeeded in setting the Company on the proper course for the remaining two years of the medium-term management plan.

Our efforts in fiscal year 2018 and beyond will be carried out in accordance with the basic policies put forth by the medium-term management plan. These efforts will include advancing growth strategies focused on Omni-channel retailing and expansion in global markets. We will also seek to develop new businesses and provide a diverse sense of value; mergers and acquisitions will be one option in this regard. In addition, the selection and concentration of management resources will be practiced in existing businesses in order to move forward with structural reforms for strengthening the Group's business foundations and achieving growth.

Omni-Channel Retailing Strategy

The Onward Group seeks to realize Omni-channel retailing in the truest sense of the word by merging brick-and-mortar stores with online stores.

Advances in information and communication technologies, or ICT, have presented us with a greater range of opportunities to develop new customer contact points that have never been seen before. Recognizing this situation, we have placed e-commerce at the center of our growth strategies in light of the high levels of profitability and growth it promises. In addition, the promotion of Omni-channel retailing will be accelerated on a Groupwide basis.

In fiscal year 2017, the Group generated sales totaling ¥15.0 billion through e-commerce, as targeted, and massive growth rates of 23% in Japan, 86% overseas, and 26% overall were achieved. Our efforts in this year went beyond simply increasing the number of points

through which we can connect with customers online. Rather, we established systems for planning and developing online-exclusive items through collaboration with brand business divisions.

At the same time, we integrated inventories to allow, for example, a product to be shipped, with zero hassle, from the stock of physical stores should it not be present in the stock put aside for Internet sales. Such efforts were no doubt a proponent behind the aforementioned sales growth.

We were quick to integrate the inventories of physical and online stores with regard to our core Nijyusanku brand. As a result, although sales at physical stores declined 1.9% in fiscal year 2017, sales via e-commerce channels surged 32.4%, contributing to an overall increase of 1.4% in sales for the brand.

Our Omni-channel retailing efforts have not been limited to the integration of physical and online store inventories. We have also been stepping up online marketing initiatives. These included advance reservation sales, which also functioned as part of test sales conducted at the beginning of the fiscal year, as well as an expanded lineup of online-exclusive items. Successful initiatives will be extended to all brands in order to lay the foundations for increased sales and income for Onward Kashiya and consequently the entire Onward Group.

The Onward Group is also augmenting its infrastructure for promoting Internet sales. Previously, our Internet sales initiatives had been based around Onward Crosset, our directly operated e-commerce website. However, as this site was designed similarly to a shopping mall, it was unable to completely capture the unique atmosphere and visual flair of each brand. To rectify this issue, we have begun installing e-commerce functions into individual brand websites in fiscal year 2018. By promoting sales through both the shopping mall that is Onward Crosset and our brand-specific e-commerce sites, we aim to further grow sales. In addition to our official Onward Group websites, our products have been made available on roughly 10 different online shopping malls. Sales through these external sites have come to represent roughly 20% of overall e-commerce sales. Going forward, the Onward Group will continue to offer its products through external websites in order to reach new customers.

In conjunction with our Omni-channel retailing initiatives, we have also been enhancing the services offered through our Onward Members' loyalty point card system, which boasts membership consisting of users of both physical stores and e-commerce websites. In April 2016, we completed the integration of the user base of users of the Onward Members' system saved at physical stores and that of Onward Crosset to create a database of 1.2 million customers. The total number of members had risen to 1.6 million as of February 28, 2017. By encouraging members among the customer bases of other

domestic Group companies, we aim to increase this number to 2.1 million by February 2018. Moreover, it is our goal to utilize the Onward Members' system to increase sales by exposing customers to various products from throughout the Onward Group and also to encourage customers of our e-commerce websites to visit brick-and-mortar stores. Encouraging such visits will require us to coordinate with retail partners, including department stores and shopping centers, in order to develop new types of stores that are suited to the current era of the Internet and Omni-channel retailing. After developing such stores, we will solicit the appealing services available at these stores through the Onward Members' system to encourage members to visit said stores, which should contribute to the invigoration of brick-and-mortar stores.

Provision of a Diverse Sense of Value

Our focus on apparel products will be maintained even as we spread into new fields presenting the potential for synergies in order to provide greater levels of value.

It goes without saying that we are committed to further enhancing the apparel product operations that constitute our main business. The provision of a diverse sense of value is another crucial component of our growth strategies.

For example, food products and cosmetics are areas that are booming in terms of sales at department stores and sales to inbound visitors. These areas are also thought to be highly compatible with Onward's apparel product operations. We thus chose to open our Onward Marche food sales website in November 2016. This e-commerce website represents a new merchant business through which we introduce luxury food products and other food-related items assembled from across Japan. Currently, deliveries are only available in Japan, but we hope to make this website able to offer cross-border sales to countries overseas in the near future. Customers from overseas are incredibly interested in Japanese cuisine, for which they hold high expectations. I therefore suspect that there is room for the development of appealing business models in this area.

In addition, Onward Holdings converted KOKOBUY Inc., a venture company offering a lineup of primarily organic skincare and haircare products, into a subsidiary in fiscal year 2018. We hope to foster the new business of this company into a pillar that will support the Onward Group in the future.

These are just some examples of our efforts to provide a diverse sense of value. Looking ahead, we will continue working to improve the value of our apparel product operations themselves. At the same time, we will also expand operations in a wide range of fields related

to the necessities of our daily lives, where we can anticipate synergies with other Group businesses in order to provide a greater scope of value to our customers.

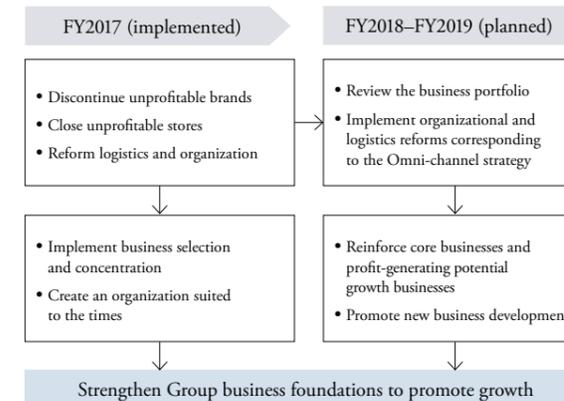
Structural Reforms

We are advancing structural reforms to strengthen the Group's business foundations and achieve growth in response to the challenging operating environment.

In fiscal year 2017, we launched a business restructuring project to be advanced alongside the growth strategies that were put forth previously.

This project will entail the selection and concentration of management resources, through which we will strengthen the Group's business foundations and achieve growth. In conjunction with the restructuring project, we formulated a meticulously prepared plan for reallocating Group staff. This plan includes provision for employee shifts, training, education, and other factors, and will be implemented in accordance with a highly detailed timetable. At the same time, we will continue to carry out the reorganization of unprofitable businesses and stores as required by the rapidly changing fashion business. We will also institute reforms to the underlying frameworks for logistics and organizational structures in order to transition to structures that will enable swift responses to the changing times.

Business Restructuring Project



Centered on core company Onward Kashiya, the existing frameworks were developed over the course of several years, and altering these established frameworks will require time, due in part to the time needed to gain the understanding of frontline employees. Nonetheless, we aim to advance reforms at a rapid clip, gaining the understanding of the entire organization through this process.

Financial Strategy

We will institute various measures to ensure stable dividends and improve return on equity.

We recognize that the distribution of profits to shareholders is one of our top priorities. Our basic policy is to stably distribute appropriate dividends to shareholders based on the Company's business performance, and we target a dividend payout ratio of 35% or more. In addition, we have set a target of 5% for return on equity in fiscal year 2019. Steps taken in fiscal year 2017 to move toward the accomplishment of this goal included the acquisition of treasury stock and sale of shareholdings and existing assets as well as other proactive measures. We will continue such efforts in the future in order to improve return on equity while also considering funding, profit margins, and other matters.

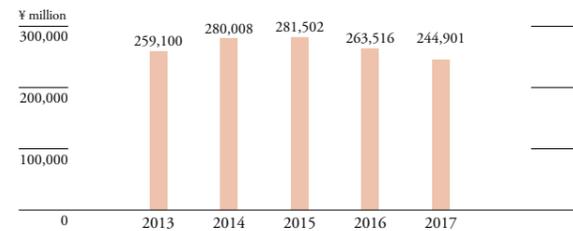
August 2017


Michinobu Yasumoto
Representative Director, President

Key Performance Trends

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

Net Sales



¥244.9 billion – 7.1% (YoY)

Net Sales

In the domestic business, overall sales were down as sales at major apparel subsidiaries struggled over the period from summer to the beginning of fall and performance was impacted by the transference of shares held in Across Transport Co., Ltd. that was conducted during fiscal year 2016.

Meanwhile, foreign exchange rates weighed heavily on performance in the overseas business. Consequently, consolidated net sales decreased 7.1% year on year, to ¥244.9 billion.

Operating Profit and Operating Margin

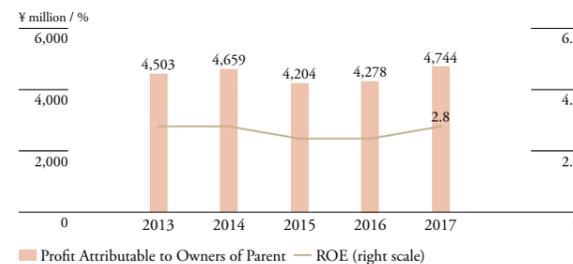


¥4.2 billion +11.3% (YoY)

Operating Profit

The operating margin increased by 0.3 percentage point year on year, coming to 1.7% as profitability improved due to the growth of e-commerce operations, thorough inventory management, and general streamlining of business costs. Although net sales were down, operating profit was up 11.3%, to ¥4.2 billion, as a result of a substantial increase in operational efficiency stemming from business structure reforms.

Profit Attributable to Owners of Parent and ROE

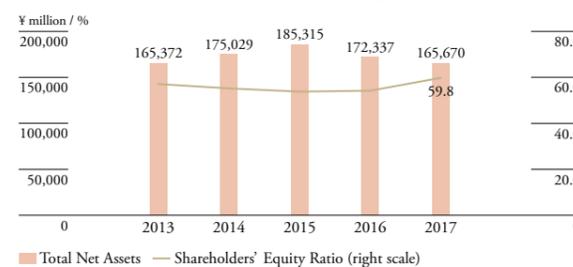


¥4.7 billion +10.9% (YoY)

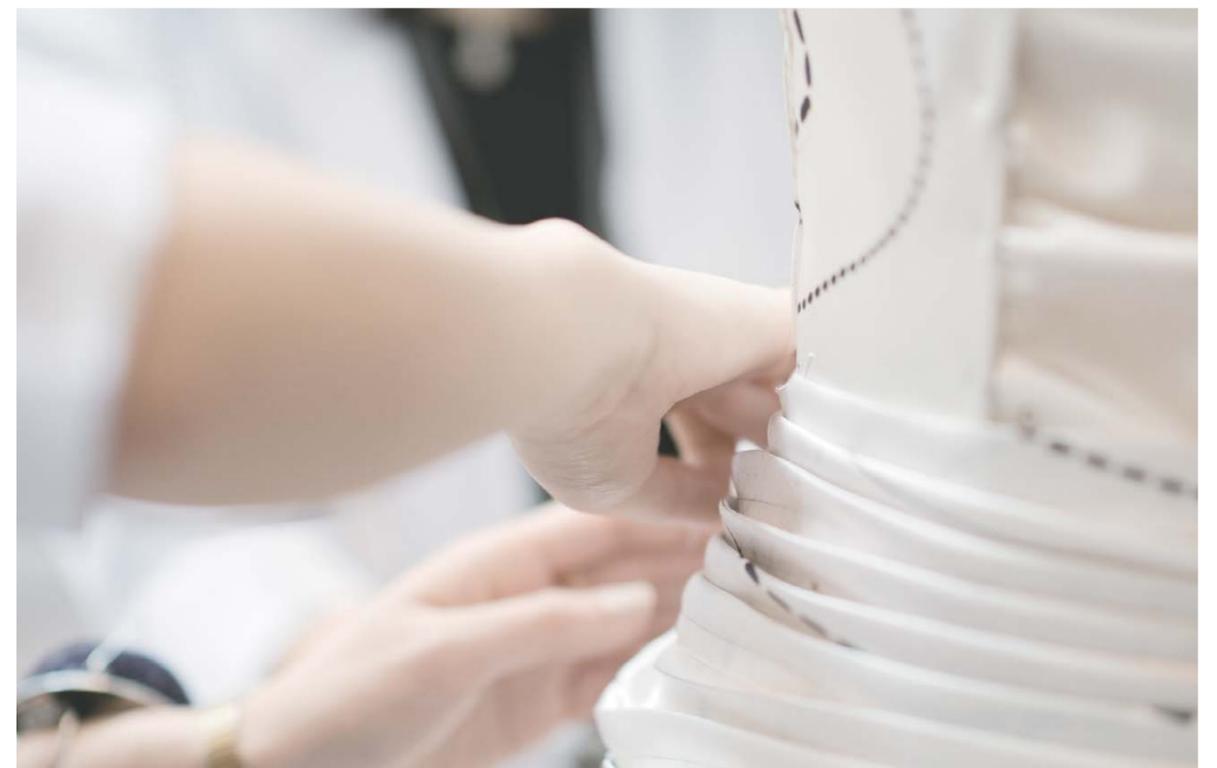
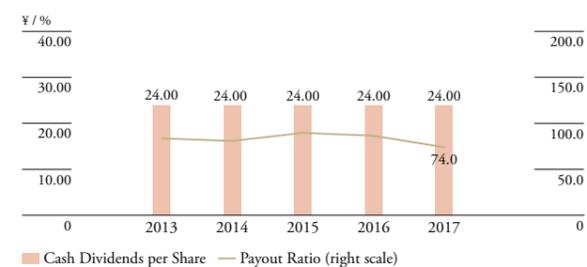
Profit Attributable to Owners of Parent

Profit attributable to owners of parent was up 10.9% year on year, to ¥4.7 billion, and return on equity increased 0.4 percentage point, to 2.8%.

Total Net Assets and Shareholders' Equity Ratio



Cash Dividends per Share and Payout Ratio



After
90
 Years,
 Still
 Looking
Onward
 to the
Future

1927



Company founder Junzo Kashiya

Founding

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

Events Seen in Each Era

1920s

Roaring Twenties – World War II

- Westernization of women's clothing trends (after the Great Kanto Earthquake, 1923-)

1940s

- Great Depression originating in the United States (1929)
- World War II (1939-1945)

1950s
|
1960s

Ready-Made Clothing Revolution

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



Grading machine modifies and cuts basic sewing patterns

1950s

Post-war reconstruction – Japanese economic miracle

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

1960s

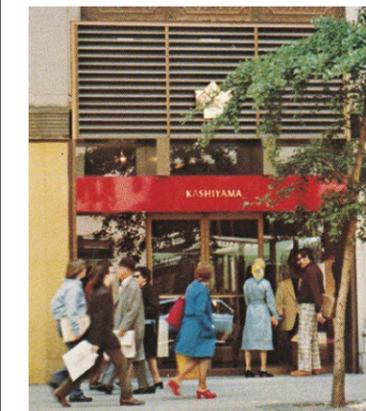
1970s
|
1980s

Overseas Expansion

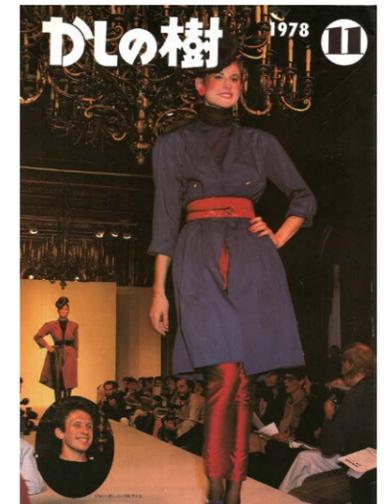
In keeping a step ahead of other Japanese apparel manufacturers, during the 1970s Onward develops its global strategy and establishes subsidiaries in New York in 1972, Paris in 1973, and Milan in 1974. By establishing local subsidiaries in three major fashion cities in a short period of time, Onward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



Bus Stop store on Boulevard Saint-Germain in Paris



Onward Kashiya's U.S. office



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

1970s

Pivot of change – Japanese asset price bubble

- Oil crisis (1973)
- Plaza Accord (1985)
- Enactment of Act on Securing, Etc. of Equal Opportunity and Treatment between Men and Women in Employment (1986)
- Emergence of prominent Japanese designers
- Spread of luxury fashion

1980s

1990s
|
2000s

Launch of Core Brands

The womenswear business dramatically expands in the 1990s with the launch of core brands, beginning with Kumikyoku in 1992 and followed by Nijusanku in 1993, ICB in 1995, and Jiyuku in 2000. The luxury brand boom driven by Japan's bubble economy comes to an end in the 1990s, and consumers start to look for more simple and practical clothing, and they are able to find this style in Japanese brands.



Launches Kumikyoku, 1992



Launches Nijusanku, 1993

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

2001s
|
2010s

Launch of Global Apparel Group

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



Acquires Joseph Group, 2005

2011s
|
Today

Road to Ongoing Growth

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

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

The Onward Members' loyalty point card system, applicable to all Onward Kashiya brands, launches in 2014, expanding our customer base. The

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



Acquires Jil Sander Group, 2008



Acquires Island Co., Ltd., 2009



Launches Onward Crosset, 2009

Omni-channel retailing strategy, which forms an organic union between online stores and physical stores, also kicks off.

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

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



Opens Nijusanku Ginza store, 2011



Opens Onward J Bridge Daimaru Shinsaibashi store, 2016

Events Seen in Each Era

- 1990s Bubble collapse – Post-bubble recession
- Release of Windows 95 (1995)
 - Rapid spread of the Internet among the general public
- 2000s
- Diversification of retail channels and emergence of specialty retailers selling private label apparel

- 2001s Global information era
- Lehman Brothers bankruptcy and global financial crisis (2008)
 - Mass consolidation and reorganization of Japanese department stores
 - Burgeoning of fast fashion
- 2010s

- 2011s Fourth industrial revolution (Industry 4.0)
- Great East Japan Earthquake (2011)
 - Annual inbound visitors to Japan exceed 20 million (2016)
- Today

Core Brands



23 

LAUNCHED
1993

ANNUAL SALES
¥27.2 billion

NUMBER OF STORES
Over 200

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

23th
Anniv.

23 

gotairiku
五 大 陸

LAUNCHED
1992

ANNUAL SALES
¥4.6 billion

NUMBER OF STORES
111

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



二十五年
周年

gotairiku
五 大 陸



—ONWARD—

JIL SANDER

LAUNCHED

1973

ANNUAL SALES

¥9.0 billion

NUMBER OF STORES

63

Founded by Ms. Jil Sander in Germany in 1973, JIL SANDER is a luxury brand that is featured periodically in Milan Fashion Week. Onward Holdings acquired JIL SANDER in 2008. The casual line JIL SANDER Navy was launched in 2011. Lucie and Luke Meier are named as the new creative directors of JIL SANDER beginning with the 2018 spring/summer collection.



JIL SANDER

SCENE DOCUMENTED BY MARIO SORRENTI AT UNESCO WORLD HERITAGE SITE MALLORCA, SPAIN
SEPTEMBER 2017

MARIO SORRENTI FOR JIL SANDER SOCIAL MEDIA



JOSEPH

LAUNCHED
1972

ANNUAL SALES
¥15.1 billion

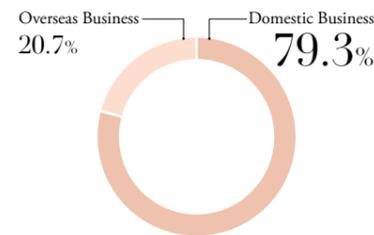
NUMBER OF STORES
201

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

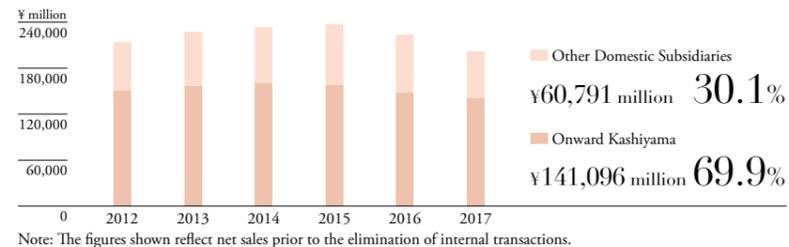
Our Business in Japan

The domestic business is our mainstay business, generating 79.3% of consolidated net sales. This business consists of 34 companies: core operating company Onward Kashiya as well as other domestic subsidiaries that make fashion proposals in a wide range of fields.

Contribution to Total Sales



Net Sales by Domestic Business Segment



ICB Izutsuya Kokura Store

Onward Kashiya

Business Overview

Onward Kashiya is the Group's core operating company, generating 55% of consolidated net sales. Onward Kashiya manufactures and sells womenswear, menswear, children's clothing, and accessories, and 71% of its sales come from its main sales channel: department stores. Key womenswear brands Nijyusanku, Kumikyoku, ICB, and

Jiyuku account for 39% of net sales. Similarly, mainstay menswear brands Gotairiku and Personal Order are posting solid performances by capitalizing on their high-quality suits amid a rise in demand for luxury menswear.

Future growth strategies will include reinforcing our e-commerce operations centering on our directly managed e-commerce website Onward Crosset. In conjunction with these efforts, we will accelerate our Omni-channel retailing

strategy by integrating the inventory information, customer management, and service functions of our physical stores in Japan with online stores.

Performance and Outlook

In fiscal year 2017, we faced a difficult consumption climate, which proved to be particularly harsh for sales of fall items in 2016. Sales at physical stores declined as a result.

Full-year e-commerce sales exceeded our forecasts at ¥11.0 billion, an increase of 28% year on year. The strong growth in e-commerce sales coupled with the benefits of closures of unprofitable stores and the curtailment of sample costs led the gross profit margin to rise to 49.5%, up 0.9 percentage point.

In fiscal 2018, we will strengthen our e-commerce operations to grow sales of key and core brands. At the same time, we will pursue improved profitability through structural reforms, including unprofitable business reorganizations and unprofitable store closures.

Our Business in Japan



JOSEPH GINZA SIX Store

Other Domestic Subsidiaries

Business Overview

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

Main Domestic Subsidiaries

Chacott, a manufacturer and retailer of ballet and other dance wear, is capitalizing on its high recognition as a manufacturer to broaden the scope of its business into yoga, healthcare, cosmetics, and other new fields. Meanwhile, Island, which has Grace Continental as its core brand, is providing fashion items with a distinctive aesthetic that is proving immensely popular among women with refined tastes.



Shirotan ga Ippai! on official Shirotan TV

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



Grace Continental



Chacott

Performance and Outlook

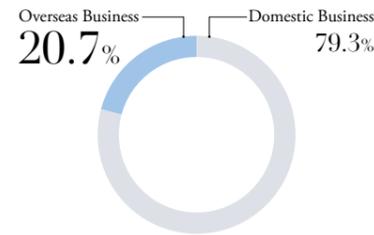
In fiscal year 2017, performance was strong among main domestic subsidiaries, particularly Onward Trading and Chacott. Other domestic subsidiaries advanced structural reforms while reorganizing unprofitable businesses.

In fiscal year 2018, stable growth will be pursued at main domestic subsidiaries. Meanwhile, contributions to earnings improvements are anticipated to come from the benefits of the structural reforms and a new subsidiary that conducts the manufacture and sale of organic skincare and haircare products.

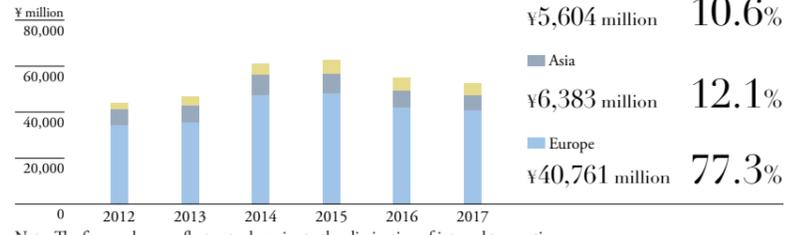
Overseas Business

The overseas business consists of operations in Europe, Asia, and the United States and accounts for 20.7% of consolidated net sales. Business scale expansion will be pursued centered on Europe, where operations are the largest, as we strengthen our competitiveness in the global market.

Contribution to Total Sales



Net Sales by Overseas Business Segment



Europe

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

In 2014, the current form of Onward Luxury Group, which merges Italian subsidiaries GIBO'Co Group and Jil Sander Group, was established.

By generating synergies of the European business, we will be able to exercise our strengths in manufacturing as well as the strengths of Jil Sander (brands) and Joseph (retail). With this comprehensive

range of functions, we will seek to become a unique presence in the European fashion industry.

Business Overview

Onward Luxury Group

Manufacturing

Onward Luxury Group's manufacturing divisions undertake the production of the principal items that are indispensable to a designer brand line, including apparel as well as shoes, bags, knitwear, and sneakers. Moreover, these divisions are constructing a manufacturing platform

capable of providing the utmost levels of quality. In addition to the production of Group brands, manufacturing divisions conduct OEM and contract manufacturing and wholesale of outside brand products based on licensing agreements.

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



OLG Shoes Division



Moreau Paris store

Overseas Business

JIL SANDER

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

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

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



JOSEPH Marylebone High Street store

JOSEPH

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

To accelerate the brand's global growth, Joseph is increasing accessory and menswear lineups while expanding operations in the North American market and strengthening e-commerce businesses.

Asia

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

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

United States

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

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

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

Performance and Outlook

In fiscal year 2017, stable revenues were secured in Europe thanks to the strong performance of manufacturing operations.

Meanwhile, performance improved in Asia and the United States as progress was made in business reorganizations.

In fiscal year 2018, our goals are to improve profitability in Europe by stabilizing our manufacturing platform, expand brand and e-commerce businesses and reform sourcing networks in Asia, and increase brand value in the United States. Initiatives to these ends will be accelerated accordingly.

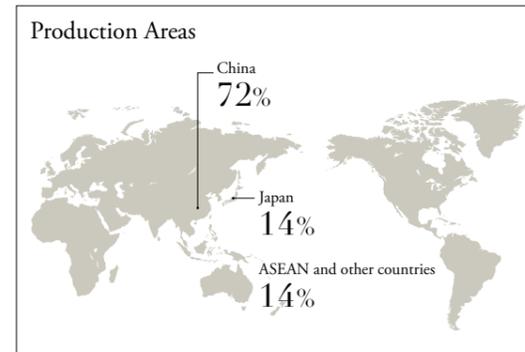
Our Value Chain

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

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

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

Our Value Chain



Production Network

Of Onward Kashiya's products, 71% are manufactured in cooperation with trading companies or delegated to factories in Japan or overseas. Recently, however, we have been expanding our own production network by strengthening partnerships with highly capable Japanese factories and expanding our low-cost production and sourcing networks in China and Vietnam. Currently, about 72% of Onward Kashiya's products are manufactured in China, 14% in Japan, and 14% in the ASEAN region. We are developing our procurement and production networks in the ASEAN region and reinforcing production in Japan to ensure that we can always manufacture products in the most suitable location.

Product Flow (primarily used by Onward Kashiya)



Planning and Production Teams

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



Onward Quality Center

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

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



Our Value Chain



Department Store Transactions

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

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

07 2 Months Before

Production

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



08 1-2 Weeks Before

Final Check

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



Delivery and Sales

09

Delivery

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

10

Sales

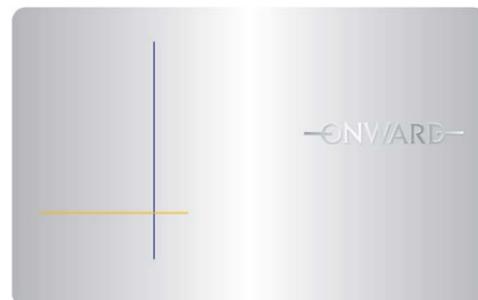
Products are sold at physical stores and online.



Onward Members' Loyalty Point Card System

Onward Members is a loyalty point card system that can be used both at target stores with the Group and on the Onward Crosset directly managed e-commerce website. Through this system, Onward Members users not only receive points based on purchase amounts, but they are also able to receive various perks, including brand information distributed through email magazines and member-exclusive services.

In April 2016, this system had 1.2 million members. Aiming to increase this number to 2.1 million by fiscal year 2018 and to 3.0 million by fiscal year 2019, we will seek to expand our customer base.



Our Sales Channels

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

Department Stores

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

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



Nijyusanku JR Nagoya Takashimaya Store

E-Commerce

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

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



Directly Managed Stores

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



Train Station Complexes / Fashion Malls

We offer fashionable and trendy brands and products through this sales channel, which takes advantage of prime locations in train station complexes and in major urban centers.



Shopping Centers

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

Our Sales Channels

Onward's Omni-Channel Retailing Strategy

The advancement and evolution of information and communication technologies brings with it the potential to develop new customer contact points that have never been seen before.

The Onward Group's medium-term management plan, launched in March 2016, positions the acceleration of our Omni-channel retailing strategy as a priority measure and sets forth the target of generating net sales of about ¥36.0 billion, or 12% of total net sales, through e-commerce operations by fiscal year 2019.

Sales through E-Commerce and Percentage of Total Sales



Recent Initiatives

My Shop Registration System

The My Shop Registration system, launched in April 2017, is a new service for Onward Members users. Through this system, users are able to register their favorite brands and stores to create a "My Shop" portfolio. Upon completing this step, purchase histories through applicable e-commerce sites will be integrated under the My Shop Registration system, which will make it possible for comprehensive service to be received that encompasses both physical stores and e-commerce stores.



Onward SHOP BLOG

Onward Kashiya has established the official Onward SHOP BLOG portal site, which provides a source of information on recommended outfits and the latest topics from various stores. An added degree of convenience came from the release of a dedicated smartphone application in March 2017. This application gives users easy access to all of our online shops and brand websites. Furthermore, the SHOP BLOG AWARD program has been established to recognize stores that actively utilize Onward SHOP BLOG to grow sales. The aim of this award is to encourage stores to act as originators of information.



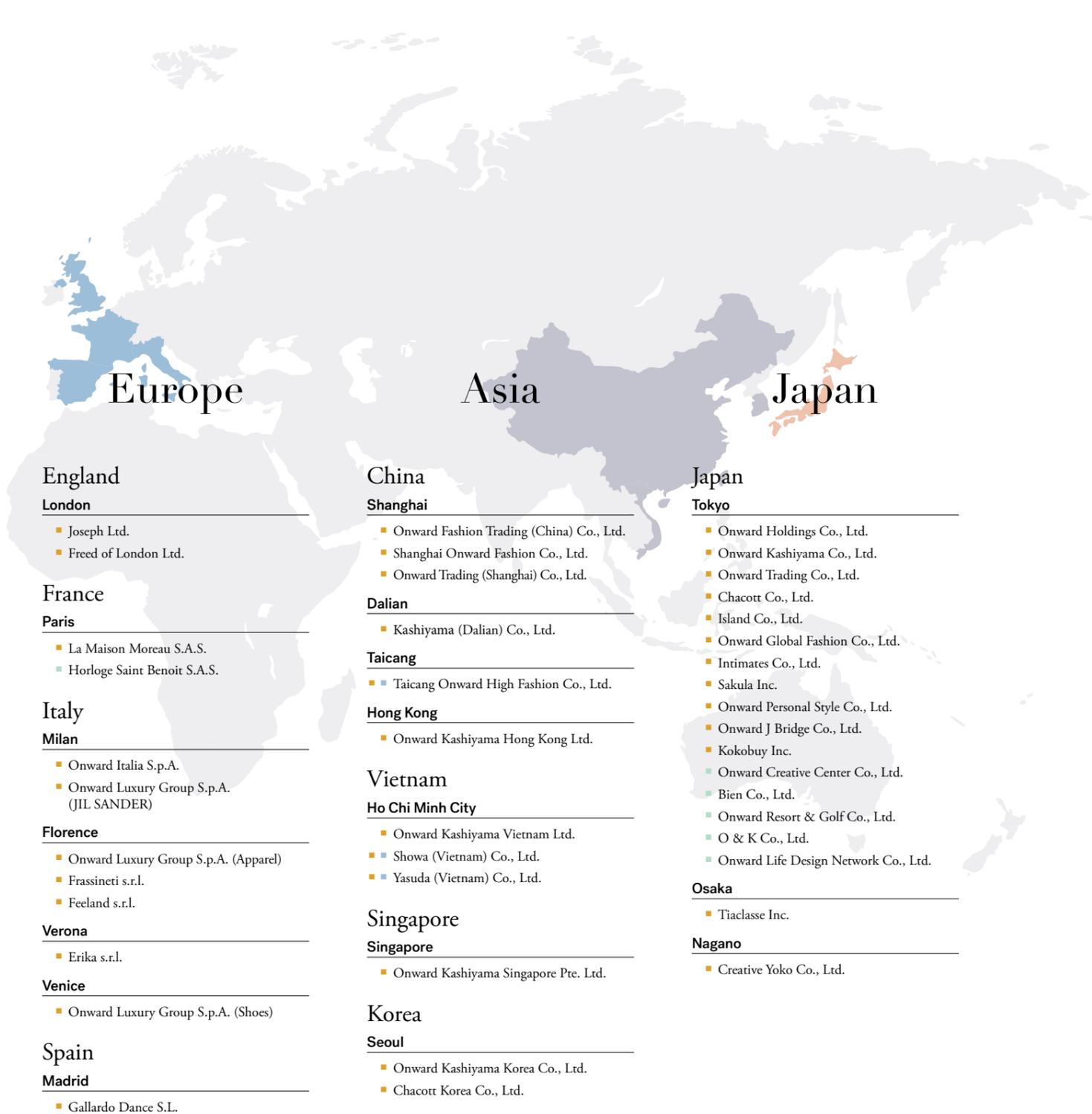
Onward Marche

The Onward Marche gourmet e-commerce site was launched in November 2016 to propose enriching lifestyles through food. This site serves to increase customer contact points through the venue of food, which is more easily accessible than fashion, while also acting as a tool for promoting e-commerce use. Looking ahead, we will advance our Omni-channel retailing strategy by expanding Onward Marche outside of Japan to cater to customers in Asia and other parts of the world so that we can promote e-commerce through gourmet foods as well as through fashion.



Our Network

As of August 31, 2017



Our Network



Number of Stores
3,307
in **26** countries and regions

The Onward Group engages in business activities through a network that is made up of 83 subsidiaries and 22 affiliates, for a total of 106 Group companies. The Group operates in the four geographic segments of Japan, Europe, Asia, and the United States.

Onward-Approved Factory System

The Onward-Approved Factory System was instituted with the goal of developing a manufacturing platform that can continually supply impeccable quality products. We are well aware of how important safe and appropriate work environments at production sites are to improving employee retention rates and are thereby securing manufacturing techniques and ensuring stable product quality. Through the Onward-Approved Factory System, we encourage partner factories to reinforce their management systems for maintaining ethical working conditions (CSR) and securing necessary quality control (QC). We thereby support factories exhibiting excellence in achieving sustainable growth.

Audit Targets

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

In the future, the scope of the Onward-Approved Factory

System will be extended to overseas joint venture factories, overseas factories contracted through trading companies, and overseas production partners of domestic subsidiaries.

Audits Performed

	Number of factories audited		Number of factories with no compliance findings	
	First audit	Re-audit	CSR	QC
Fiscal year 2017 (Actual)	35	11	27	40
Fiscal year 2018 (Plan)	32	26	—	—

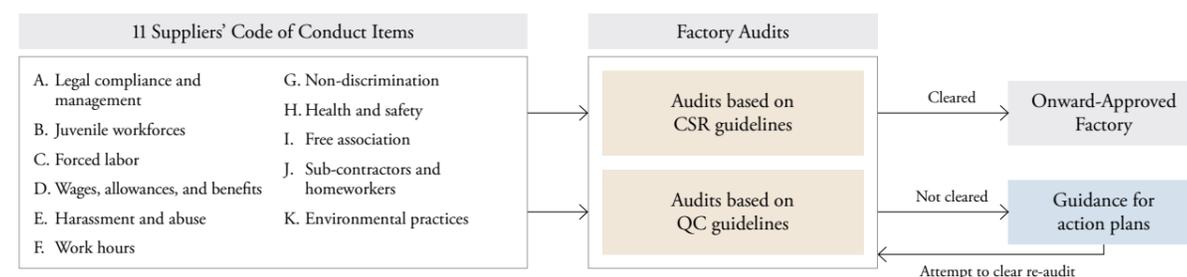
Audit Methods

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

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

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

Audit Procedure



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

Onward-Approved Factory System



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

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

Basic Philosophy

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

Environmental Concept

Thinking of the Earth. Clothing Its People.

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

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

Our Promise

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

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

Onward Green Campaign

2,670,000
Items Collected

460,000
Customers that Donated

73% Recycled
27% Reused

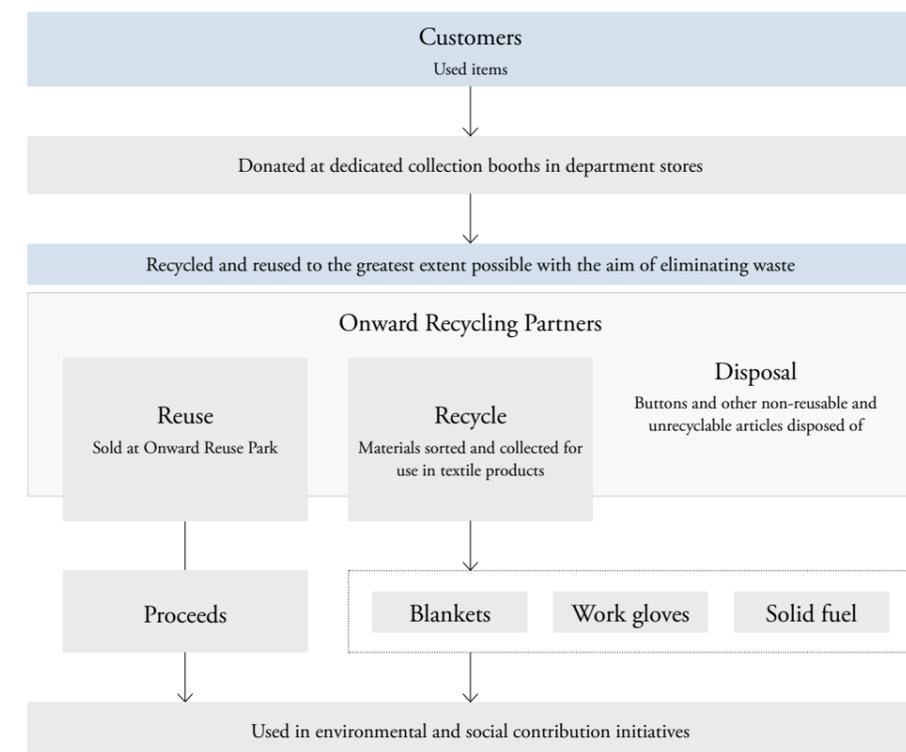


The Onward Green Campaign is designed to create an apparel life-cycle circulation system. In comparison with other consumables, the recycling of textile goods is relatively undeveloped. Onward Kashiyama launched the Onward Green Campaign in 2009 with the objective of encouraging the circulation of apparel to promote the efficient utilization of limited resources and to ensure that our precious environment still exists for future generations to enjoy. Onward Kashiyama collects men's, women's, and children's clothing as well as sportswear and other items sold by Onward Kashiyama at Onward Green Campaign collection booths in department stores.

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

* For details regarding Onward Reuse Park, please refer to page 41.

Recycling Process



Tie-Up with the Japanese Red Cross Society

Under the Onward Green Campaign, and utilizing the extensive Red Cross network that reaches more than 185 countries throughout the world, Onward cooperates with the Japanese Red Cross Society in distributing blankets and work gloves to areas that have

been affected by, and are in the process of recovery from, a natural disaster. Work gloves have also been donated domestically to individuals involved in forest preservation efforts in addition to being distributed and utilized as a part of an awareness-building campaign.

Support Programs Using Recycled Blankets

1 Bangladesh

Refugee camp:
3,000 blankets
Donated to a refugee camp in the Cox's Bazar district of Chittagong, in southeastern Bangladesh, and to a hospital that provides medical care in the area



First support program: May 2010

2 Kazakhstan

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



Second support program: February 2011

3 Japan

Regions heavily impacted by the Great East Japan Earthquake:
1,000 blankets
Donated to 31 community centers in Miyagi Prefecture that were affected by the Great East Japan Earthquake



Third support program: September 2011

4 China

Regions heavily impacted by the 2008 Sichuan earthquake:
2,000 blankets
Donated to a school and other facilities located in the mountainous regions of Sichuan Province that were affected by the earthquake in 2008



Fourth support program: March 2012

5 Mongolia

Impoverished area:
2,000 blankets
Donated to the area referred to locally as "dzud" that is periodically afflicted with severe snow damage (It is not uncommon for people living in impoverished areas to share one blanket during this period.)



Fifth support program: September 2012

7 Myanmar

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



Seventh support program: October 2014

6 Nepal

Impoverished area:
4,000 blankets
Donated to senior citizens and children living in social welfare facilities, where they are forced to face harsh winters each year without sufficient protection against the cold



Sixth support program: October 2013

8 Vietnam

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



Eighth support program: October 2015, April 2016

9 Indonesia (Planned)

4,000 blankets
To be donated to impoverished individuals in October 2017



Other Activities

Onward Reuse Park—Used Onward Products Offered at Discounted Prices



Onward Reuse Park

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

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

KIBOU311 Participation in Cherry Tree Planting Events



this project are provided to LOOM NIPPON, which uses the donations in turn to fund cherry tree planting events.

KIBOU311 is a Great East Japan Earthquake relief project promoted on a global scale by DORMEUIL, a French manufacturer of luxury men's apparel. Donations collected through

Forest Preservation Initiatives at Tosayama Onward Rainbow Forest



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.

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

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



Since 2010, Onward Kashiya 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.

Post-Kumamoto Earthquake Support through Onward Green Campaign

Together with the Tsuruya Department Store, a program campaign under the Onward Green Campaign was commenced to provide support for reconstruction from the impacts of the severe earthquakes that devastated Kumamoto Prefecture in April 2016. In December 2016, ¥10 million, equivalent to 5% of the total sales of Onward Green Campaign during the period of the program, was donated to Kumamoto City to promote the reconstruction effort. The program also consisted of a clothing drive. From among the donated clothing items, approximately 10,000 that were up to quality standards were selected, cleaned, and provided to individuals impacted by the earthquake in Mashiki Town, Kumamoto Prefecture.

Our efforts to date have resulted in a total of 15,000 clothing items being supplied to areas affected by the Kumamoto earthquakes, and we intend to continue these efforts going forward.



Our Basic Approach to Corporate Governance

The Onward Group believes that responding promptly to changes in its business environment and ensuring a level of corporate governance that enhances the health, fairness, transparency, and compliance of its management and operations is one of its important responsibilities and central to increasing corporate and shareholder value.

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

Directors and the Board of Directors

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

Evaluation of the Effectiveness of the Board of Directors

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

1. Scope of evaluations

- All directors and Audit & Supervisory Board members

2. Procedures for evaluations

- Self-evaluation via questionnaire
- Support for evaluations provided by external advisor

3. Overview of results of analysis and evaluation of Board of

Directors’ effectiveness in fiscal year 2017

- Board of Directors effectively exercising functions for establishing management strategies and targets, resolving management issues, and overseeing business execution in accordance with Onward’s Corporate Governance Policy

- Current operation methods, agendas, and composition of Board of Directors appropriate; no issues requiring urgent attention
- Further improvements to the effectiveness of the Board of Directors will require more efficient operation and more extensive provision of information to outside directors and outside Audit & Supervisory Board members.

Reasons for the Appointment of Outside Directors

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

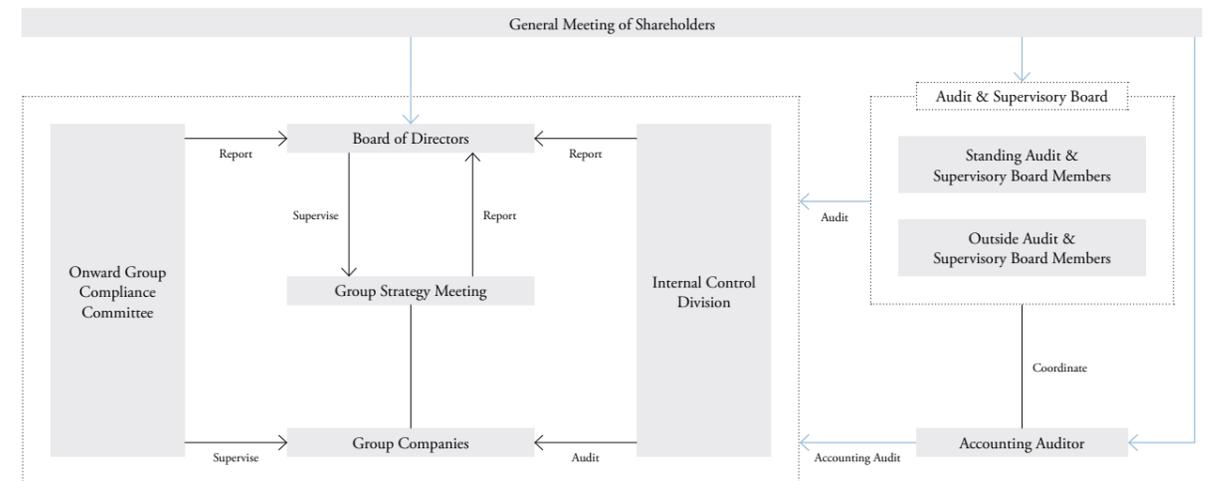
Audit & Supervisory Board Members and the Audit & Supervisory Board

The Company has adopted an Audit & Supervisory Board structure, under which the Company has appointed four Audit & Supervisory Board members, two of whom are outside Audit & Supervisory Board members. Audit & Supervisory Board members have also assigned staff to assist them in carrying out their duties and to strengthen their supervisory function. Each member audits and monitors the performance of directors; responsibilities include reviewing the documentation of important decisions and attending important meetings, such as Board of Directors’ meetings, Group financial account settlement meetings, and Group Business Management Meetings, in accordance with audit policies and the roles delegated by the Audit & Supervisory Board. In addition, the Internal Control Division and each department are under periodic monitoring in an effort to establish an effective and lawful corporate structure. The Audit & Supervisory Board meets with the Representative Directors and the Accounting Auditor on a regular basis to share and exchange information and opinions. This initiative is also designed to ensure that a structure is in place that is capable of conducting audits in an effective and lawful manner. Moreover, the Audit & Supervisory Board receives reports from each member in accordance with audit policies and the roles delegated by the Board. Deliberations are undertaken and resolutions made based on this information as required.

Reasons for the Appointment of Outside Audit & Supervisory Board Members

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

Corporate Governance Structure



Business Execution Structure

The Onward Group has adopted a holding company structure that allows the Company’s Board of Directors to engage in strategic decision making and supervise operating companies. At the same time, the Group has separated the supervisory and execution functions in order to clarify the responsibilities and authority of each operating company and to facilitate accelerated strategic decision making. When matters that require urgent attention arise, the Board of Directors convenes as necessary. In this manner, the Onward Group has a system in place that ensures a swift and appropriate response to rapid changes in the business environment.

Moreover, the Group has introduced an executive officer system with the aim of clarifying other management decision-making and business execution functions. In order to facilitate agile decision making as a corporate group, the Onward Group Strategy Meeting and the Group Business Management Meeting have been established. At these meetings, management strategies and the important management matters of operating companies are debated and the state of operations is reviewed. The Onward Group also has advisory contracts with a number of attorneys to receive legal advice.

Directors’ and Audit & Supervisory Board Members’ Compensation

Compensation paid to directors, excluding outside directors, comprises a basic compensation component, bonuses, and compensation for use in acquiring company stock.

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

Officer Classification	Total Amount of Compensation Paid by Type of Compensation (Millions of yen)					Number of Eligible Officers
	Total Amount of Compensation Paid (Millions of yen)	Basic Compensation	Bonuses	Compensation for Use in Acquiring Company Stock	Stock Options	
Directors (excluding Outside Directors)	410	214	109	86	—	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 Compensation Paid by Type of Compensation (Millions of yen)					
	Total Amount of Compensation Paid (Millions of yen)	Company Classification	Basic Compensation	Bonuses	Compensation for Use in Acquiring Company Stock	Stock Options
Takeshi Hirouchi (Director)	155	Filing company	85	42	27	—

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

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

Policies for Cross-Shareholdings and Exercise of Related Voting Rights

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

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

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

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

1. Positions at companies at which a person involved in operation of the Company serves as a corporate officer
The individual must not be a person involved in operation at a company at which a person involved in operation of the Company serves as a corporate officer.
2. Material business relationships
The individual must not be a major customer or a person involved in operation of a major customer of the Company or a major supplier or a person involved in operation of a major supplier of the Company.
3. The Company's Accounting Auditor
The individual must not be affiliated with the Accounting Auditor that performs audits of the Company based on the Companies Act or the Financial Instruments and Exchange Act.
4. External specialists
The individual must not be a specialist receiving large amounts of monetary payments or other financial assets from the Company that are separate from compensation received for services as a director or an Audit & Supervisory Board member. (Specialists include lawyers, accountants, tax accountants, patent attorneys, judicial clerks, and consultants. If the financial assets in question are received by a company, an association, or other entity, the individual must not be affiliated with that entity.)
5. Donation recipients
The individual must not receive large donations from the Company. (If the donations in question are received by a company, an association, or other entity, the individual must not be a person involved in operation of that entity.)
6. Major shareholders
The individual must not possess direct or indirect holdings equating to 10% or more of the total voting rights of the Company or be a person involved in operation of an entity that possesses such holdings.

7. Past relationships

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

8. Relationships of kinship

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

Compliance Structure

Recognizing that society as a whole is placing greater emphasis on efforts aimed at upgrading and expanding compliance structures, the Onward Group has positioned compliance as an important issue for management. Furthermore, by enhancing its corporate governance systems, the Company aims to earn high levels of trust among its customers and shareholders and from society as a whole. In specific terms, the Group published the *Compliance Manual* to clearly outline the direction of compliance activities and define standards for adhering to ethical concerns and social norms. The Onward Group Compliance Committee takes the lead in conducting continuing educational activities, including in-house training, as a part of efforts to ensure widespread awareness and understanding. In addition, the Company has established a factory certification system as part of its supply chain management initiatives with the aim of improving work environments at partner factories.

Risk Management Structure

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

Interaction with Shareholders

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

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

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

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

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

As of September 1, 2017

Board of Directors

Representative Director, Chairman
Takeshi Hirouchi

Representative Director, President
Michinobu Yasumoto

Director, Vice President
Akinori Baba

Senior Managing Director
Masaaki Yoshizawa

Managing Director
Hisayuki Ichinose

Outside Directors
Hachiro Honjo
Yoshihide Nakamura

Audit & Supervisory Board Members

Standing Audit & Supervisory Board Members

Hitoshi Aoyama

Kenichi Iizuka

Outside Audit & Supervisory Board Members

Jotaro Yabe

Katsuaki Ohashi

Executive Officers

Senior Managing Executive Officer
Michio Osawa

Managing Executive Officers
Tsunenori Suzuki

Masahiko Yoshikawa

Executive Officers
Tomohiko Sakamoto

Masanori Shozu

Keiko Ueno

Yoshihiro Higuchi

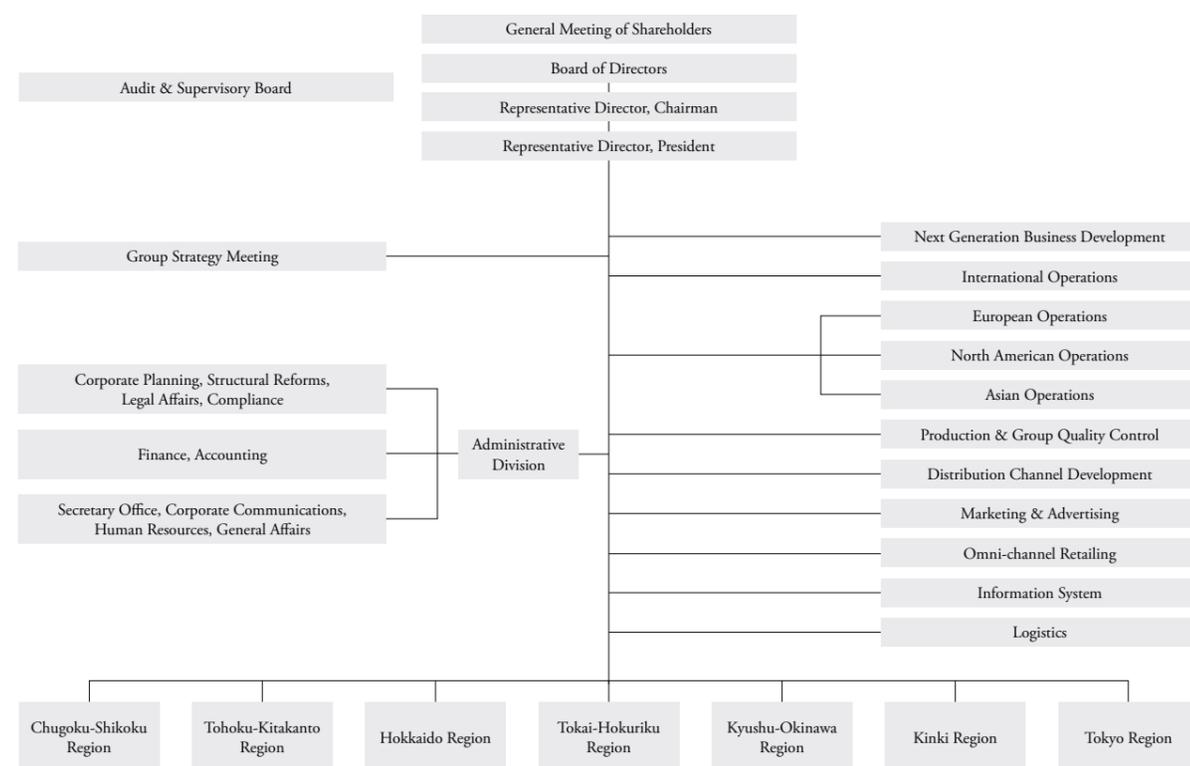
Takehiro Shiraishi

Masatsugu Miyoshi

Hidekazu Imamura

Company Organization

As of September 1, 2017



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Note: In the financial section, reporting is based on the Annual Securities Report (*Yukashoken-Haukokusho*) 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*
	2012	2013	2014	2015	2016	2017	2017
FOR THE YEAR							
Net sales	¥243,204	¥259,100	¥280,008	¥281,502	¥263,516	¥244,901	\$2,175,737
Cost of sales	127,382	133,983	149,270	152,438	144,063	131,638	1,169,493
Selling, general and administrative expenses	104,160	113,298	120,538	123,332	115,675	109,059	968,897
Operating profit	11,663	11,819	10,200	5,732	3,778	4,204	37,347
Ordinary profit	13,330	13,405	12,211	7,162	5,504	5,577	49,548
Income taxes, current	7,528	7,398	3,112	5,033	8,680	1,534	13,628
Profit attributable to owners of parent	3,529	4,503	4,659	4,204	4,278	4,744	42,148
CASH FLOWS							
Cash flows from operating activities	13,181	10,138	13,362	16,491	3,632	6,844	60,805
Cash flows from investing activities	(1,962)	(10,683)	(14,301)	(15,657)	1,783	25,271	224,510
Cash flows from financing activities	(7,449)	(7,848)	2,122	757	(6,357)	(32,856)	(291,899)
Free cash flow*2	11,219	(545)	(939)	834	5,415	32,115	285,315
Capital expenditures	6,230	8,949	16,750	26,884	15,955	10,599	94,168
Depreciation and amortization	5,478	5,721	6,801	7,219	7,799	6,663	59,194
AT YEAR-END							
Cash and deposits	33,192	24,677	27,376	31,123	29,407	26,097	231,849
Total current assets	98,895	100,320	110,349	117,052	121,469	103,573	920,157
Total property, plant and equipment	82,988	86,862	102,879	109,658	106,695	92,269	819,732
Total assets	276,939	286,779	313,431	340,854	313,454	273,227	2,427,388
Total current liabilities	84,091	100,740	101,010	109,619	106,110	85,684	761,230
Total shareholders' equity	176,320	177,142	178,078	179,880	176,264	169,027	1,501,662
Total net assets	157,303	165,372	175,029	185,315	172,337	165,670	1,471,842

	Yen						U.S. dollars*
PER SHARE INFORMATION							
Basic earnings per share (EPS)	¥ 22.52	¥ 28.71	¥ 29.69	¥ 26.78	¥ 28.27	¥ 31.47	\$0.28
Net assets	995.11	1,043.64	1,102.99	1,166.89	1,101.21	1,116.47	9.92
Cash dividends	24.00	24.00	24.00	24.00	24.00	24.00	0.21
Payout ratio (%)	106.6	83.6	80.8	89.6	86.5	74.0	—

	Yen						U.S. dollars*
RATIOS							
ROE (%)	2.3	2.8	2.8	2.4	2.4	2.8	—
ROA (%)	1.3	1.6	1.6	1.3	1.3	1.6	—
Operating margin (%)	4.8	4.6	3.6	2.0	1.4	1.7	—
Gross profit margin (%)	47.6	48.3	46.7	45.8	45.3	46.2	—
SG&A expenses / Net sales (%)	42.8	43.7	43.0	43.8	43.9	44.5	—
Shareholders' equity ratio (%)	56.3	57.1	55.2	53.8	54.2	59.8	—

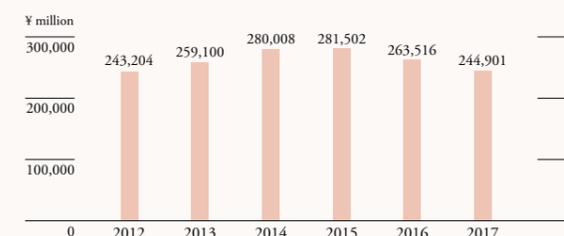
OTHER INFORMATION							
Number of full-time employees	3,993	5,208	5,224	4,973	5,119	4,456	—

*1. Yen amounts have been translated, for convenience only, at ¥112.56=US\$1, the rate of exchange as of February 28, 2017.

*2. Free cash flow = Cash flows from operating activities + Cash flows from investing activities

Six-Year Financial Summary

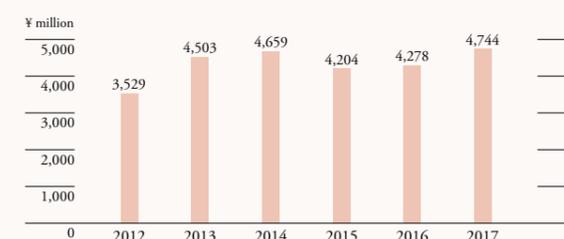
Net Sales



Operating Profit and Operating Margin



Profit Attributable to Owners of Parent



ROE and ROA



Total Assets



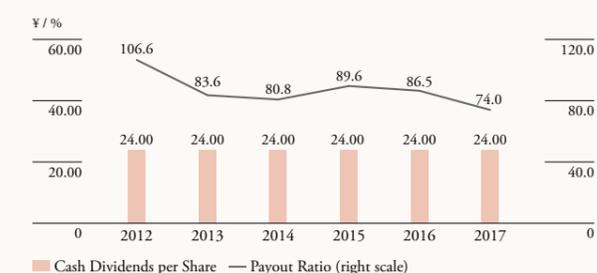
Total Net Assets and Shareholders' Equity Ratio



Capital Expenditures



Cash Dividends per Share and Payout Ratio



Management's Discussion and Analysis

Overview of Operating Results

In fiscal year 2017, ended February 28, 2017, the domestic economy saw gradual recoveries in corporate earnings and the job market supported by economic stimulus measures. However, conditions remained opaque due to factors including economic slowdown in China and other emerging countries, geopolitical risks in Europe and the Middle East, the United Kingdom's decision to leave the European Union, and the new government administration in the United States.

In the domestic apparel and fashion industries, in-store sales suffered due to the trends toward thriftiness and careful purchasing decisions among consumers coupled with the large decline in demand from inbound visitors.

In this operating environment, the Onward Group moved forward with the implementation of the medium-term management plan that was launched in fiscal year 2017. Based on this plan, we sought to steadily raise profits by heightening the value of products in core brands and improving customer service. We also advanced selection and concentration measures that included reinforcing our e-commerce operations and other businesses from which we can expect high margins and strong growth. Another focus was enhancing the Company's business foundation in order to weather the harsh operating environment and seeking to effectively implement growth strategies in this environment. To this end, we undertook structural reforms by reallocating management resources to growth businesses while also reorganizing unprofitable brands, closing unprofitable stores, and revising logistics and organizational structures.

Net Sales

Sales in the Apparel Business decreased 4.2% year on year, to ¥237,934 million, while sales in the Other Business fell 53.7%, to ¥6,967 million. The main reason behind the drop in sales in the Other Business was the transference of shares held in Across Transport Co., Ltd. that was conducted in logistics businesses during fiscal year 2016. As a result, consolidated net sales were down 7.1% compared with the previous fiscal year, to ¥244,901 million.

Gross Profit

The gross profit margin increased 0.9 percentage point, from 45.3% in fiscal year 2016 to 46.2% in fiscal year 2017. However, gross profit decreased ¥6,189 million, to ¥113,263 million, in conjunction with the decline in net sales.

Operating Profit

The ratio of selling, general and administrative (SG&A) expenses to net sales rose 0.6 percentage point, from 43.9% to 44.5%, due to the lower net sales. Operating profit, however, increased ¥425 million, or 11.3%, year on year, to ¥4,204 million, following the rise in the gross profit margin as well as the decrease in SG&A expenses that stemmed from the reorganization of unprofitable brands and stores conducted in conjunction with structural reforms.

Other Income (Expenses)

Other income, net, amounted to ¥6,776 million, compared with ¥3,353 million in the previous fiscal year. Although ¥2,085 million was recorded in the form of business restructuring expenses, the overall balance of other income and expenses improved as impairment loss on fixed assets decreased from ¥14,051 million in fiscal year 2016 to ¥1,659 million in fiscal year 2017. Another reason behind this outcome was the recording of other income in the forms of gain on sales or disposal of fixed assets, net, of ¥6,859 million and gain on sale of investments in securities, net, of ¥3,007 million.

Profit before Income Taxes and Profit Attributable to Owners of Parent

Profit before income taxes was ¥10,980 million, an increase of ¥3,849 million year on year.

Due to the above, profit attributable to owners of parent increased ¥466 million, to ¥4,744 million, from the previous fiscal year.

Segment Information

Apparel Business

In fiscal year 2017, sales in the Apparel Business segment declined 4.2% year on year, to ¥237,934 million, while operating profit was down 1.7%, to ¥5,461 million.

Domestic Business

At core operating subsidiary Onward Kashiyama, a certain degree of success was seen through measures such as stepping up promotions for core brands, bolstering lineups of products developed for e-commerce operations, and linking inventory information for physical stores and Onward Crosset. These accomplishments were achieved despite the adverse impacts of the unseasonable weather that started in summer and continued to the beginning of fall, and of the struggling sales of apparel products at department stores and via other major sales channels.

Overseas Business

In Europe, we secured stable earnings from production operations. In addition, we were able to improve performance in Asia and North America by reorganizing business structures.

Other Business

In fiscal year 2017, sales in the Other Business segment decreased 53.7% year on year, to ¥6,967 million, and operating profit was down 29.3%, to ¥445 million. Our resort business posted strong performance as we were able to create frameworks for stably and continuously generating earnings. Performance in service-related businesses, meanwhile, was impacted by the fiscal year 2016 transference of shares held in Across Transport Co., Ltd.

Outlook for Fiscal Year Ending February 28, 2018

For fiscal year 2018, ending February 28, 2018, the Onward Group forecasts that consolidated net sales will decrease 2.3%, to ¥239,300 million, while operating profit will grow 35.6% year on year, to ¥5,700 million.

In Japan, time will likely be required for the domestic economy to cast off the shackles of deflation given the concerns related to factors such as the opaque state of the European economy, economic slowdown in China, and projected economic trends in the United States.

In the domestic apparel and fashion industries, the ongoing progress in globalization and the trend toward digitization will continue to furnish a backdrop for persistently difficult conditions characterized by fierce competition.

In this operating environment, we expect the series of structural reforms implemented throughout fiscal year 2017 to be generating results, thus contributing to increased profit margins in fiscal year 2018 and beyond. The Onward Group will continue to improve product value and enhance customer service with the aim of steadily improving profitability. At the same time, we will develop new businesses in fields with a promising outlook for growth.

Domestic Business

In our domestic operations, we will focus on improving the margins of existing core operations at Onward Kashiyama and other main subsidiaries. At the same time, we will work to provide products and activities that leave customers highly satisfied, develop stores in which customers enjoy spending their time, and expand operations in new business fields. In addition, we will forge ahead with our Omni-channel retailing strategy as part of our e-commerce operations to realize higher levels of convenience for the customer.

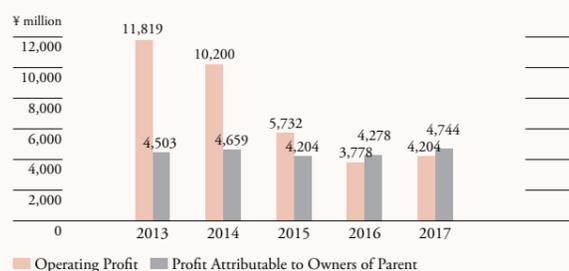
Overseas Business

Overseas, we will heighten our growth potential by utilizing our manufacturing platform in Europe to globalize our operations while strategically expanding our Asian business. Initiatives in North America will include developing operating structures and carrying out investment from a medium-term perspective with an eye to business growth.

Net Sales



Operating Profit and Profit Attributable to Owners of Parent



Segment Sales



Financial Position

Assets

Total assets on February 28, 2017, stood at ¥273,227 million, down ¥40,227 million from the previous fiscal year-end. Total current assets declined ¥17,895 million, mainly from decreases in cash and deposits, inventories, and other current assets. Fixed assets shrunk ¥22,331 million, largely reflecting decreases in property, and investments in securities.

Liabilities

Total liabilities as of February 28, 2017, were down ¥33,560 million from the previous fiscal year-end, to ¥107,557 million. Total current liabilities declined ¥20,425 million, mainly attributable to a decrease in short-term loans payable. Total long-term liabilities were down ¥13,134 million, largely due to a decrease in long-term loans payable.

Net Assets

On February 28, 2017, total net assets were down ¥6,666 million from the previous fiscal year-end, to ¥165,670 million. Total shareholders' equity decreased ¥7,236 million following the acquisition of treasury stock. Total accumulated other comprehensive income increased ¥834 million, mainly because of an upward adjustment associated with remeasurements of defined benefit plans.

Cash Flows

Cash Flows from Operating Activities

Net cash provided by operating activities for fiscal year 2017 was ¥6,844 million (¥3,632 million in the previous fiscal year), mainly from profit before income taxes, a decrease in trade payables, and income taxes paid.

Cash Flows from Investing Activities

Net cash provided by investing activities for fiscal year 2017 totaled ¥25,271 million (¥1,783 million in the previous fiscal year), mainly due to investments in sales facilities and the sale of real estate.

Total Assets and Total Net Assets



Cash Flows from Financing Activities

Net cash used in financing activities for fiscal year 2017 amounted to ¥32,856 million (¥6,357 million in the previous fiscal year), owing mainly to changes in borrowings, dividends paid, and acquisition of treasury stock.

As a result, cash and cash equivalents as of February 28, 2017, moved down ¥2,306 million, to ¥26,024 million.

Capital Expenditure

We at the Onward Group undertake capital expenditures on a continuous basis to upgrade and expand our planning, production, sales, and logistics structures and systems. Our capital expenditures are the wellspring that enables us to address the diverse needs of our customers.

In fiscal year 2017, our capital expenditures totaled ¥10,599 million. The details of expenditures by segment are as follows.

In the Apparel Business segment, capital expenditures amounted to ¥9,320 million, the majority of which was channeled to sales floors at department stores and directly managed stores with the aim of strengthening the Group's sales structure and network.

In the Other Business segment, we invested ¥622 million to upgrade commercial facilities and enhance operational efficiency.

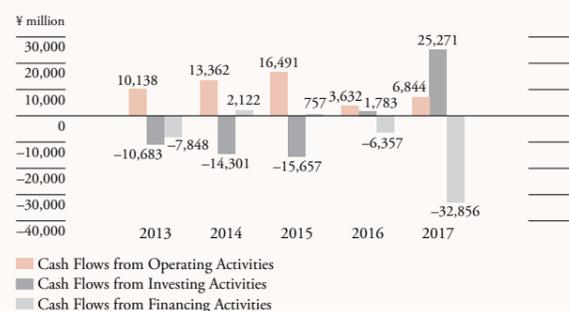
Profit Distribution Policy

At Onward Holdings, we recognize that the distribution of profits to shareholders is one of our top priorities. Our basic policy is to distribute regular and stable dividends to shareholders based on our business performance, and we target a dividend payout ratio of 35% or more.

A single dividend payment is issued each year and is decided via approval at the General Meeting of Shareholders. For fiscal year 2017, we resolved to distribute a cash dividend of ¥24 per share, the same level as in fiscal year 2016, based on a comprehensive evaluation of this year's performance and our outlook for operating environment.

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

Cash Flows



Operating Risks

Changes in Consumer Needs

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

Weather Conditions 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 occurrence may have an adverse impact on our Group's business performance.

Business Partners

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

Intellectual Property

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

Moreover, we at the Onward Group are actively engaged in licensed brand business activities. In undertaking these activities, we as a Group

secure rights to use intellectual property owned by our overseas partners. For unexpected reasons, the relevant contracts may be canceled or the terms and conditions may become unfavorable upon renewal. Such an outcome may have an adverse impact on our Group's business performance.

Legal Procedures and Compliance

In doing business, the Onward Group pays careful attention to laws and regulations—including those concerning antitrust, the treatment of sub-contractors, 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 29, 2016 and February 28, 2017

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 2. (21))
	2016	2017	2017
Current assets:			
Cash and deposits (Notes 3 and 10)	¥ 29,407	¥ 26,097	\$ 231,849
Accounts and notes receivable (Note 3)	27,819	26,008	231,062
Inventories (Note 2. (4))	42,770	40,217	357,290
Deferred tax assets (Note 12)	4,705	3,271	29,057
Other current assets	17,603	8,477	75,316
Less: Allowance for bad debt	(835)	(497)	(4,417)
Total current assets	121,469	103,573	920,157
Property, plant and equipment:			
Buildings and structures	82,715	79,848	709,381
Leased assets	8,020	8,354	74,215
Other depreciable property	34,188	34,241	304,204
Less: Accumulated depreciation	(76,266)	(76,362)	(678,414)
	48,657	46,081	409,386
Land	58,038	46,188	410,346
Total property, plant and equipment	106,695	92,269	819,732
Intangible assets, net:			
Goodwill	15,652	18,523	164,557
Other	7,785	7,282	64,702
Total intangible assets, net	23,437	25,805	229,259
Investments and other assets:			
Investments in securities (Notes 3 and 4)	33,922	26,234	233,065
Long-term loans receivable	2,276	2,225	19,771
Long-term prepaid expenses	661	580	5,151
Net defined benefit asset (Note 8)	1,417	3,177	28,222
Deferred tax assets (Note 12)	11,166	8,593	76,338
Other investments	13,086	11,333	100,684
Less: Allowance for bad debt	(675)	(562)	(4,991)
Total investments and other assets	61,853	51,580	458,240
Total assets	¥313,454	¥273,227	\$2,427,388

Consolidated Balance Sheets

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 2. (21))
	2016	2017	2017
Current liabilities:			
Accounts and notes payable (Note 3)	¥ 34,971	¥ 13,961	\$ 124,029
Electronically recorded obligations—operating	—	17,948	159,449
Short-term loans payable (Notes 3 and 13)	45,326	23,531	209,057
Current portion of long-term loans payable (Notes 3 and 13)	3,828	13,835	122,909
Accrued income taxes	5,911	1,096	9,739
Accrued bonuses to employees	1,002	967	8,592
Accrued bonuses to directors	185	182	1,614
Allowance for sales returns	303	304	2,702
Provision for point program	436	575	5,106
Other current liabilities (Notes 12 and 13)	14,148	13,285	118,033
Total current liabilities	106,110	85,684	761,230
Long-term liabilities:			
Long-term loans payable (Notes 3 and 13)	16,026	3,418	30,369
Deferred tax liabilities—revaluation of land (Notes 12)	2,818	2,675	23,763
Net defined benefit liability (Note 8)	4,180	3,988	35,428
Lease obligations (Note 13)	5,195	4,870	43,261
Accrued retirement benefits for directors and corporate auditors	150	167	1,483
Other long-term liabilities (Note 12)	6,638	6,755	60,012
Total long-term liabilities	35,007	21,873	194,316
Total liabilities	141,117	107,557	955,546
Net assets:			
Shareholders' equity (Note 14):			
Common stock:			
Authorized—400,000,000 shares			
Issued—167,921,669 shares at February 29, 2016 and February 28, 2017, respectively	30,080	30,080	267,232
Capital surplus	50,043	50,043	444,592
Retained earnings	114,181	113,072	1,004,546
Less: Treasury stock, at cost, 13,767,509 shares and 21,609,228 shares at February 29, 2016 and February 28, 2017, respectively	(18,040)	(24,168)	(214,708)
Total shareholders' equity	176,264	169,027	1,501,662
Accumulated other comprehensive income:			
Net unrealized gain on available-for-sale securities (Note 4)	1,118	323	2,872
Deferred gain (loss) on hedging instruments	(303)	57	509
Net revaluation loss on land	(10,126)	(6,923)	(61,509)
Foreign currency translation adjustments	3,777	528	4,694
Remeasurements of defined benefit plans (Note 8)	(975)	341	3,029
Total accumulated other comprehensive income	(6,509)	(5,674)	(50,405)
Stock acquisition rights	844	780	6,927
Non-controlling interests	1,738	1,537	13,658
Total net assets	172,337	165,670	1,471,842
Total liabilities and net assets	¥313,454	¥273,227	\$2,427,388
Per share:		Yen	U.S. dollars (Note 2. (21))
Net assets per share	¥1,101.21	¥1,116.47	\$9.92

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

ONWARD HOLDINGS Co., Ltd. and Consolidated Subsidiaries
February 29, 2016 and February 28, 2017

	Millions of yen		Thousands of U.S. dollars (Note 2. (21))
	2016	2017	2017
Net sales	¥263,516	¥244,901	\$2,175,737
Cost of sales	144,063	131,638	1,169,493
Gross profit	119,453	113,263	1,006,244
Selling, general and administrative expenses	115,675	109,059	968,897
Operating profit	3,778	4,204	37,347
Other income (expenses):			
Interest income	108	47	416
Dividend income	464	289	2,571
Land and house rent received	1,296	1,121	9,958
Interest expenses	(546)	(400)	(3,551)
Equity in earnings (losses) of investees	43	(316)	(2,804)
Foreign currency exchange gain	49	535	4,749
Rent expenses	(734)	(420)	(3,727)
Gain on sale of investments in securities, net (Note 4)	8,812	3,007	26,714
Gain on sales or disposal of fixed assets, net	5,393	6,859	60,934
Gain on sale of investments in unconsolidated subsidiaries	1,929	—	—
Impairment loss on fixed assets (Note 6)	(14,051)	(1,659)	(14,739)
Business restructuring expenses	—	(2,085)	(18,523)
Loss on liquidation of subsidiaries and affiliates	—	(458)	(4,073)
Other, net	590	256	2,278
Profit before income taxes	7,131	10,980	97,550
Income taxes (Note 12):			
Current	8,680	1,534	13,628
Deferred	(5,812)	4,706	41,808
Profit	4,263	4,740	42,114
Loss attributable to non-controlling interests	15	4	34
Profit attributable to owners of parent	¥ 4,278	¥ 4,744	\$ 42,148
	Yen		U.S. dollars (Note 2. (21))
Per share (Notes 14, 15 and 17):			
Basic earnings per share	¥28.27	¥31.47	\$0.28
Diluted earnings per share	27.96	31.15	0.28
Cash dividends per share	24.00	24.00	0.21

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

ONWARD HOLDINGS Co., Ltd. and Consolidated Subsidiaries
February 29, 2016 and February 28, 2017

	Millions of yen		Thousands of U.S. dollars (Note 2. (21))
	2016	2017	2017
Profit	¥ 4,263	¥ 4,740	\$ 42,114
Other comprehensive income:			
Net unrealized loss on available-for-sale securities	(9,875)	(593)	(5,273)
Deferred gain (loss) on hedging instruments	(450)	360	3,200
Net revaluation gain on land	294	143	1,273
Foreign currency translation adjustments	(1,442)	(3,098)	(27,527)
Remeasurements of defined benefit plans, net of tax	(1,764)	1,316	11,694
Share of other comprehensive income of associates accounted for using the equity method	(155)	(361)	(3,211)
Total other comprehensive income (Note 9)	(13,392)	(2,233)	(19,844)
Comprehensive income	¥ (9,129)	¥ 2,507	\$ 22,270
Comprehensive income attributable to:			
Owners of the parent	¥ (9,093)	¥ 2,520	\$ 22,389
Non-controlling interests	(36)	(13)	(119)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

ONWARD HOLDINGS Co., Ltd. and Consolidated Subsidiaries
February 29, 2016 and February 28, 2017

	Millions of yen					
	Shareholders' equity (Note 14)					
	Number of shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance as at March 1, 2015	172,922	¥30,080	¥50,043	¥122,590	¥(22,833)	¥179,880
Cumulative effects of changes in accounting policies	—	—	—	285	—	285
Restated balance	—	30,080	50,043	122,875	(22,833)	180,165
Cash dividends	—	—	—	(3,770)	—	(3,770)
Profit attributable to owners of parent	—	—	—	4,278	—	4,278
Purchase of treasury stock	—	—	—	—	(2,294)	(2,294)
Reissuance of treasury stock	—	—	—	(83)	127	44
Retirement of treasury stock	(5,000)	—	—	(6,960)	6,960	—
Reversal of revaluation of land	—	—	—	(2,159)	—	(2,159)
Net changes other than shareholders' equity	—	—	—	—	—	—
Total changes during the year	(5,000)	—	—	(8,694)	4,793	(3,901)
Balance as at February 29, 2016	167,922	30,080	50,043	114,181	(18,040)	176,264
Cash dividends	—	—	—	(3,700)	—	(3,700)
Profit attributable to owners of parent	—	—	—	4,744	—	4,744
Purchase of treasury stock	—	—	—	—	(6,299)	(6,299)
Reissuance of treasury stock	—	—	—	(106)	171	65
Reversal of revaluation of land	—	—	—	(2,047)	—	(2,047)
Net changes other than shareholders' equity	—	—	—	—	—	—
Total changes during the year	—	—	—	(1,109)	(6,128)	(7,237)
Balance as at February 28, 2017	167,922	¥30,080	¥50,043	¥113,072	¥(24,168)	¥169,027

	Thousands of U.S. dollars (Note 2. (21))				
	Shareholders' equity (Note 14)				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance as at February 29, 2016	\$267,232	\$444,592	\$1,014,402	\$(160,270)	\$1,565,956
Cash dividends	—	—	(32,869)	—	(32,869)
Profit attributable to owners of parent	—	—	42,148	—	42,148
Purchase of treasury stock	—	—	—	(55,964)	(55,964)
Reissuance of treasury stock	—	—	(944)	1,526	582
Reversal of revaluation of land	—	—	(18,191)	—	(18,191)
Net changes other than shareholders' equity	—	—	—	—	—
Total changes during the year	—	—	(9,856)	(54,438)	(64,294)
Balance as at February 28, 2017	\$267,232	\$444,592	\$1,004,546	\$(214,708)	\$1,501,662

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

	Millions of yen								
	Accumulated other comprehensive income								
	Net unrealized gain on available-for-sale securities (Note 4)	Deferred gain (loss) on hedging instruments	Net revaluation loss on land	Foreign currency translation adjustments	Remeasurements of defined benefit plans (Note 8)	Total	Stock acquisition rights	Non-controlling interests	Total net assets
Balance as at March 1, 2015	¥ 11,207	¥ 147	¥(13,871)	¥ 5,139	¥ 788	¥ 3,410	¥871	¥1,154	¥185,315
Cumulative effects of changes in accounting policies	—	—	—	—	—	—	—	—	285
Restated balance	11,207	147	(13,871)	5,139	788	3,410	871	1,154	185,600
Cash dividends	—	—	—	—	—	—	—	—	(3,770)
Profit attributable to owners of parent	—	—	—	—	—	—	—	—	4,278
Purchase of treasury stock	—	—	—	—	—	—	—	—	(2,294)
Reissuance of treasury stock	—	—	—	—	—	—	—	—	44
Retirement of treasury stock	—	—	—	—	—	—	—	—	—
Reversal of revaluation of land	—	—	—	—	—	—	—	—	(2,159)
Net changes other than shareholders' equity	(10,089)	(450)	3,745	(1,362)	(1,763)	(9,919)	(27)	584	(9,362)
Total changes during the year	(10,089)	(450)	3,745	(1,362)	(1,763)	(9,919)	(27)	584	(13,263)
Balance as at February 29, 2016	1,118	(303)	(10,126)	3,777	(975)	(6,509)	844	1,738	172,337
Cash dividends	—	—	—	—	—	—	—	—	(3,700)
Profit attributable to owners of parent	—	—	—	—	—	—	—	—	4,744
Purchase of treasury stock	—	—	—	—	—	—	—	—	(6,299)
Reissuance of treasury stock	—	—	—	—	—	—	—	—	65
Reversal of revaluation of land	—	—	—	—	—	—	—	—	(2,047)
Net changes other than shareholders' equity	(795)	360	3,203	(3,249)	1,316	835	(64)	(201)	570
Total changes during the year	(795)	360	3,203	(3,249)	1,316	835	(64)	(201)	(6,667)
Balance as at February 28, 2017	¥ 323	¥ 57	¥ (6,923)	¥ 528	¥ 341	¥(5,674)	¥780	¥1,537	¥165,670

	Thousands of U.S. dollars (Note 2. (21))								
	Accumulated other comprehensive income								
	Net unrealized gain on available-for-sale securities (Note 4)	Deferred gain (loss) on hedging instruments	Net revaluation loss on land	Foreign currency translation adjustments	Remeasurements of defined benefit plans (Note 8)	Total	Stock acquisition rights	Non-controlling interests	Total net assets
Balance as at February 29, 2016	\$ 9,934	\$(2,691)	\$(89,959)	\$ 33,558	\$ (8,665)	\$(57,823)	\$7,498	\$15,442	\$1,531,073
Cash dividends	—	—	—	—	—	—	—	—	(32,869)
Profit attributable to owners of parent	—	—	—	—	—	—	—	—	42,148
Purchase of treasury stock	—	—	—	—	—	—	—	—	(55,964)
Reissuance of treasury stock	—	—	—	—	—	—	—	—	582
Reversal of revaluation of land	—	—	—	—	—	—	—	—	(18,191)
Net changes other than shareholders' equity	(7,062)	3,200	28,450	(28,864)	11,694	7,418	(571)	(1,784)	5,063
Total changes during the year	(7,062)	3,200	28,450	(28,864)	11,694	7,418	(571)	(1,784)	(59,231)
Balance as at February 28, 2017	\$ 2,872	\$ 509	\$(61,509)	\$ 4,694	\$ 3,029	\$(50,405)	\$6,927	\$13,658	\$1,471,842

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

ONWARD HOLDINGS Co., Ltd. and Consolidated Subsidiaries
February 29, 2016 and February 28, 2017

	Millions of yen		Thousands of U.S. dollars (Note 2. (21))
	2016	2017	2017
Cash flows from operating activities:			
Profit before income taxes	¥ 7,131	¥ 10,980	\$ 97,550
Adjustments to reconcile profit before income taxes to net cash provided by operating activities:			
Depreciation and amortization	7,799	6,663	59,194
Impairment loss on fixed assets	14,051	1,659	14,739
Net amortization of goodwill on consolidation	3,027	2,132	18,941
Increase (decrease) in allowance for bad debt	(15)	(395)	(3,508)
(Increase) decrease in net defined benefit asset	2,363	(1,760)	(15,632)
Increase (decrease) in net defined benefit liability	181	(151)	(1,344)
Interest and dividend income	(573)	(336)	(2,987)
Interest expenses	546	400	3,551
Equity in (earnings) losses of investees	(43)	316	2,804
(Gain) loss on sales or disposal of fixed assets, net	(5,393)	(6,859)	(60,932)
(Gain) loss on sale of investments in securities, net	(8,812)	(3,007)	(26,714)
(Increase) decrease in trade receivables	1,694	912	8,102
(Increase) decrease in inventories	400	1,247	11,078
Increase (decrease) in trade payables	(4,672)	(2,538)	(22,547)
Other, net	(10,034)	4,696	41,715
Subtotal	7,650	13,959	124,010
Interest and dividends received	625	433	3,856
Interest paid	(526)	(428)	(3,803)
Income taxes paid	(4,356)	(7,125)	(63,303)
Refunded income taxes	239	5	45
Net cash provided by (used in) operating activities	3,632	6,844	60,805
Cash flows from investing activities:			
Increase in time deposits	(308)	(5)	(45)
Decrease in time deposits	533	1,005	8,929
Acquisition of property, plant and equipment	(12,140)	(8,626)	(76,634)
Proceeds from sale of property, plant and equipment	15,576	21,764	193,356
Acquisition of investments in securities	(5,522)	(4,205)	(37,361)
Proceeds from sale of investments in securities	16,739	14,471	128,567
Payments for long-term prepaid expenses	(429)	(183)	(1,627)
Payments for security deposits	(538)	(419)	(3,723)
Proceeds from security deposits	925	1,377	12,237
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(4,263)	(5,116)	(45,455)
Payments for sale of investments in subsidiaries resulting in change in scope of consolidation	(7,163)	(12)	(105)
Proceeds from sale of investments in subsidiaries resulting in change in scope of consolidation	144	6,058	53,820
Other, net	(1,771)	(838)	(7,449)
Net cash provided by (used in) investing activities	1,783	25,271	224,510

Consolidated Statements of Cash Flows

	Millions of yen		Thousands of U.S. dollars (Note 2. (21))
	2016	2017	2017
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	4,225	(19,267)	(171,174)
Proceeds from long-term loans payable	—	383	3,403
Repayments of long-term loans payable	(3,437)	(3,028)	(26,899)
Acquisition of treasury stock	(2,294)	(6,299)	(55,964)
Dividends paid by the parent company	(3,770)	(3,700)	(32,869)
Dividends paid to non-controlling interests	(101)	(95)	(845)
Other, net	(980)	(850)	(7,551)
Net cash provided by (used in) financing activities	(6,357)	(32,856)	(291,899)
Effect of exchange rate changes on cash and cash equivalents	(546)	(1,565)	(13,906)
Net increase (decrease) in cash and cash equivalents	(1,488)	(2,306)	(20,490)
Cash and cash equivalents at beginning of year	29,818	28,330	251,687
Cash and cash equivalents at end of year (Note 10)	¥ 28,330	¥ 26,024	\$ 231,197

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

ONWARD HOLDINGS Co., Ltd. and Subsidiaries
For the years ended February 29, 2016 and February 28, 2017

1. Basis of Presentation of the Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared from the accounts maintained by ONWARD HOLDINGS Co., Ltd. (the "Company"), and its consolidated subsidiaries in accordance with the provisions set forth in the Companies Act of Japan (the "Companies Act") and the Financial Instruments and Exchange Act and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards. Certain items presented in the consolidated financial statements submitted to the Director-General of the Kanto Local Finance Bureau in Japan have been reclassified for the convenience of readers outside Japan.

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

2. Summary of Significant Accounting Policies

(1) Scope of Consolidation

The Company had 83 subsidiaries as at February 28, 2017 (81 as at February 29, 2016). The accompanying consolidated financial statements include the accounts of the Company and 74 of its subsidiaries (72 for 2016). Major consolidated subsidiaries are listed below (the Company and its consolidated subsidiaries are collectively referred to as the "Companies"):

Name of subsidiary	Equity ownership percentage	Closing date
Onward Kashiyama Co., Ltd.	100.0%	February 28
Onward Trading Co., Ltd.	100.0	February 28
Chacott Co., Ltd.	100.0	February 28
Creative Yoko Co., Ltd.	100.0	February 28
Island Co., Ltd.	100.0	February 28
Onward Global Fashion Co., Ltd.	100.0	February 28
Onward Luxury Group S.p.A.	100.0	November 30
Joseph Ltd.	100.0	November 30
Onward Fashion Trading (China) Co., Ltd.	100.0	December 31
J. Press, Inc.	100.0	December 31
Onward Creative Center Co., Ltd.	100.0	February 28
Excel Co., Ltd.	100.0	February 28
Onward Resort & Golf Co., Ltd.	100.0	February 28
Onward Life Design Network Co., Ltd.	100.0	February 28
Onward Beach Resort Guam, Inc.	100.0	December 31
Onward Mangilao Guam, Inc.	100.0	December 31

During the year ended February 28, 2017, FREE SHOES S.R.L. and Zenith S.a.r.L. were newly established, and shares in Tiaclass Inc., LA MAISON MOREAU S.A.S., KOKOBUY Inc. and Innovate Organics, Inc. were acquired; therefore, these companies became consolidated subsidiaries of the Company.

Shares in Onward Kaisei (Dalian) Co., Ltd., which had not been accounted for using the equity method, were additionally acquired; therefore, the company became a consolidated subsidiary of the Company.

As Ypsilon S.R.L. was absorbed into Freeland S.R.L., it was removed from the scope of consolidation.

It was decided that all the shares in VINA BIRZ CO., LTD., which had been a consolidated subsidiary of the Company, would be transferred, and Vintage Co., Ltd., Shanghai Onward Fashion Co., Ltd. and Project Sloane Ltd. were liquidated; therefore, these companies were removed from the scope of consolidation.

The financial statements of the aforementioned subsidiaries with the fiscal year-end of December 31 or November 30 have been used for consolidation. The fiscal year-end of KOKOBUY Inc. is September 30, and its financial statements prepared on a basis similar to that for the year-end closing as of December 31 have been used for consolidation purposes. Significant adjustments considered necessary between the fiscal year-ends and the Company's closing date have been made for consolidation.

The remaining nine subsidiaries (nine for 2016) 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.

Notes to Consolidated Financial Statements

(2) Consolidation and Elimination

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

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

(3) Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates are accounted for by the equity method. A total of 18 companies (17 companies for 2016) were accounted for by the equity method for the year ended February 28, 2017.

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

Although the fiscal year-end of Gailyglan Ltd. is November 30, its financial statements for the fiscal year-end have been used. Also, the fiscal year-end of Daidoh Limited is March 31, and its financial statements prepared on a basis similar to that for the year-end closing as of December 31 have been used for consolidation purposes.

(4) Inventories

Inventories held for sale in the ordinary course of business are measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses, determined principally by the specific identification method. Write-downs recorded for the years ended February 29, 2016 and February 28, 2017 were ¥11,016 million and ¥10,002 million (\$88,860 thousand), respectively.

(5) Investments in Securities

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

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

(6) Derivative Transactions

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

(7) Hedge Accounting

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

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

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

(8) Property, Plant and Equipment

The Company and its domestic consolidated subsidiaries provide depreciation by the declining-balance method at rates based on the estimated useful lives of assets which are prescribed by Japanese income tax regulations, except for certain buildings (other than facilities attached to buildings) acquired on and after April 1, 1998 and facilities attached to buildings and structures acquired on and after April 1, 2016, which are depreciated by the straight-line method pursuant to an amendment to Japanese income tax act.

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

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

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

(9) Intangible Assets and Long-Term Prepaid Expenses

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

Software costs for internal use are amortized over their expected useful lives (five to 10 years) by the straight-line method.

(10) Income Taxes

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

(11) Allowance for Bad Debt

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

(12) Allowance for Sales Returns

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

(13) Retirement Benefits

To calculate projected benefit obligations, the Companies adopt the benefit formula basis for the method of attributing the projected benefits to periods.

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

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

(14) Provision for Point Program

The provision for point program is provided for future costs arising from the utilization of points that customers of certain domestic consolidated subsidiaries have earned under the point service program which is for sales promotions. They reserve an amount considered appropriate to cover possible utilization of the points during and after the next fiscal year.

(15) Accounting for Japanese Consumption Taxes

The Japanese consumption taxes withheld upon sale of goods and services, and the consumption taxes paid by the Companies on the purchase of goods and services are not included in the accompanying consolidated statements of operations.

(16) Application of Consolidated Taxation System

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

(17) Cash and Cash Equivalents

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

(18) Impairment of Long-Lived Assets

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

(19) Accrued Bonuses to Employees

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

(20) Accrued Bonuses to Directors

The Company and its certain domestic consolidated subsidiaries recognize accrued bonuses to directors in an estimated amount to provide for payment of bonuses to their directors.

(21) United States Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside of Japan. The rate of ¥112.56 = US\$1, the rate of exchange as of February 28, 2017, 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, 2017.

(Changes in Presentation Method)

"Proceeds from sale of investments in subsidiaries resulting in change in scope of consolidation," which was included in "Other, net" under "Cash flows from investing activities" for the year ended February 29, 2016, has been set down separately from the year ended February 28, 2017 since significance of the amount has increased. To reflect this change in the method of presentation, the amounts in the consolidated statement of cash flows for the year ended February 29, 2016 have been reclassified.

As a result, ¥(1,627) million of "Other, net" under "Cash flows from investing activities" in the consolidated statement of cash flows for the year ended February 29, 2016 has been reclassified to ¥144 million of "Proceeds from sale of investments in subsidiaries resulting in change in scope of consolidation" and ¥(1,771) million of "Other, net."

(23) Goodwill

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

(24) Changes in Accounting Policies

Application of Accounting Standard for Business Combinations, etc.

The Company has applied the "Accounting Standard for Business Combinations" (Accounting Standards Board of Japan ("ASBJ") Statement No. 21, September 13, 2013; the "Business Combinations Standard"), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013; the "Consolidated Financial Statements Standard"), "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013; the "Business Divestitures Standard"), etc. from the year ended February 28, 2017 and changed to a method to record any difference resulting from changes in its ownership interest in a subsidiary over which it continues to exercise control as capital surplus, and acquisition-related costs as expenses for the fiscal year in which they occur. For business combinations effective on and after the beginning of the year ended February 28, 2017, the Company has changed to a method to reflect the adjustments to the purchase price allocation based on finalization of provisional accounting treatment on the consolidated financial statements in the fiscal year in which the business combinations become effective. Moreover, the presentation method for "net income" and other related items was changed, and the presentation of "minority interests" was changed to "non-controlling interests." In order to reflect such changes in presentation, the Company has reclassified items in the consolidated financial statements for the year ended February 29, 2016.

In the consolidated statement of cash flows for the year ended February 28, 2017, cash flows from acquisition-related costs of investments in subsidiaries that result in a change in the scope of consolidation are stated in the class of "cash flows from operating activities."

In accordance with the transitional measures prescribed in 58-2 (4) of the Business Combinations Standard, 44-5 (4) of the Consolidated Financial Statements Standard, and 57-4 (4) of the Business Divestitures Standard, the Company has prospectively applied the Business Combinations Standard, etc. from the beginning of the year ended February 28, 2017.

The effects on consolidated financial statements are immaterial.

Application of Practical Solution on a Change in Depreciation Method due to Tax Reform 2016

The Company and its domestic consolidated subsidiaries have applied the "Practical Solution on a Change in Depreciation Method due to Tax Reform 2016" (Practical Issues Task Force No. 32, June 17, 2016) from the year ended February 28, 2017 in relation to the revision of the Corporation Tax Act. Accordingly, the Company and its domestic consolidated subsidiaries have changed the depreciation method for facilities attached to buildings and structures acquired on and after April 1, 2016 from the declining-balance method to the straight-line method.

The effects on consolidated financial statements are immaterial.

3. Financial Instruments**1. Matters pertaining to the status of financial instruments****(1) Policy on financial instruments**

The Companies invest their funds in short-term deposits and meet their financing needs through bank loans. The Companies utilize derivatives to hedge various risks as described in detail below and do not enter into derivatives for trading or speculative purposes.

(2) Financial instruments and risks

Accounts and notes receivable are exposed to credit risk of customers. Operating receivables denominated in foreign currencies, being subject to risk associated with changes in the foreign currency exchange rates, are hedged by forward exchange contracts.

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

Notes to Consolidated Financial Statements

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

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

(3) Risk management for financial instruments

(a) Management of credit risk (risk of default by customers and counterparties)

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

(b) Management of market risk (risk of fluctuations in foreign exchange rates, interest rates and others)

The Companies hedge risk associated with changes in the foreign currency exchange rates arising from receivables and payables denominated in foreign currencies mainly by forward exchange contracts.

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

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

(c) Management of liquidity risk related to fund procurement (risk that the Companies may not be able to meet their obligations on scheduled due dates)

In order to manage liquidity risk, the Companies timely prepare and update a schedule of cash receipts and disbursements and maintain sufficient liquidity on hand.

(4) Supplementary explanation of fair values of financial instruments

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

2. Matters related to fair values of financial instruments

The following are the consolidated balance sheet amounts and fair values and differences between them as of February 29, 2016 and February 28, 2017.

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

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

Notes to Consolidated Financial Statements

February 28, 2017	Thousands of U.S. dollars		
	Book value	Fair value	Difference
(a) Cash and deposits	\$ 231,849	\$ 231,849	\$ —
(b) Accounts and notes receivable	231,062	231,062	—
(c) Investments in securities:			
Available-for-sale securities	157,129	157,129	—
Investments in unconsolidated subsidiaries and affiliates	70,758	31,397	(39,361)
(d) Accounts and notes payable	(124,029)	(124,029)	—
(e) Electronically recorded obligations—operating	(159,449)	(159,449)	—
(f) Short-term loans payable	(209,057)	(209,057)	—
(g) Long-term loans payable (including current portion of long-term loans payable)	(153,279)	(153,455)	176
(h) Derivative transactions	1,211	1,211	—

Notes:

1. Fair value measurement of financial instruments and matters related to securities and derivatives

(a) Cash and deposits and (b) Accounts and notes receivable

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

(c) Investments in securities

The fair value of equity securities is based on the quoted market price.

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

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

(g) Long-term loans payable

The fair values of fixed interest rate long-term loans payable are measured as present values obtained by discounting the total amount of principal and interest at the interest rate which is assumed if any similar loan is newly made. Variable interest rate long-term loans payable are deemed to reflect market interest rates in a short period of time, so the book value is used as fair value.

(h) Derivative transactions

The fair value is calculated on the basis of the price quoted by the financial institutions.

2. Book values of financial instruments deemed extremely difficult to determine their fair values as of February 29, 2016 and February 28, 2017 are as follows:

Classification	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Investments in securities:			
Unlisted equity securities	¥710	¥583	\$5,177

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

3. The redemption schedules for monetary receivables and marketable securities with maturities as of February 29, 2016 and February 28, 2017 are as follows:

February 29, 2016	Millions of yen			
	Due within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and deposits	¥29,407	¥—	¥—	¥—
Accounts and notes receivable	27,819	—	—	—
Total	¥57,226	¥—	¥—	¥—

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

February 28, 2017	Thousands of U.S. dollars			
	Due within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and deposits	\$231,849	\$—	\$—	\$—
Accounts and notes receivable	231,062	—	—	—
Total	\$462,911	\$—	\$—	\$—

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

4. Investments in Securities

(1) Information as of and for The Year Ended February 29, 2016

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

Investments in securities whose fair values were readily determinable at February 29, 2016 are summarized as follows:

	Millions of yen		
	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities with unrealized gain:			
Equity securities	¥22,536	¥18,190	¥4,346
Other	3	2	1
Total	22,539	18,192	4,347
Securities with unrealized loss:			
Equity securities	1,948	2,373	(425)
Other	—	—	—
Total	1,948	2,373	(425)
Total	¥24,487	¥20,565	¥3,922

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

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

	Millions of yen
Proceeds from sale of securities	¥18,985
Realized gain on sale of securities	8,888
Realized loss on sale of securities	—

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

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

(2) Information as of and for The Year Ended February 28, 2017

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

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

	Millions of yen			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	¥13,881	¥10,534	¥3,347	\$123,321	\$ 93,580	\$29,741
Other	3	1	2	28	12	16
Total	13,884	10,535	3,349	123,349	93,592	29,757
Securities with unrealized loss:						
Equity securities	3,802	4,177	(375)	33,780	37,110	(3,330)
Other	—	—	—	—	—	—
Total	3,802	4,177	(375)	33,780	37,110	(3,330)
Total	¥17,686	¥14,712	¥2,974	\$157,129	\$130,702	\$26,427

Note: Non-marketable equity securities of ¥336 million (\$2,986 thousand) are not included in the above table because there were no quoted market prices available and it is extremely difficult to determine the fair value.

(b) Available-for-sale securities sold during the year ended February 28, 2017:

	Millions of yen	Thousands of U.S. dollars
Proceeds from sale of securities	¥13,390	\$118,958
Realized gain on sale of securities	3,007	26,714
Realized loss on sale of securities	—	—

(c) The aggregate carrying amount of investments in unconsolidated subsidiaries and affiliates as of February 28, 2017 was ¥8,211 million (\$72,949 thousand).

5. Derivative Transactions

The contract or notional amounts and fair values of derivative financial instruments held as of February 29, 2016 and February 28, 2017 are summarized as follows:

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

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

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

	Thousands of U.S. dollars		
	Contract or notional amount	Fair value	Valuation gain (loss)
February 28, 2017			
Forward exchange contracts:			
To buy foreign currency:			
U.S. dollar	\$10,107	\$394	\$394
Euro	10,385	(17)	(17)
	\$20,492	\$377	\$377

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

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

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

February 28, 2017	Thousands of U.S. dollars		
	Hedged item	Contract or notional amount	Fair value
Forward exchange contracts:			
To buy foreign currency:			
U.S. dollar	Accounts payable	\$21,514	\$847
Euro	Accounts payable	5,040	(1)
Pound	Accounts payable	191	(9)
Chinese yuan	Accounts payable	379	(2)
		\$27,124	\$835

6. Impairment Loss on Fixed Assets

For the years ended February 29, 2016 and February 28, 2017, the Companies reviewed its long-lived assets for impairment and, as a result, recognized an impairment loss as follows:

February 29, 2016			
Location	Usage	Description	Millions of yen
Tokyo metropolitan area and other	Business assets	Buildings and structures	¥ 1,275
		Other	1,033
		Goodwill	¥11,743

February 28, 2017				
Location	Usage	Description	Millions of yen	Thousands of U.S. dollars
Tokyo metropolitan area and other	Business assets	Buildings and structures	¥1,375	\$12,213
		Other	625	5,554

The long-lived assets are basically grouped by brand, and assets for lease and idle assets are grouped individually by each item. The Companies have recognized a loss on impairment on assets for lease and idle assets due to a significant decline in their market value and on business assets due to a continuous loss generated from their operating activities by reducing their book values to the respective recoverable amounts.

The impairment loss on long-lived assets for the years ended February 29, 2016 and February 28, 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Buildings and structures	¥ 1,275	¥1,375	\$12,213
Other intangible assets	457	205	1,822
Other	560	420	3,732
Land	16	—	—
Goodwill	11,743	—	—
Total	¥14,051	¥2,000	\$17,767

For the year ended February 29, 2016, based on the result of future cash flow analysis that the recoverable amount of goodwill on Onward Luxury Group S.p.A., which is a consolidated subsidiary of the Company, and two other consolidated subsidiaries of the Company was less than the carrying amount, the Company recognized an impairment loss of ¥11,743 million on the remaining unamortized portion of the goodwill. For the year ended February 28, 2017, ¥341 million (\$3,028 thousand) of the above amount was recorded as business restructuring expenses.

The recoverable amount of these assets is based on their net selling price or their value in use. The net selling price is estimated by using their estimated disposal price. The value in use is calculated by discounting the future cash flows at discount rates of 5.1% and 5.0% for the years ended February 29, 2016 and February 28, 2017, respectively.

7. Business Restructuring Expenses

Business restructuring expenses for the year ended February 28, 2017 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2017	2017
Business portfolio restructuring:		
Expenses in relation to elimination of unprofitable brands	¥ 564	\$ 5,012
Expenses in relation to withdrawal from unprofitable stores	662	5,879
Retirement expenses resulting from logistics and organization restructuring, etc.	859	7,632
Total	¥2,085	\$18,523

8. Retirement Plan and Retirement Benefits

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

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

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

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

A. Defined benefit plans

(i) Changes in projected benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Balance at beginning of year	¥16,552	¥16,206	\$143,980
Cumulative effects of changes in accounting policies	(421)	—	—
Restated balance	16,131	16,206	143,980
Service cost	1,436	1,076	9,563
Interest cost	40	41	367
Actuarial differences	660	(168)	(1,498)
Benefits paid	(1,629)	(2,018)	(17,932)
Other	(432)	(155)	(1,380)
Balance at end of year	¥16,206	¥14,982	\$133,100

(ii) Changes in plan assets

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Balance at beginning of year	¥15,693	¥13,443	\$119,434
Expected return on plan assets	232	231	2,051
Actuarial differences	(1,984)	1,050	9,330
Employer contributions	271	293	2,595
Benefits paid	(558)	(846)	(7,516)
Other	(211)	—	—
Balance at end of year	¥13,443	¥14,171	\$125,894

Notes to Consolidated Financial Statements

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

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Funded projected benefit obligations	¥ 15,392	¥ 14,339	\$ 127,391
Plan assets	(13,443)	(14,171)	(125,894)
	1,949	168	1,497
Unfunded projected benefit obligations	814	643	5,709
Net amount of liability and asset recognized in the consolidated balance sheets	2,763	811	7,206
Net defined benefit liability	4,180	3,988	35,428
Net defined benefit asset	(1,417)	(3,177)	(28,222)
Net amount of liability and asset recognized in the consolidated balance sheets	¥ 2,763	¥ 811	\$ 7,206

(iv) Net periodic pension expenses and their breakdown

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Service cost	¥1,436	¥1,076	\$ 9,563
Interest cost	40	41	367
Expected return on plan assets	(232)	(231)	(2,051)
Amortization of unrecognized actuarial differences	28	763	6,781
Amortization of unrecognized prior service costs	(54)	(50)	(452)
Other	(9)	(118)	(1,054)
Net periodic pension expenses	¥1,209	¥1,481	\$13,154

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

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

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Prior service costs	¥ (54)	¥ (51)	\$ (452)
Actuarial differences	(2,615)	1,982	17,609
Total	¥(2,669)	¥1,931	\$17,157

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

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

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Unrecognized prior service costs	¥ 266	¥215	\$1,914
Unrecognized actuarial differences	(1,706)	276	2,452
Total	¥(1,440)	¥491	\$4,366

(vii) Plan assets

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

	2016	2017
Life insurance company general accounts	43%	40%
Equity securities	47%	49%
Debt securities	2%	2%
Short-term funds	8%	9%
Total	100%	100%

Total plan assets include retirement benefit trusts established for defined benefit corporate pension plans and lump-sum retirement payment plans of 51% and 55% for the years ended February 29, 2016 and February 28, 2017, respectively.

Notes to Consolidated Financial Statements

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

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

(viii) Basis for calculation of actuarial assumptions

	2016	2017
Discount rate	0.3% to 0.7%	0.3% to 0.7%
Long-term expected rate of return on plan assets	1.1% to 2.1%	1.4% to 2.6%

B. Defined contribution plans

The amounts to be paid by the Companies to the defined contribution pension plans for the years ended February 29, 2016 and February 28, 2017 were ¥402 million and ¥386 million (\$3,426 thousand), respectively.

9. Notes to Consolidated Statements of Comprehensive Income

Other comprehensive income for the years ended February 29, 2016 and February 28, 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Net unrealized loss on available-for-sale securities:			
Amount arising during the year	¥ (5,978)	¥ 2,384	\$ 21,180
Reclassification adjustment for gain and loss	(9,548)	(3,332)	(29,602)
Amount before income tax effect	(15,526)	(948)	(8,422)
Income tax effect	5,651	355	3,149
Total	(9,875)	(593)	(5,273)
Deferred gain (loss) on hedging instruments:			
Amount arising during the year	(443)	84	743
Reclassification adjustment for gain and loss	(229)	442	3,933
Amount before income tax effect	(672)	526	4,676
Income tax effect	222	(166)	(1,476)
Total	(450)	360	3,200
Revaluation gain on land:			
Income tax effect	294	143	1,273
Total	294	143	1,273
Foreign currency translation adjustments:			
Amount arising during the year	(1,442)	(3,117)	(27,695)
Reclassification adjustment for gain and loss	—	19	168
Total	(1,442)	(3,098)	(27,527)
Remeasurements of defined benefit plans:			
Amount arising during the year	(2,644)	1,219	10,828
Reclassification adjustment for gain and loss	(25)	712	6,329
Amount before income tax effect	(2,669)	1,931	17,157
Income tax effect	905	(615)	(5,463)
Total	(1,764)	1,316	11,694
Share of other comprehensive income of associates accounted for using the equity method:			
Amount arising during the year	(155)	(361)	(3,211)
Total	(155)	(361)	(3,211)
Total other comprehensive income	¥(13,392)	¥(2,233)	\$ (19,844)

10. Notes to Consolidated Statements of Cash Flows

Cash and cash equivalents at February 29, 2016 and February 28, 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Cash and deposits	¥29,407	¥26,097	\$231,849
Time deposits with maturities of more than three months	(1,077)	(73)	(652)
Cash and cash equivalents	¥28,330	¥26,024	\$231,197

11. Lease Transactions

(Lessee)

Finance lease transactions

Finance lease transactions that do not transfer ownership

1. Leased assets

Leased assets are primarily comprised of logistic facilities ("buildings and structures").

2. Depreciation method for leased assets

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

12. Income Taxes

The tax effects of temporary differences that give rise to significant components of the deferred tax assets and liabilities as at February 29, 2016 and February 28, 2017 consisted of the following elements:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Deferred tax assets:			
Loss on write-down of inventories	¥ 2,273	¥ 2,133	\$ 18,946
Loss on write-down of investments in unconsolidated subsidiaries	7,718	191	1,699
Accrued bonuses to employees	331	299	2,654
Net defined benefit liability	2,866	2,685	23,855
Accrued retirement benefits for directors and corporate auditors	68	72	639
Allowance for bad debt	352	2,897	25,737
Tax loss carry forwards	10,380	14,399	127,922
Impairment loss on fixed assets	6,251	6,141	54,561
Investments in securities	111	25	224
Other	5,401	4,108	36,497
Subtotal	35,751	32,950	292,734
Less: Valuation allowance	(17,484)	(18,407)	(163,531)
Total deferred tax assets	18,267	14,543	129,203
Deferred tax liabilities:			
Gain on securities contributed to employee retirement benefit trusts	(82)	(56)	(499)
Net defined benefit asset	(505)	(973)	(8,642)
Provision for deferred capital gain on real property for tax purposes	(47)	(39)	(349)
Net unrealized gain on available-for-sale securities	(1,264)	(909)	(8,075)
Other	(509)	(718)	(6,375)
Total deferred tax liabilities	(2,407)	(2,695)	(23,940)
Net deferred tax assets	¥ 15,860	¥ 11,848	\$ 105,263

The reconciliation of the difference between the statutory tax rate and the effective tax rate for the years ended February 29, 2016 and February 28, 2017 is as follows:

	%	
	2016	2017
Statutory tax rate	35.6	33.1
Reconciliation:		
Permanently non-deductible expenses (entertainment expenses, etc.)	2.7	1.7
Permanently non-taxable income (dividends received, etc.)	(1.4)	(0.2)
Per capita inhabitant tax	5.1	2.3
Amortization of goodwill	14.0	6.1
Impairment loss on goodwill	58.7	—
Changes in valuation allowance	(115.3)	(0.1)
Consolidation adjustments to gain or loss on sale of investments in consolidated subsidiaries	16.8	(0.8)
Effects due to liquidation of consolidated subsidiaries	—	7.9
Differences in statutory tax rate	18.0	3.6
Other	6.0	3.2
Effective tax rate	40.2	56.8

(Adjustments to deferred tax assets and liabilities due to change in income tax rates, etc.)

On March 29, 2016, the "Act for Partial Revision of the Income Tax Act, etc." (Act No. 15 of 2016) and "Act for Partial Revision of the Local Tax Act, etc." (Act No. 13 of 2016) were enacted in the Diet session, and on November 18, 2016, the "Act for the Partial Revision of Acts, Including Partial Revision of the Consumption Tax Act for the Fundamental Reform of the Taxation System to Achieve a Stable Source of Revenue for Social Security" (Act No. 85 of 2016) and "Act for the Partial Revision of Act for the Partial Revision of the Local Tax Act and Local Allocation Tax Act for the Fundamental Reform of the Taxation System to Achieve a Stable Source of Revenue for Social Security, etc." (Act No. 86 of 2016) were enacted in the Diet session. Along with these changes, tax rates for corporation tax and enterprise tax for the fiscal years beginning on or after April 1, 2016 have been changed. Accordingly, the statutory tax rates applied to the calculation of deferred tax assets and liabilities are lowered from 32.3% to 30.9% for temporary differences expected to be settled in the fiscal years beginning on March 1, 2017 and 2018, and to 30.6% for temporary differences expected to be settled in the fiscal years beginning on or after March 1, 2019.

The effect of these changes in tax rates is immaterial.

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

Short-term loans payable at February 29, 2016 and February 28, 2017 represented loans, principally from banks. The weighted-average interest rate on these loans was 0.7% and 0.8% in 2016 and 2017, respectively.

Long-term loans payable at February 29, 2016 and February 28, 2017 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Unsecured loans, principally from banks, maturing in installments through 2021	¥19,854	¥17,253	\$153,278
Less current portion with weighted-average interest rate of 0.5% at February 28, 2017	3,828	13,835	122,909
Long-term loans payable, less current portion with weighted-average interest rate of 0.6% at February 28, 2017	¥16,026	¥ 3,418	\$ 30,369

Lease obligations at February 29, 2016 and February 28, 2017 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Lease obligations	¥5,877	¥5,576	\$49,534
Less current portion of lease obligations	682	706	6,273
	¥5,195	¥4,870	\$43,261

Notes to Consolidated Financial Statements

The aggregate annual maturities of long-term loans payable after February 28, 2018 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending February 28 or 29:		
2019	¥3,106	\$27,597
2020	106	941
2021	106	938
2022	101	893

The aggregate annual maturities of lease obligations after February 28, 2018 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending February 28 or 29:		
2019	¥628	\$5,578
2020	424	3,766
2021	357	3,175
2022	293	2,606

Bonds at February 29, 2016 and February 28, 2017 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
0.39% in 2016 and 2017 unsecured yen bonds issued by a subsidiary, due 2018	¥100	¥50	\$444
Less current portion	50	50	444
	¥ 50	¥—	\$ —

14. Shareholders' Equity

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

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

Cash dividends charged to retained earnings for the years ended February 29, 2016 and February 28, 2017 represent dividends paid out during those years. The amount available for dividends is based on the amount recorded in the Company's non-consolidated books of account in accordance with the Companies Act.

Dividends to be paid after the balance sheet date, which were approved by the General Meeting of Shareholders held on May 25, 2017, are as follows:

(a) Total dividends:	¥3,511 million (\$31,197 thousand)
(b) Source of dividends:	Retained earnings
(c) Cash dividends per common share:	¥24 (\$0.21)
(d) Date to determine which shareholders receive the dividends:	February 28, 2017
(e) Effective date:	May 26, 2017

Notes to Consolidated Financial Statements

15. Per Share Information

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

The basis for the calculation of basic and diluted earnings per share for the years ended February 29, 2016 and February 28, 2017 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Profit attributable to owners of parent	¥4,278	¥4,744	\$42,148
Less: Components not pertaining to common shareholders	—	—	—
Profit pertaining to common stock	¥4,278	¥4,744	\$42,148
Average outstanding shares of common stock (thousand shares)	151,343	150,758	
Effect of dilutive stock options (thousand shares)	1,689	1,532	

16. Related-Party Transactions

Year ended February 29, 2016

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

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

Year ended February 28, 2017

The Company leased land from Takeshi Hirouchi, Representative Director and Chairman of ONWARD HOLDINGS Co., Ltd., during the year, and the rental fee was ¥7 million (\$64 thousand). Also, Mr. Hirouchi paid a rental fee of ¥16 million (\$145 thousand) to the Company for a house. The rental fees were determined by the average market prices.

Onward Global Fashion Co., Ltd., a consolidated subsidiary of the Company, sold goods to BOLS 1987 Co., Ltd., over which Hitoshi Futamura, Representative Director, President of Onward Global Fashion Co., Ltd., has 100% of voting rights directly, during the year. The transaction amount was ¥46 million (\$404 thousand), and the balance of relevant accounts receivable as of February 28, 2017 was ¥12 million (\$108 thousand). Prices and other terms and conditions were determined by reference to market prices or general terms and conditions.

17. Stock Options

The cost recognized for the stock options for the years ended February 29, 2016 and February 28, 2017 was ¥16 million and nil, respectively, which is included in selling, general and administrative expenses.

2014 Stock Option Plan (No. 16)

Under the 2014 stock option plan (No. 16), stock options were granted to five directors of the Company on June 20, 2014. They are exercisable in the period from June 21, 2014 to June 20, 2044. The terms of the options include certain limitations on the exercisability under which grantees can exercise their options during a five-year period starting a year after they lose their positions as directors of the Company.

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

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

Exercise price:	¥1 (\$0.01)
Fair value at the grant date:	¥526 (\$4.67)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2017 is as follows:

	2014 stock option plan (No. 16)
Non-vested (shares):	
Outstanding at February 29, 2016	122,900
Granted	—
Forfeited	—
Vested	—
Outstanding at February 28, 2017	122,900

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

2014 Stock Option Plan (No. 15)

Under the 2014 stock option plan (No. 15), stock options were granted to 12 executive officers of the Company and five directors and nine executive officers of the Company's subsidiary on March 20, 2014. They are exercisable in the period from March 21, 2014 to February 29, 2044. The terms of the options include certain limitations on the exercisability under which grantees can exercise their options during a five-year period starting a year after they lose their positions as executive officers of the Company, or directors or executive officers of the Company's subsidiary.

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

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

Exercise price:	¥1 (\$0.01)
Fair value at the grant date:	¥466 (\$4.14)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2017 is as follows:

	2014 stock option plan (No. 15)
Non-vested (shares):	
Outstanding at February 29, 2016	140,000
Granted	—
Forfeited	—
Vested	11,900
Outstanding at February 28, 2017	128,100
Vested (shares):	
Outstanding at February 29, 2016	—
Vested	11,900
Exercised	—
Forfeited	—
Outstanding at February 28, 2017	11,900

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

2013 Stock Option Plan (No. 14)

Under the 2013 stock option plan (No. 14), stock options were granted to five directors of the Company on June 20, 2013. They are exercisable in the period from June 21, 2013 to June 20, 2043. The terms of the options include certain limitations on the exercisability under which grantees can exercise their options during a five-year period starting a year after they lose their positions as directors of the Company.

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

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

Exercise price:	¥1 (\$0.01)
Fair value at the grant date:	¥629 (\$5.59)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2017 is as follows:

	2013 stock option plan (No. 14)
Non-vested (shares):	
Outstanding at February 29, 2016	98,100
Granted	—
Forfeited	—
Vested	—
Outstanding at February 28, 2017	98,100
Vested (shares):	
Outstanding at February 29, 2016	8,900
Vested	—
Exercised	—
Forfeited	—
Outstanding at February 28, 2017	8,900

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

2013 Stock Option Plan (No. 13)

Under the 2013 stock option plan (No. 13), stock options were granted to 14 executive officers of the Company and six directors and nine executive officers of the Company's subsidiary on March 18, 2013. They are exercisable in the period from March 19, 2013 to February 28, 2043. The terms of the options include certain limitations on the exercisability under which grantees can exercise their options during a five-year period starting a year after they lose their positions as executive officers of the Company, or directors or executive officers of the Company's subsidiary.

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

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

Exercise price:	¥1 (\$0.01)
Fair value at the grant date:	¥572 (\$5.08)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2017 is as follows:

	2013 stock option plan (No. 13)
Non-vested (shares):	
Outstanding at February 29, 2016	126,600
Granted	—
Forfeited	—
Vested	10,000
Outstanding at February 28, 2017	116,600
Vested (shares):	
Outstanding at February 29, 2016	13,800
Vested	10,000
Exercised	—
Forfeited	—
Outstanding at February 28, 2017	23,800

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

2012 Stock Option Plan (No. 12)

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

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

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

Exercise price:	¥1 (\$0.01)
Fair value at the grant date:	¥458 (\$4.07)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2017 is as follows:

	2012 stock option plan (No. 12)
Non-vested (shares):	
Outstanding at February 29, 2016	129,600
Granted	—
Forfeited	—
Vested	—
Outstanding at February 28, 2017	129,600
Vested (shares):	
Outstanding at February 29, 2016	11,800
Vested	—
Exercised	—
Forfeited	—
Outstanding at February 28, 2017	11,800

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

Notes to Consolidated Financial Statements

2012 Stock Option Plan (No. 11)

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

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

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

Exercise price:	¥1 (\$0.01)
Fair value at the grant date:	¥444 (\$3.94)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2017 is as follows:

	2012 stock option plan (No. 11)
Non-vested (shares):	
Outstanding at February 29, 2016	123,700
Granted	—
Forfeited	—
Vested	13,100
Outstanding at February 28, 2017	<u>110,600</u>
Vested (shares):	
Outstanding at February 29, 2016	61,300
Vested	13,100
Exercised	—
Forfeited	—
Outstanding at February 28, 2017	<u>74,400</u>

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

2011 Stock Option Plan (No. 10)

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

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

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

Exercise price:	¥1 (\$0.01)
Average stock price on the date the option was exercised:	¥682 (\$6.06)
Fair value at the grant date:	¥510 (\$4.53)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2017 is as follows:

	2011 stock option plan (No. 10)
Non-vested (shares):	
Outstanding at February 29, 2016	69,400
Granted	—
Forfeited	—
Vested	—
Outstanding at February 28, 2017	<u>69,400</u>
Vested (shares):	
Outstanding at February 29, 2016	65,800
Vested	—
Exercised	21,300
Forfeited	—
Outstanding at February 28, 2017	<u>44,500</u>

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

Notes to Consolidated Financial Statements

2011 Stock Option Plan (No. 9)

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

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

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

Exercise price:	¥1 (\$0.01)
Average stock price on the date the option was exercised:	¥660 (\$5.86)
Fair value at the grant date:	¥444 (\$3.94)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2017 is as follows:

	2011 stock option plan (No. 9)
Non-vested (shares):	
Outstanding at February 29, 2016	99,700
Granted	—
Forfeited	—
Vested	11,300
Outstanding at February 28, 2017	<u>88,400</u>
Vested (shares):	
Outstanding at February 29, 2016	61,700
Vested	11,300
Exercised	26,600
Forfeited	—
Outstanding at February 28, 2017	<u>46,400</u>

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

2010 Stock Option Plan (No. 8)

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

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

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

Exercise price:	¥1 (\$0.01)
Average stock price on the date the option was exercised:	¥623 (\$5.53)
Fair value at the grant date:	¥613 (\$5.45)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2017 is as follows:

	2010 stock option plan (No. 8)
Non-vested (shares):	
Outstanding at February 29, 2016	52,300
Granted	—
Forfeited	—
Vested	—
Outstanding at February 28, 2017	<u>52,300</u>
Vested (shares):	
Outstanding at February 29, 2016	15,700
Vested	—
Exercised	15,700
Forfeited	—
Outstanding at February 28, 2017	<u>—</u>

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

2010 Stock Option Plan (No. 7)

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

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

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

Exercise price:	¥1 (\$0.01)
Average stock price on the date the option was exercised:	¥721 (\$6.41)
Fair value at the grant date:	¥475 (\$4.22)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2017 is as follows:

	2010 stock option plan (No. 7)
Non-vested (shares):	
Outstanding at February 29, 2016	76,400
Granted	—
Forfeited	—
Vested	7,800
Outstanding at February 28, 2017	<u>68,600</u>
Vested (shares):	
Outstanding at February 29, 2016	52,400
Vested	7,800
Exercised	44,000
Forfeited	—
Outstanding at February 28, 2017	<u>16,200</u>

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

2009 Stock Option Plan (No. 6)

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

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

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

Exercise price:	¥1 (\$0.01)
Fair value at the grant date:	¥432 (\$3.84)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2017 is as follows:

	2009 stock option plan (No. 6)
Non-vested (shares):	
Outstanding at February 29, 2016	72,000
Granted	—
Forfeited	—
Vested	—
Outstanding at February 28, 2017	<u>72,000</u>

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

2009 Stock Option Plan (No. 5)

Under the 2009 stock option plan (No. 5), stock options were granted to 11 directors and 19 executive officers of the Company's subsidiary on March 18, 2009. They are exercisable in the period from March 19, 2009 to February 28, 2039. The terms of the options include certain limitations on the exercisability under which grantees can exercise their options during a five-year period starting a year after they lose their positions as directors or executive officers of the Company's subsidiary.

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

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

Exercise price:	¥1 (\$0.01)
Average stock price on the date the option was exercised:	¥724 (\$6.43)
Fair value at the grant date:	¥362 (\$3.22)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2017 is as follows:

	2009 stock option plan (No. 5)
Non-vested (shares):	
Outstanding at February 29, 2016	79,300
Granted	—
Forfeited	—
Vested	10,200
Outstanding at February 28, 2017	<u>69,100</u>
Vested (shares):	
Outstanding at February 29, 2016	37,900
Vested	10,200
Exercised	22,000
Forfeited	—
Outstanding at February 28, 2017	<u>26,100</u>

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

2008 Stock Option Plan (No. 4)

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

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

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

Exercise price:	¥1 (\$0.01)
Average stock price on the date the option was exercised:	¥672 (\$5.97)
Fair value at the grant date:	¥905 (\$8.04)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2017 is as follows:

	2008 stock option plan (No. 4)
Non-vested (shares):	
Outstanding at February 29, 2016	23,300
Granted	—
Forfeited	—
Vested	3,200
Outstanding at February 28, 2017	<u>20,100</u>
Vested (shares):	
Outstanding at February 29, 2016	8,400
Vested	3,200
Exercised	3,400
Forfeited	—
Outstanding at February 28, 2017	<u>8,200</u>

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

2008 Stock Option Plan (No. 3)

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

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

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

Exercise price:	¥1 (\$0.01)
Fair value at the grant date:	¥944 (\$8.39)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2017 is as follows:

	2008 stock option plan (No. 3)
Non-vested (shares):	
Outstanding at February 29, 2016	32,000
Granted	—
Forfeited	—
Vested	—
Outstanding at February 28, 2017	<u>32,000</u>

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

2007 Stock Option Plan (No. 2)

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

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

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

Exercise price:	¥1 (\$0.01)
Fair value at the grant date:	¥1,284 (\$11.41)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2017 is as follows:

	2007 stock option plan (No. 2)
Non-vested (shares):	
Outstanding at February 29, 2016	16,600
Granted	—
Forfeited	—
Vested	—
Outstanding at February 28, 2017	<u>16,600</u>

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

2006 Stock Option Plan (No. 1)

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

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

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

Exercise price:	¥1 (\$0.01)
Fair value at the grant date:	¥1,541 (\$13.69)

A summary of the scale and movement of the stock option plan for the year ended February 28, 2017 is as follows:

	2006 stock option plan (No. 1)
Non-vested (shares):	
Outstanding at February 29, 2016	14,500
Granted	—
Forfeited	—
Vested	—
Outstanding at February 28, 2017	<u>14,500</u>

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

18. Segment Information**(1) Summary of reportable segments**

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

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

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

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

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

Accounting methods for reportable segments are mostly the same as the accounting methods described in "2. Summary of Significant Accounting Policies."

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

Notes to Consolidated Financial Statements

(3) Information on net sales, profit or loss, assets, liabilities and other items by reportable segment for the years ended February 29, 2016 and February 28, 2017 is as follows:

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

(Notes) 1. Adjustments consist of the following:

- The adjustment amount for segment profit (loss) of ¥(2,409) million includes amortization of goodwill of ¥(3,027) million, elimination of intersegment transactions of ¥4,266 million, and corporate expenses not allocated to reportable segments of ¥(3,648) million. Corporate expenses are mainly general administrative expenses that are not attributable to reportable segments.
- The adjustment amount for segment assets of ¥95,054 million includes the unamortized balance of goodwill of ¥15,652 million, elimination of intersegment transactions of ¥(117,485) million, and corporate assets not allocated to reportable segments of ¥196,887 million. Corporate assets are mainly assets held by the Company, a pure holding company.
- Depreciation and amortization, and increases in property, plant and equipment, and intangible assets include long-term prepaid expenses (furniture and fixtures).
- Segment profit (loss) coincides with the amount of operating profit in the consolidated statement of operations.

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

Notes to Consolidated Financial Statements

	Thousands of U.S. dollars							
	Apparel				Other	Total	Adjustments (Note 1)	Consolidated total (Note 3)
	Japan	Europe	Asia/North America	Total				
For the year ended February 28, 2017								
Net sales to outside customers	\$1,718,747	\$342,851	\$52,243	\$2,113,841	\$ 61,896	\$2,175,737	\$ —	\$2,175,737
Intersegment sales or transfers	11,248	17,496	5,412	34,156	25,452	59,608	(59,608)	—
Total	\$1,729,995	\$360,347	\$57,655	\$2,147,997	\$ 87,348	\$2,235,345	\$ (59,608)	\$2,175,737
Segment profit (loss)	\$ 56,663	\$ (4,081)	\$ (4,064)	\$ 48,518	\$ 3,951	\$ 52,469	\$ (15,122)	\$ 37,347
Segment assets	\$1,245,625	\$290,247	\$47,192	\$1,583,064	\$233,189	\$1,816,253	\$611,135	\$2,427,388
Depreciation and amortization (Note 2)	\$ 40,183	\$ 8,409	\$ 1,134	\$ 49,726	\$ 5,651	\$ 55,377	\$ 3,817	\$ 59,194
Investments in equity-method affiliates	70,758	716	—	71,474	—	71,474	—	71,474
Increases in property, plant and equipment, and intangible assets (Note 2)	68,994	12,287	1,523	82,804	5,527	88,331	5,837	94,168

(Notes) 1. Adjustments consist of the following:

- The adjustment amount for segment profit (loss) of ¥(1,702) million (\$ (1,122) thousand) includes amortization of goodwill of ¥(2,132) million (\$ (18,941) thousand), elimination of intersegment transactions of ¥4,263 million (\$37,872 thousand), and corporate expenses not allocated to reportable segments of ¥(3,833) million (\$ (34,053) thousand). Corporate expenses are mainly general administrative expenses that are not attributable to reportable segments.
- The adjustment amount for segment assets of ¥68,789 million (\$611,135 thousand) includes the unamortized balance of goodwill of ¥18,523 million (\$164,557 thousand), elimination of intersegment transactions of ¥(123,515) million (\$ (1,097,321) thousand), and corporate assets not allocated to reportable segments of ¥173,781 million (\$1,543,899 thousand). Corporate assets are mainly assets held by the Company, a pure holding company.
- Depreciation and amortization, and increases in property, plant and equipment, and intangible assets include long-term prepaid expenses (furniture and fixtures).
- Segment profit (loss) coincides with the amount of operating profit in the consolidated statement of operations.

(4) Segment information by geographical area for the years ended February 29, 2016 and February 28, 2017 is as follows:

(a) Sales

	Millions of yen			
	Japan	Europe	Other	Total
For the year ended February 29, 2016				
	¥212,199	¥26,187	¥25,130	¥263,516

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

	Thousands of U.S. dollars			
	Japan	Europe	Other	Total
For the year ended February 28, 2017				
	\$1,733,715	\$265,745	\$176,277	\$2,175,737

(b) Property, plant and equipment

For the year ended February 29, 2016			
Millions of yen			
Japan	Europe	Other	Total
¥87,385	¥8,324	¥10,986	¥106,695

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

For the year ended February 28, 2017			
Thousands of U.S. dollars			
Japan	Europe	Other	Total
\$656,892	\$67,678	\$95,162	\$819,732

(5) Segment information on impairment losses on property, plant and equipment by reportable segment for the years ended February 29, 2016 and February 28, 2017 is as follows:

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

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

	Thousands of U.S. dollars						
	Apparel				Other	Unallocated amounts and elimination	Total
	Japan	Europe	Asia/North America	Total			
For the year ended February 28, 2017							
Impairment loss	\$14,557	\$—	\$182	\$14,739	\$—	\$—	\$14,739

Independent Auditor's Report



Ernst & Young ShinNihon LLC
 Hibiya Kokusai Bldg.
 2-2-3 Uchisaiwai-cho, Chiyoda-ku
 Tokyo 100-0011, Japan
 Tel: +81 3 3503 1100
 Fax: +81 3 3503 1197
 www.shinnihon.or.jp

Independent Auditor's Report

The Board of Directors
 ONWARD HOLDINGS ., 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, 2017, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ONWARD HOLDINGS Co., Ltd. and its consolidated subsidiaries as at February 28, 2017, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 2(21).

Ernst & Young ShinNihon LLC

May 26, 2017

A member firm of Ernst & Young Global Limited

Main Subsidiaries

As of August 31, 2017

Japan

Onward Kashiyama Co., Ltd.

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

Onward Trading Co., Ltd.

2-10-10 Iidabashi, Chiyoda-ku, Tokyo 102-8115, Japan
Tel: (81) 3-5266-1333

Chacott Co., Ltd.

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

Island Co., Ltd.

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

Onward Global Fashion Co., Ltd.

Onden Imaizumi Building, 5-7-4 Jingumae, Shibuya-ku, Tokyo 150-0001, Japan
Tel: (81)3-4512-6900

Intimates Co., Ltd.

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

Sakula Inc.

2-10-10 Iidabashi, Chiyoda-ku, Tokyo 102-8115, Japan
Tel: (81) 3-3288-3688

Onward Personal Style Co., Ltd.

3-14-21 Kaigan, Minato-ku, Tokyo 108-8439, Japan
Tel: (81) 3-5476-6131

Onward J Bridge Co., Ltd.

3-14-21 Kaigan, Minato-ku, Tokyo 108-8439, Japan
Tel: (81) 3-5476-5370

Kokobuy Inc.

3-41-7-1404 Sendagaya, Shibuya-ku, Tokyo 151-0051, Japan
Tel: (81) 3-5772-8535

Onward Creative Center Co., Ltd.

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

Bien Co., Ltd.

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

Onward Resort & Golf Co., Ltd.

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

O & K Co., Ltd.

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

Onward Life Design Network Co., Ltd.

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

Tiaclasse Inc.

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

Creative Yoko Co., Ltd.

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

Main Subsidiaries

Overseas

Europe

Onward Italia S.p.A.

Via Della Spiga 9, 20121 Milano, Italy
Tel: (39) 02-783-667

Onward Luxury Group S.p.A.

Via Cassia 69, 50029 Tavarnuzze, Firenze, Italy
Tel: (39) 055-237-2020

Joseph Ltd.

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

Freed of London Ltd.

35 Rydal Street, Leicester LE2 7DS, U.K.
Tel: (44) 116-254-8010

La Maison Moreau S.A.S

49, Rue du Faubourg Saint Honore 75008 Paris, France
Tel: (33) 1-7038-7700

Horloge Saint Benoit S.A.S.

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

Asia

Onward Fashion Trading (China) Co., Ltd.

12th Floor, Onward Building, No. 1238, Danba Road, Putuo District, Shanghai, 200333, People's Republic of China
Tel: (86) 21-6472-3660

Shanghai Onward Fashion Co., Ltd.

13th Floor, Onward Building, No. 1238, Danba Road, Putuo District, Shanghai, 200333, People's Republic of China
Tel: (86) 21-6466-6466

Onward Trading (Shanghai) Co., Ltd.

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

Kashiyama (Dalian) Co., Ltd.

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

Onward Kashiyama Hong Kong Ltd.

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

Onward Kashiyama Korea Co., Ltd.

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

Onward Kashiyama Singapore Pte. Ltd.

150 Orchard Road, #07-18 Orchard Plaza, Singapore 238841
Tel: (65) 6838-0690

Onward Kashiyama Vietnam Ltd.

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

United States

J. Press, Inc.

3rd Floor, 8 Crosby Street, New York, NY 10013, U.S.A.
Tel: (1) 212-997-3600

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

3rd Floor, 8 Crosby Street, New York, NY 10013, 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, 2017

Head Office 10-5, Nihonbashi 3-chome, Chuo-ku, Tokyo 103-8239, Japan
Tel: (81) 3-4512-1020
Fax: (81) 3-4512-1021
URL: <http://www.onward-hd.co.jp/site/english/>

Established September 1947

Capital ¥30,080 million

Common Stock Authorized—400,000,000 shares
Issued—167,921,669 shares

Note: The total number of issued and outstanding shares included 21,609,228 shares of treasury stock.

Number of Shareholders 9,509

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) 4,456

Major Shareholders

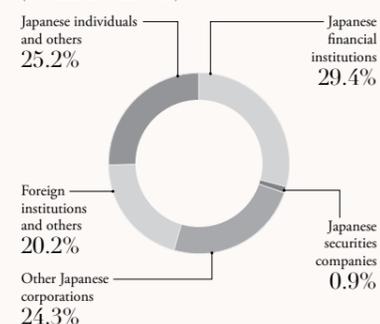
	Number of Shares Held (Thousands)	Percentage of Total Shares Issued (%)
Kashiyama Scholarship Foundation	8,710	5.9
Japan Trustee Services Bank, Ltd. (Trust account 9)	6,539	4.4
BNYML-Non Treaty Account	5,039	3.4
Isetan Mitsukoshi Ltd.	5,001	3.4
Japan Trustee Services Bank, Ltd. (Trust account)	4,701	3.2
Nippon Life Insurance Company	4,671	3.1
Onward Holdings Customers' Shareholding Association	4,535	3.1
The Master Trust Bank of Japan, Ltd. (Trust account)	4,470	3.0
The Dai-ichi Mutual Life Insurance Company, Ltd.	4,200	2.8
MARUI GROUP CO., LTD.	3,417	2.3

Notes:

- The Company holds 21,609,228 shares of treasury stock. Treasury stock is not included in the above Major Shareholders information.
- Percentage of total shares issued is calculated after deducting 21,609,228 shares of treasury stock.

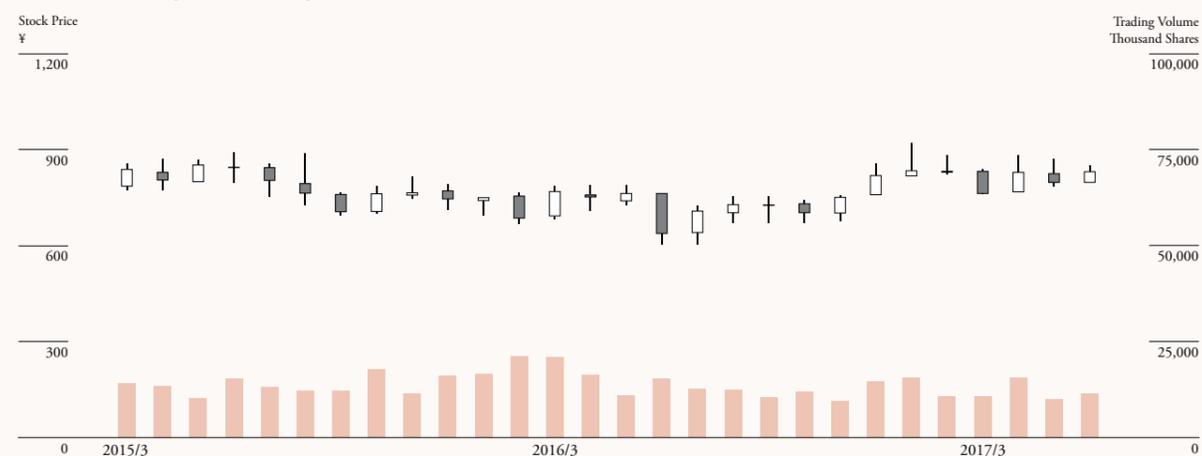
Distribution of Ownership among Shareholders

(On a number of shares basis)



Note: Japanese individuals and others data includes treasury stock.

Stock Price Range and Trading Volume



History

1927	February	Junzo Kashiyama established Kashiyama Trading.
1947	September	Established Kashiyama Co., Ltd., in Oimatsu-cho, Kita-ku, Osaka City, Osaka (later relocated to Honmachi, Higashi-ku in 1952).
1960	October	Listed on second sections of Tokyo, Osaka, and Nagoya stock exchanges.
1962	April	Established Onward Sales Co., Ltd. (formerly Oak Co., Ltd.; currently Onward Trading Co., Ltd.).
1964	July	Listing was transferred to first sections of Tokyo, Osaka, and Nagoya stock exchanges.
1966	September	Transferred head office from Honmachi, Kita-ku, Osaka, to Nihonbashi, Chuo-ku, Tokyo.
1972	July	Established Onward Transport Co., Ltd. (currently Across Transport Co., Ltd.).
	September	Established Onward Kashiyama U.S.A. INC.
1973	February	Established Onward Kashiyama France S.A.
1974	February	Established Onward Kashiyama Italia S.p.A. (currently Onward Italia S.p.A.).
1986	October	Acquired J. Press, Inc.
1988	February	Established Onward Kashiyama Hong Kong Ltd.
	September	Company name changed to Onward Kashiyama Co., Ltd. (currently Onward Holdings Co., Ltd.).
1989	December	Established Onward Kashiyama U.K. Ltd.
1990	January	Acquired GIBO' S.p.A. (name was changed to GIBO'Co S.p.A. in April 1994).
	July	Acquired Chacott Co., Ltd.
1991	February	Launched Onward Research and Development Institute.
1992	May	Opened Onward Agana Beach Hotel, in Guam (currently Onward Beach Resort Guam, Inc.).
1994	May	Established Bus Stop Co., Ltd.
1995	June	Established Shanghai Onward Fashion Co., Ltd.
1997	June	Established Onward Kashiyama Korea Co., Ltd.
2004	January	Acquired Erika s.r.l.
2005	May	Acquired Project Sloane Ltd. (Joseph Group).
	July	Acquired Iris S.p.A.
2006	October	Acquired Mangilao Golf Club (currently Onward Mangilao Guam, Inc.).
2007	April	Onward Fashion Trading (Shanghai) Co., Ltd., increased its capital and changed its name to Onward Fashion Trading (China) Co., Ltd.
	May	Acquired Frassinetti s.r.l.
	June	Established J. Direction Co., Ltd.
	September	Changed to holding company structure through corporate restructuring under new company name, Onward Holdings Co., Ltd.
		Established Onward Kashiyama Co., Ltd., and Onward Trading Co., Ltd.
	October	Acquired Corporate s.r.l.
2008	October	Acquired Creative Yoko Co., Ltd.
		Acquired Jil Sander A.G.
2009	December	Acquired controlling interest in Island Co., Ltd.
2010	June	Established Onward Kashiyama Singapore Pte. Ltd.
2011	August	Established Onward Kashiyama Vietnam Ltd.
2012	April	Acquired controlling interest in Birz Group, including Birz Association Ltd.
	May	Established Onward Fashion Trading (Shanghai) Co., Ltd.
	December	Established Charles & Keith Japan Co., Ltd.
2013	February	Acquired Sakula Inc.
	June	Established Onward Luxury Group S.p.A.
2014	March	Established Onward Global Fashion Co., Ltd.
	November	Completed Onward Park Building (Head Office building in Nihonbashi district of Tokyo).
2015	March	Michinobu Yasumoto became president and representative director.
	September	Established Onward J Bridge Co., Ltd. (a joint venture company with Laox Co., Ltd.).
2016	March	Acquired La Maison Moreau S.A.S.
	April	Acquired Tiaclass Inc.
	August	Converted Onward Kaisei (Dalian) Co., Ltd. (currently Kashiyama (Dalian) Co., Ltd.) into a wholly owned subsidiary through acquisition of stock.
2017	January	Acquired Kokobuy Inc. and Innovate Organics, Inc.

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