Financial Section

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

Six-Year Financial Summary

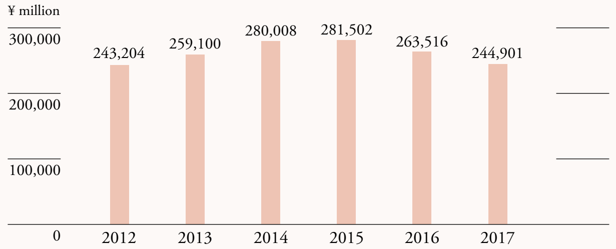
ONWARD HOLDINGS Co., Ltd. and Consolidated Subsidiaries
Years ended February 28 and 29

	Millions of yen						Thousands of U.S. dollars*1
	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

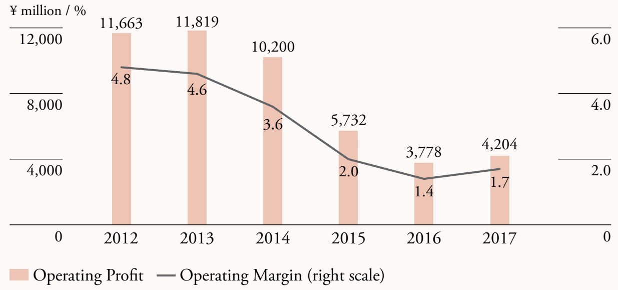
	Yen						U.S. dollars*1
PER SHARE INFORMATION							
Basic earnings per share (EPS)	¥ 22.52	¥ 28.71	¥ 29.69	¥ 26.78	¥ 28.27	¥ 31.47	$0.28
Net assets	995.11	1,043.64	1,102.99	1,166.89	1,101.21	1,116.47	9.92
Cash dividends	24.00	24.00	24.00	24.00	24.00	24.00	0.21
Payout ratio (%)	106.6	83.6	80.8	89.6	86.5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

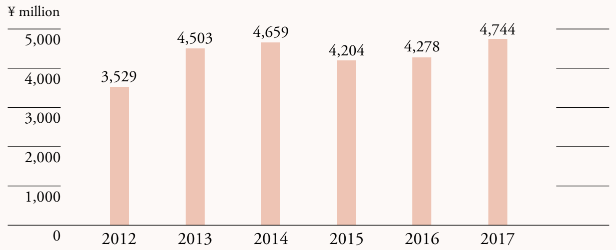
Net Sales



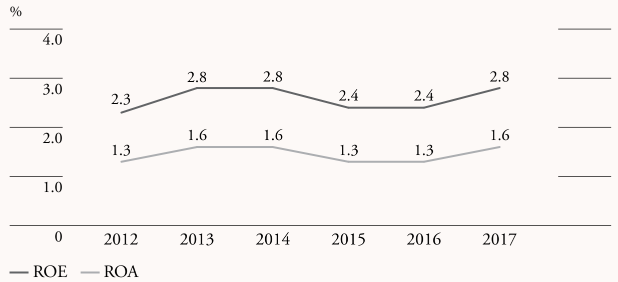
Operating Profit and Operating Margin



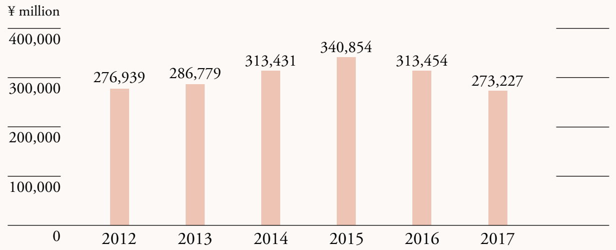
Profit Attributable to Owners of Parent



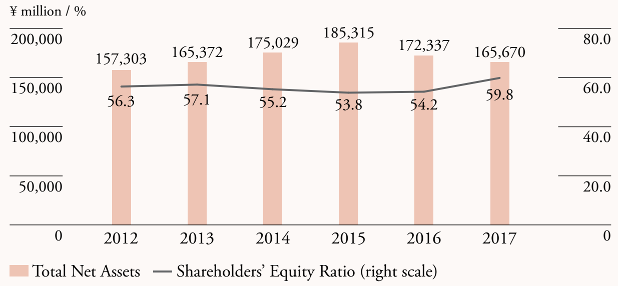
ROE and ROA



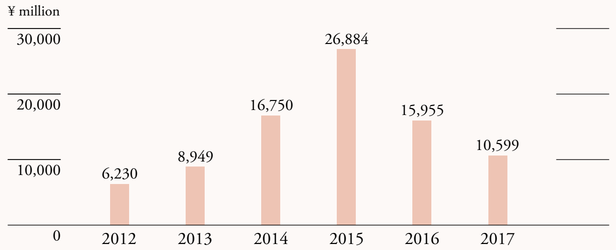
Total Assets



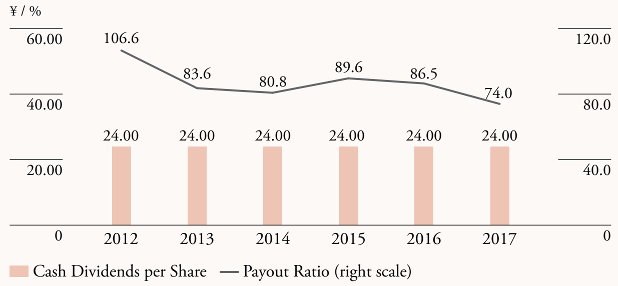
Total Net Assets and Shareholders' Equity Ratio



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)

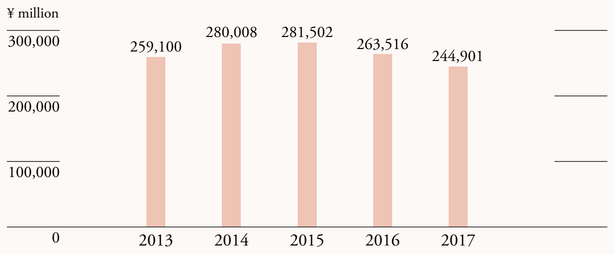
Other income, net, amounted to ¥6,776 million, compared with ¥3,353 million in the previous fiscal year. Although ¥2,085 million was recorded in the form of business restructuring expenses, the overall balance of other income and expenses improved as impairment loss on fixed assets decreased from ¥14,051 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

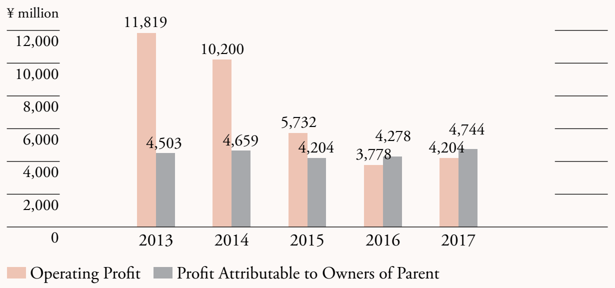
Profit before income taxes was ¥10,980 million, an increase of ¥3,849 million year on year.

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

Net Sales



Operating Profit and Profit Attributable to Owners of Parent



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.

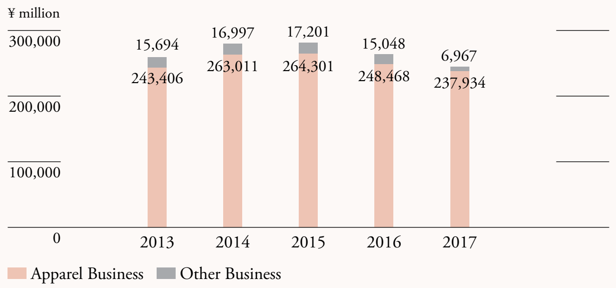
Domestic Business

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.

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.

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.

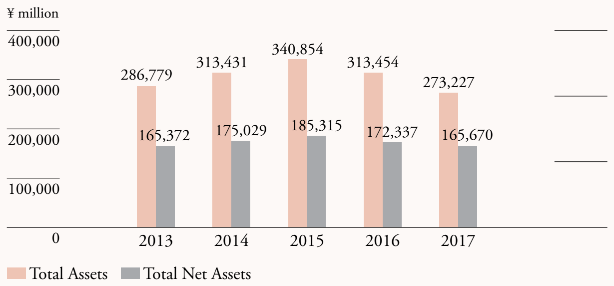
Profit Distribution Policy

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.

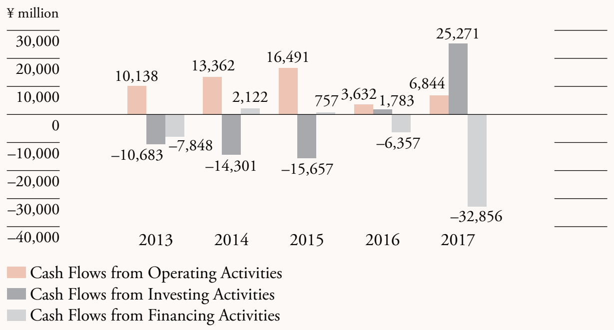
A single dividend payment is issued each year and is decided via approval at the General Meeting of Shareholders. For fiscal year 2017, we resolved to distribute a cash dividend of ¥24 per share, the same level as in fiscal year 2016, based on a comprehensive evaluation of this year's performance and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

Total Assets and Total Net Assets



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 outcome may have an adverse impact on our Group's business performance.

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

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

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

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

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

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

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

Consolidated Balance Sheets

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

ASSETS	Millions of yen 2016	Millions of yen 2017	Thousands of U.S. dollars (Note 2. (21)) 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

LIABILITIES AND NET ASSETS	Millions of yen 2016	Millions of yen 2017	Thousands of U.S. dollars (Note 2. (21)) 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 2016	Yen 2017	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.

	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

	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 Tiaclasse 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.

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

(4) Inventories

Inventories held for sale in the ordinary course of business are measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses, determined principally by the specific identification method. Write-downs recorded for the years ended February 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.

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.

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

	Millions of yen		
February 28, 2017	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	—

	Thousands of U.S. dollars		
February 28, 2017	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:

	Millions of yen		Thousands of U.S. dollars
Classification	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:

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

	Millions of yen			
February 28, 2017	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	¥—	¥—	¥—

	Thousands of U.S. dollars			
February 28, 2017	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		
February 29, 2016	Contract or notional amount	Fair value	Valuation gain (loss)
Interest rate swap agreements:			
Fixed rate receive / variable rate pay	¥100	¥(1)	¥(1)
	¥100	¥(1)	¥(1)

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

	Thousands of U.S. dollars		
February 28, 2017	Contract or notional amount	Fair value	Valuation gain (loss)
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		
February 29, 2016	Hedged item	Contract or notional amount	Fair value
Forward exchange contracts:			
To buy foreign currency:			
U.S. dollar	Accounts payable	¥ 7,009	¥(285)
Euro	Accounts payable	3,116	(96)
Pound	Accounts payable	64	(7)
Chinese yuan	Accounts payable	96	(1)
Singapore dollar	Accounts payable	83	(3)
Currency options:			
To buy foreign currency:			
Call:			
U.S. dollar	Accounts payable	414	1
To sell foreign currency:			
Put:			
U.S. dollar	Accounts receivable	666	(60)
		¥11,448	¥(451)

February 28, 2017	Hedged item	Contract or notional amount (Millions of yen)	Fair value (Millions of yen)
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	Hedged item	Contract or notional amount (Thousands of U.S. dollars)	Fair value (Thousands of U.S. dollars)
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 2016	Millions of yen 2017	Thousands of U.S. dollars 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 2017	Thousands of U.S. dollars 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 2016	Millions of yen 2017	Thousands of U.S. dollars 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 2016	Millions of yen 2017	Thousands of U.S. dollars 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

(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.

(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

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

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.

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	110,600
Vested (shares):	
Outstanding at February 29, 2016	61,300
Vested	13,100
Exercised	—
Forfeited	—
Outstanding at February 28, 2017	74,400

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

2011 Stock Option Plan (No. 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	69,400
Vested (shares):	
Outstanding at February 29, 2016	65,800
Vested	—
Exercised	21,300
Forfeited	—
Outstanding at February 28, 2017	44,500

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

2011 Stock Option Plan (No. 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	88,400
Vested (shares):	
Outstanding at February 29, 2016	61,700
Vested	11,300
Exercised	26,600
Forfeited	—
Outstanding at February 28, 2017	46,400

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

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	52,300
Vested (shares):	
Outstanding at February 29, 2016	15,700
Vested	—
Exercised	15,700
Forfeited	—
Outstanding at February 28, 2017	—

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	68,600
Vested (shares):	
Outstanding at February 29, 2016	52,400
Vested	7,800
Exercised	44,000
Forfeited	—
Outstanding at February 28, 2017	16,200

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

2009 Stock Option Plan (No. 6)

Under the 2009 stock option plan (No. 6), stock options were granted to 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	72,000

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

2009 Stock Option Plan (No. 5)

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

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

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

Exercise price:	¥1 ($0.01)
Average stock price on the date the option was exercised:	¥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	69,100
Vested (shares):	
Outstanding at February 29, 2016	37,900
Vested	10,200
Exercised	22,000
Forfeited	—
Outstanding at February 28, 2017	26,100

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	20,100
Vested (shares):	
Outstanding at February 29, 2016	8,400
Vested	3,200
Exercised	3,400
Forfeited	—
Outstanding at February 28, 2017	8,200

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

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	32,000

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

2007 Stock Option Plan (No. 2)

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

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

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

Exercise price:	¥1 ($0.01)
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	16,600

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

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	14,500

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

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.

(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							
For the year ended February 29, 2016	Japan	Europe	Asia/North America	Total	Other	Total	Adjustments (Note 1)	Consolidated total (Note 3)
Net sales to outside customers	¥201,824	¥39,682	¥6,962	¥248,468	¥15,048	¥263,516	¥ —	¥263,516
Intersegment sales or transfers	1,362	1,952	492	3,806	6,300	10,106	(10,106)	—
Total	¥203,186	¥41,634	¥7,454	¥252,274	¥21,348	¥273,622	¥(10,106)	¥263,516
Segment 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:

(1) 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.

(2) 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.

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

3. Segment profit (loss) coincides with the amount of operating profit in the consolidated statement of operations.

	Millions of yen							
	Apparel							
For the year ended February 28, 2017	Japan	Europe	Asia/North America	Total	Other	Total	Adjustments (Note 1)	Consolidated total (Note 3)
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

	Thousands of U.S. dollars							
	Apparel							
For the year ended February 28, 2017	Japan	Europe	Asia/North America	Total	Other	Total	Adjustments (Note 1)	Consolidated total (Note 3)
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:

(1) The adjustment amount for segment profit (loss) of ¥(1,702) million ($(15,122) thousand) includes amortization of goodwill of ¥(2,132) million ($(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.

(2) 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.

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

3. 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

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

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

For the year ended February 28, 2017 — Millions of yen

Japan	Europe	Other	Total
¥195,147	¥29,912	¥19,842	¥244,901

For the year ended February 28, 2017 — Thousands of U.S. dollars

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

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

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

Independent Auditor's Report

Building a better working world

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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