Notes to Consolidated Financial Statements

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

1. Basis of Presentation of the Consolidated Financial Statements

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

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

2. Summary of Significant Accounting Policies

(1) Scope of Consolidation

The Company had 84 subsidiaries as at February 28, 2018 (83 as at February 28, 2017). The accompanying consolidated financial statements include the accounts of the Company and 71 of its subsidiaries (74 for 2017). Major consolidated subsidiaries are listed below (the Company and its consolidated subsidiaries are collectively referred to as the "Companies"):

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

During the year ended February 28, 2018, ONWARD LUXURY GROUP UK Ltd. was newly established, and shares in HORLOGE SAINT BENOIT UK LTD. were acquired; therefore, these companies became consolidated subsidiaries of the Company.

CHARLES & KEITH JAPAN CO., LTD., J. DIRECTION CO., LTD., Candela International Co., Ltd., Dauphin S.a.r.l. and Pretty Yoko Ltd. were liquidated; therefore, these companies were removed from the scope of consolidation.

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

The remaining seven subsidiaries (nine for 2017) were not consolidated because their total assets, net sales, net income and retained earnings were not material individually or in the aggregate compared with those of the consolidated financial statements of the Companies.

(2) Consolidation and Elimination

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

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

(3) Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates are accounted for by the equity method. A total of 25 companies (18 companies for 2017) were accounted for by the equity method for the year ended February 28, 2018.

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

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

(4) Inventories

Inventories held for sale in the ordinary course of business are measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses, determined principally by the specific identification method. Write-downs recorded for the years ended February 28, 2017 and 2018 were ¥10,002 million and ¥10,136 million ($94,398 thousand), respectively.

(5) Investments in Securities

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

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

(6) Derivative Transactions

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

(7) Hedge Accounting

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

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

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

(8) Property, Plant and Equipment

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

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

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

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

(9) Intangible Assets and Long-Term Prepaid Expenses

Intangible assets and long-term prepaid expenses are amortized by the straight-line method. Software costs for internal use are amortized over their expected useful lives (five to 10 years) by the straight-line method.

(10) Income Taxes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. Financial Instruments

1. Matters pertaining to the status of financial instruments

(1) Policy on financial instruments

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

(2) Financial instruments and risks

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

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

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

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

(3) Risk management for financial instruments

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

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

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

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

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

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

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

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

(4) Supplementary explanation of fair values of financial instruments

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

2. Matters related to fair values of financial instruments

The following are the consolidated balance sheet amounts and fair values and differences between them as of February 28, 2017 and 2018.

	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	—

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

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

Notes:

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

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

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

(c) Investments in securities

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

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

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

(g) Long-term loans payable

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

(h) Derivative transactions

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

2. Book values of financial instruments deemed extremely difficult to determine their fair values as of February 28, 2017 and 2018 are as follows:

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

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

3. The redemption schedules for monetary receivables and marketable securities with maturities as of February 28, 2017 and 2018 are as follows:

	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	¥—	¥—	¥—

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

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

4. Expected repayment amounts of long-term loans payable subsequent to the balance sheet date

See Note 13. “Short-Term Loans Payable and Long-Term Loans Payable.”

4. Investments in Securities

(1) Information as of and for the Year Ended February 28, 2017

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

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

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

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

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

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

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

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

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

Investments in securities whose fair values were readily determinable at February 28, 2018 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities with unrealized gain:						
Equity securities	¥17,746	¥13,007	¥4,739	$165,275	$121,140	$44,135
Other	3	1	2	27	12	15
Subtotal	17,749	13,008	4,741	165,302	121,152	44,150
Securities with unrealized loss:						
Equity securities	3,044	3,728	(684)	28,350	34,722	(6,372)
Other	—	—	—	—	—	—
Subtotal	3,044	3,728	(684)	28,350	34,722	(6,372)
Total	¥20,793	¥16,736	¥4,057	$193,652	$155,874	$37,778

Note: Non-marketable equity securities of ¥336 million ($3,131 thousand) are not included in the above table because there were no quoted market prices available and it is extremely difficult to determine the fair value.

(b) Available-for-sale securities sold during the year ended February 28, 2018

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

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

5. Derivative Transactions

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

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

	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

(2) Derivative transactions to which hedge accounting was applied

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

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

	Thousands of U.S. dollars		
February 28, 2018	Hedged item	Contract or notional amount	Fair value
Forward exchange contracts:			
To buy foreign currency:			
U.S. dollar	Accounts payable	$39,427	$(948)
Euro	Accounts payable	20,476	24
Pound	Accounts payable	159	(3)
Chinese yuan	Accounts payable	1,308	(36)
		$61,370	$(963)

6. Impairment Loss on Fixed Assets

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

February 28, 2017

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

February 28, 2018

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

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

The impairment loss on long-lived assets for the years ended February 28, 2017 and 2018 consisted of the following:

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

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

The recoverable amount of these assets is based on their net selling price or their value in use. The net selling price is estimated by using their estimated disposal price. The value in use is calculated by discounting the future cash flows at discount rates of 5.0% and 5.3% for the years ended February 28, 2017 and 2018, respectively.

7. Business Restructuring Expenses

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

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

8. Retirement Plan and Retirement Benefits

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

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

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

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

A. Defined benefit plans

(i) Changes in projected benefit obligations

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

(ii) Changes in plan assets

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

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

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

(iv) Net periodic pension expenses and their breakdown

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

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

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

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Prior service costs	¥ (51)	¥ (47)	$ (437)
Actuarial differences	1,982	764	7,113
Total	¥1,931	¥717	$6,676

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

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

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Unrecognized prior service costs	¥215	¥ 168	$ 1,569
Unrecognized actuarial differences	276	1,040	9,684
Total	¥491	¥1,208	$11,253

(vii) Plan assets

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

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

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

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

(viii) Basis for calculation of actuarial assumptions

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

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

9. Notes to Consolidated Statements of Comprehensive Income

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

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

10. Notes to Consolidated Statements of Cash Flows

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

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

11. Lease Transactions

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

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

12. Income Taxes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

14. Shareholders' Equity

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

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

Cash dividends charged to retained earnings for the years ended February 28, 2017 and 2018 represent dividends paid out during those years. The amount available for dividends is based on the amount recorded in the Company's non-consolidated books of account in accordance with the Companies Act.

Dividends to be paid after the balance sheet date, which were approved by the General Meeting of Shareholders held on May 24, 2018, are as follows:

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

15. Per Share Information

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

The basis for the calculation of basic and diluted earnings per share for the years ended February 28, 2017 and 2018 is as follows:

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

16. Related-Party Transactions

Year Ended February 28, 2017

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

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

Year Ended February 28, 2018

The Company leased land from Takeshi Hirouchi, Representative Director and Chairman of ONWARD HOLDINGS Co., Ltd., during the fiscal year, and the rental fee was ¥7 million ($67 thousand). Also, Mr. Hirouchi paid a rental fee of ¥16 million ($152 thousand) to the Company for a house. The rental fees were determined by the average market prices.

Onward Global Fashion Co., Ltd., a consolidated subsidiary of the Company, sold goods to BOLS 1987 Co., Ltd., over which Hitoshi Futamura, Representative Director, President of Onward Global Fashion Co., Ltd., has 100% of voting rights directly, during the fiscal year. The transaction amount was ¥57 million ($531 thousand), and the balance of relevant accounts receivable as of February 28, 2018 was ¥9 million ($83 thousand). Prices and other terms and conditions were determined by reference to market prices or general terms and conditions.

17. Stock Options

The cost recognized for the stock options for the years ended February 28, 2017 and 2018 was nil.

2014 Stock Option Plan (No. 16)

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

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

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

Exercise price:	¥1 ($0.01)
Fair value at the grant date:	¥526 ($4.90)

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

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

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

2014 Stock Option Plan (No. 15)

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

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

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

Exercise price:	¥1 ($0.01)
Fair value at the grant date:	¥466 ($4.34)

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

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

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

2013 Stock Option Plan (No. 14)

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

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

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

Exercise price:	¥1 ($0.01)
Fair value at the grant date:	¥629 ($5.86)

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

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

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

2013 Stock Option Plan (No. 13)

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

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

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

Exercise price:	¥1 ($0.01)
Fair value at the grant date:	¥572 ($5.33)

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

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

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

2012 Stock Option Plan (No. 12)

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

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

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

Exercise price:	¥1 ($0.01)
Fair value at the grant date:	¥458 ($4.27)

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

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

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

2012 Stock Option Plan (No. 11)

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

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

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

Exercise price:	¥1 ($0.01)
Average stock price on the date the option was exercised:	¥878 ($8.18)
Fair value at the grant date:	¥444 ($4.14)

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

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

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

2011 Stock Option Plan (No. 10)

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

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

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

Exercise price:	¥1 ($0.01)
Average stock price on the date the option was exercised:	¥927 ($8.63)
Fair value at the grant date:	¥510 ($4.75)

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

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

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

2011 Stock Option Plan (No. 9)

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

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

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

Exercise price:	¥1 ($0.01)
Average stock price on the date the option was exercised:	¥904 ($8.42)
Fair value at the grant date:	¥444 ($4.14)

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

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

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

2010 Stock Option Plan (No. 8)

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

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

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

Exercise price:	¥1 ($0.01)
Fair value at the grant date:	¥613 ($5.71)

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

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

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

2010 Stock Option Plan (No. 7)

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

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

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

Exercise price:	¥1 ($0.01)
Average stock price on the date the option was exercised:	¥896 ($8.34)
Fair value at the grant date:	¥475 ($4.42)

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

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

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.

2009 Stock Option Plan (No. 6)

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

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

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

Exercise price:	¥1 ($0.01)
Fair value at the grant date:	¥432 ($4.02)

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

	2009 stock option plan (No. 6)
Non-vested (shares):	
Outstanding at February 28, 2017	72,000
Granted	—
Forfeited	—
Vested	—
Outstanding at February 28, 2018	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:	¥829 ($7.72)
Fair value at the grant date:	¥362 ($3.37)

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

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

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

2008 Stock Option Plan (No. 4)

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

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

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

Exercise price:	¥1 ($0.01)
Average stock price on the date the option was exercised:	¥790 ($7.36)
Fair value at the grant date:	¥905 ($8.43)

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

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

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.

2008 Stock Option Plan (No. 3)

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

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

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

Exercise price:	¥1 ($0.01)
Fair value at the grant date:	¥944 ($8.79)

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

	2008 stock option plan (No. 3)
Non-vested (shares):	
Outstanding at February 28, 2017	32,000
Granted	—
Forfeited	—
Vested	—
Outstanding at February 28, 2018	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 ($11.96)

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

	2007 stock option plan (No. 2)
Non-vested (shares):	
Outstanding at February 28, 2017	16,600
Granted	—
Forfeited	—
Vested	—
Outstanding at February 28, 2018	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 ($14.35)

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

	2006 stock option plan (No. 1)
Non-vested (shares):	
Outstanding at February 28, 2017	14,500
Granted	—
Forfeited	—
Vested	—
Outstanding at February 28, 2018	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 sports facilities and resort facilities businesses.

(2) Method of calculating net sales, profit or loss, assets, liabilities and other items by reportable segment
Accounting methods for reportable segments are mostly the same as the accounting methods described in "2. Summary of Significant Accounting Policies."

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

(3) Information on net sales, profit or loss, assets, liabilities and other items by reportable segment for the years ended February 28, 2017 and 2018 is as follows:

	Millions of yen							
	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

Notes: 1. Adjustments consist of the following:

(1) The adjustment amount for segment profit (loss) of ¥(1,702) million includes amortization of goodwill of ¥(2,132) million, elimination of intersegment transactions of ¥4,263 million, and corporate expenses not allocated to reportable segments of ¥(3,833) million. Corporate expenses are mainly general administrative expenses that are not attributable to reportable segments.

(2) The adjustment amount for segment assets of ¥68,789 million includes the unamortized balance of goodwill of ¥18,523 million, elimination of intersegment transactions of ¥(123,515) million, and corporate assets not allocated to reportable segments of ¥173,781 million. Corporate assets are mainly assets held by the Company, a pure holding company.

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

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

Notes: 1. Adjustments consist of the following:

(1) The adjustment amount for segment profit (loss) of ¥(2,393) million ($(22,288) thousand) includes amortization of goodwill of ¥(2,563) million ($(23,874) thousand), elimination of intersegment transactions of ¥4,546 million ($42,344 thousand), and corporate expenses not allocated to reportable segments of ¥(4,376) million ($(40,758) thousand). Corporate expenses are mainly general administrative expenses that are not attributable to reportable segments.

(2) The adjustment amount for segment assets of ¥65,572 million ($610,714 thousand) includes the unamortized balance of goodwill of ¥16,228 million ($151,142 thousand), elimination of intersegment transactions of ¥(121,941) million ($(1,135,704) thousand), and corporate assets not allocated to reportable segments of ¥171,285 million ($1,595,276 thousand). Corporate assets are mainly assets held by the Company, a pure holding company.

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 28, 2017 and 2018 is as follows:

(a) Sales

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, 2018 — Millions of yen

Japan	Europe	Other	Total
190,497	¥33,394	¥19,185	¥243,075

For the year ended February 28, 2018 — Thousands of U.S. dollars

Japan	Europe	Other	Total
$1,774,206	$311,016	$178,682	$2,263,904

(b) Property, plant and equipment

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

Japan	Europe	Other	Total
¥73,940	¥7,618	¥10,711	¥92,269

For the year ended February 28, 2018 — Millions of yen

Japan	Europe	Other	Total
¥75,348	¥8,168	¥10,198	¥93,714

For the year ended February 28, 2018 — Thousands of U.S. dollars

Japan	Europe	Other	Total
$701,761	$76,072	$94,983	$872,817

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

Millions of yen

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

Millions of yen

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

Thousands of U.S. dollars

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

Independent Auditor's Report

EY
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Independent Auditor's Report

The Board of Directors
ONWARD HOLDINGS Co., Ltd.

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ONWARD HOLDINGS Co., Ltd. and its consolidated subsidiaries as at February 28, 2018, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

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

Ernst & Young ShinNihon LLC

May 25, 2018

A member firm of Ernst & Young Global Limited