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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

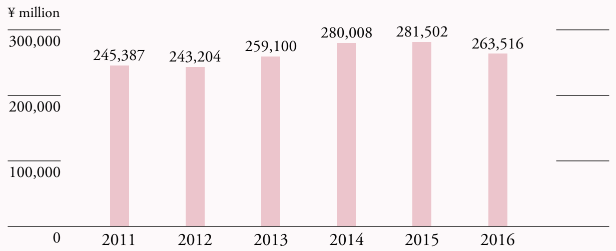
ONWARD HOLDINGS Co., Ltd. and Consolidated Subsidiaries
Years ended February 28 and 29

	Millions of yen						Thousands of U.S. dollars*1
	2011	2012	2013	2014	2015	2016	2016
FOR THE YEAR							
Net sales	¥245,387	¥243,204	¥259,100	¥280,008	¥281,502	¥263,516	$2,319,275
Cost of sales	128,877	127,382	133,983	149,270	152,438	144,063	1,267,940
Selling, general and administrative expenses	106,896	104,160	113,298	120,538	123,332	115,675	1,018,084
Operating income	9,614	11,663	11,819	10,200	5,732	3,778	33,251
Ordinary income	10,497	13,330	13,405	12,211	7,162	5,504	48,450
Income taxes, current	5,555	7,528	7,398	3,112	5,033	8,680	76,395
Net income	2,723	3,529	4,503	4,659	4,204	4,278	37,652
CASH FLOWS							
Cash flows from operating activities	11,207	13,181	10,138	13,362	16,491	3,632	31,971
Cash flows from investing activities	(5,152)	(1,962)	(10,683)	(14,301)	(15,657)	1,783	15,687
Cash flows from financing activities	(9,272)	(7,449)	(7,848)	2,122	757	(6,357)	(55,951)
Free cash flow*2	6,055	11,219	(545)	(939)	834	5,415	47,658
Capital expenditures	5,405	6,230	8,949	16,750	26,884	15,955	140,425
Depreciation and amortization	5,642	5,478	5,721	6,801	7,219	7,799	68,645
AT YEAR-END							
Cash and deposits	30,939	33,192	24,677	27,376	31,123	29,407	258,822
Total current assets	95,545	98,895	100,320	110,349	117,052	121,469	1,069,079
Total property, plant and equipment	86,623	82,988	86,862	102,879	109,658	106,695	939,052
Total assets	281,643	276,939	286,779	313,431	340,854	313,454	2,758,794
Total current liabilities	82,677	84,091	100,740	101,010	109,619	106,110	933,901
Total shareholders' equity	174,454	176,320	177,142	178,078	179,880	176,264	1,551,346
Total net assets	158,745	157,303	165,372	175,029	185,315	172,337	1,516,788

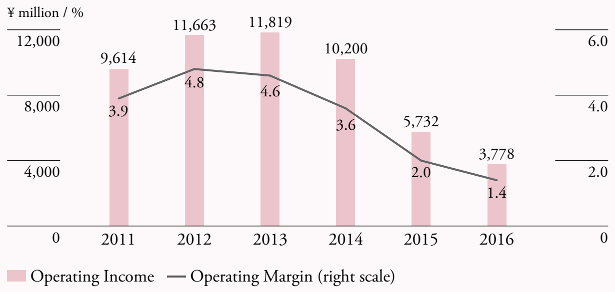
	Yen						U.S. dollars*1
PER SHARE INFORMATION							
Net income (EPS)	¥ 17.38	¥ 22.52	¥ 28.71	¥ 29.69	¥ 26.78	¥ 28.27	$0.25
Net assets	1,002.34	995.11	1,043.64	1,102.99	1,166.89	1,101.21	9.69
Cash dividends	24.00	24.00	24.00	24.00	24.00	24.00	0.21
Payout ratio (%)	138.1	106.6	83.6	80.8	89.6	86.5	
RATIOS							
ROE (%)	1.7	2.3	2.8	2.8	2.4	2.4	—
ROA (%)	1.0	1.3	1.6	1.6	1.3	1.3	—
Operating margin (%)	3.9	4.8	4.6	3.6	2.0	1.4	—
Gross profit margin (%)	47.5	47.6	48.3	46.7	45.8	45.3	—
SG&A expenses / Net sales (%)	43.6	42.8	43.7	43.0	43.8	43.9	—
Shareholders' equity ratio (%)	55.8	56.3	57.1	55.2	53.8	54.2	—
OTHER INFORMATION							
Number of full-time employees	3,910	3,993	5,208	5,224	4,973	5,119	

*1. Yen amounts have been translated, for convenience only, at ¥113.62=US$1, the approximate exchange rate on February 29, 2016.
*2. Free cash flow = Cash flows from operating activities + Cash flows from investing activities

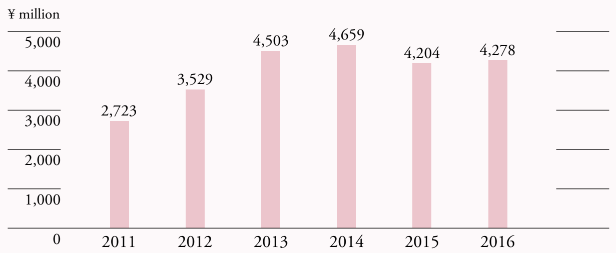
Net Sales



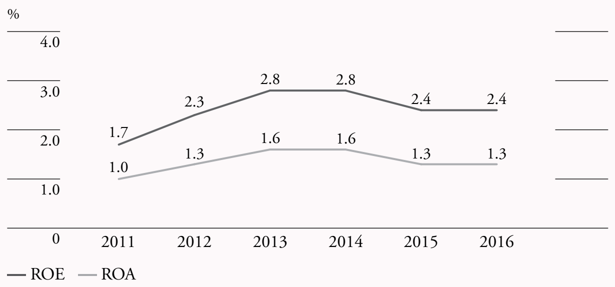
Operating Income and Operating Margin



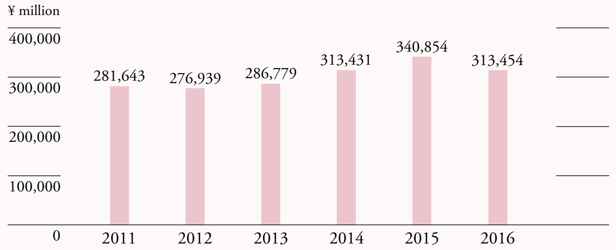
Net Income



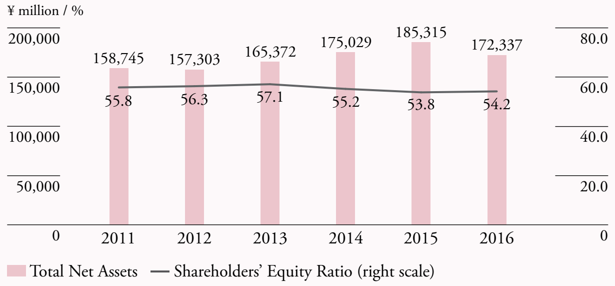
ROE and ROA



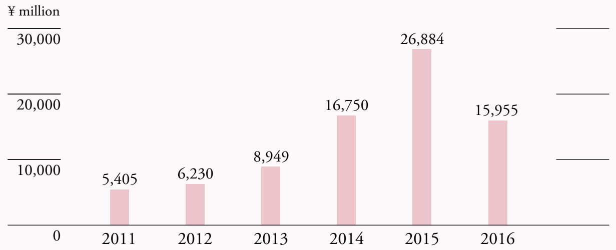
Total Assets



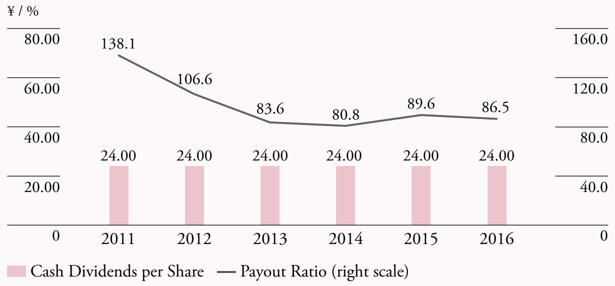
Total Net Assets and Shareholders' Equity Ratio



Capital Expenditures



Cash Dividends per Share and Payout Ratio



Management's Discussion and Analysis

Overview of Operating Results

In fiscal year 2016, ended February 29, 2016, the domestic economy experienced a gentle recovery supported by economic stimulus measures instituted by the Japanese government and monetary easing policies implemented by the Bank of Japan. Overseas, however, conditions were sluggish in China and other economies, and geopolitical risks plagued the Middle East and Europe. An overall sense of opaqueness lingered as a result.

In the domestic apparel and fashion industries, luxury items and demand from inbound tourists supported performance but overall store sales faced difficult conditions, owing to frugal consumer behavior and the adverse impact of a warm winter on sales of winter clothing.

In this operating environment, the Onward Group proceeded with the reinforcement of its core businesses as well as growth businesses. We also continued to be proactive in the development of new businesses for future growth.

Performance suffered from lower March sales, which fell from the previous year when sales were buoyed by the demand rush preceding the consumption tax hike, as well as the adverse impact of the warm winter beginning in November, which placed downward pressure on sales. We were unable to counterbalance the heavy weight of these negative factors despite our efforts to bolster promotions for mainstay brands and to deploy our Omni-channel retailing strategy, which aims to improve customer satisfaction by integrating the management of inventories for brick-and-mortar stores and directly managed e-commerce website Onward Crosset.

Overseas, attempts to improve earnings in the European business were delayed, leading to poor performance. Meanwhile, earnings grew in our North American and Asian businesses.

Net Sales

Sales in the Apparel Business decreased 6.0% year on year, to ¥248,468 million, while sales in the Other Business declined 12.5%, to ¥15,048 million. As a result, consolidated net sales were down 6.4% compared with the previous fiscal year, to ¥263,516 million.

Gross Profit

Cost of sales decreased 5.5%, to ¥144,063 million, and gross profit was ¥119,453 million, down ¥9,611 million compared with the previous fiscal year.

The gross profit margin declined 0.5 percentage points, from 45.8% in fiscal year 2015 to 45.3% in fiscal year 2016. This outcome was primarily a result of the decrease in March sales due to the rebound from high figures in the previous year, which were buoyed by the demand rush preceding the consumption tax hike, and downward pressure placed on sales of full-price items by the warm winter that began in November.

Operating Income

Selling, general and administrative (SG&A) expenses decreased 6.2% year on year, to ¥115,675 million. The ratio of SG&A expenses to net sales was 43.9%, a 0.1-percentage-point increase from 43.8% in the previous fiscal year. These results were largely attributable to higher depreciation and amortization stemming from reforms to IT systems. In addition, the operating margin contracted, from 2.0% to 1.4%, following the decline in the gross profit margin. As a result, operating income decreased ¥1,954 million, to ¥3,778 million.

Other Income (Expenses)

Other income, net, amounted to ¥3,353 million, compared with ¥3,663 million in the fiscal previous year. Other expenses included impairment loss on fixed assets of ¥14,051 million, up ¥12,391 million year on year. However, expenses were offset by other income, including gain on sale of investments in securities, net, of ¥8,812 million, an increase of ¥3,449 million; gain on sales or disposal of fixed assets, net, of ¥5,393 million, up ¥4,953 million; and gain on sale of investments in unconsolidated subsidiaries of ¥1,929 million.

Income before Income Taxes and Minority Interests and Net Income

Income before income taxes and minority interests was ¥7,131 million, a decrease of ¥2,264 million, or 24.1%, year on year. Income taxes dropped ¥2,304 million, or 44.5%, to ¥2,868 million, from ¥5,172 million in the previous fiscal year. Due to these factors, net income was ¥4,278 million, an increase of ¥74 million, or 1.8%, from the previous fiscal year.

Segment Information

Apparel Business

In fiscal year 2016, sales in the Apparel Business segment declined 6.0% year on year, to ¥248,468 million, while operating income was down 36.8%, to ¥5,558 million.

Domestic Business

At core operating subsidiary Onward Kashiyama, the e-commerce business posted strong performance in line with plans and global brands, such as JOSEPH and TOCCA, continued to sell well. However, costs rose in conjunction with yen depreciation and clothing sales struggled in department stores and other major distribution channels. As a result, both sales and profits were down.

Overseas Business

In Europe, we strengthened operating foundations and secured stable earnings for production operations, but performance suffered in brand businesses due to delays in our response to demand fluctuations that resulted from external factors. We were able to improve performance in North America and Asia, however, through streamlining business structures and store networks.

Other Business

In fiscal year 2016, sales in the Other Business segment decreased 12.5% compared with the previous fiscal year, to ¥15,048 million, and operating income increased 61.5%, to ¥629 million.

In our service-related businesses, selectively concentrated efforts led to reduced sales but higher profits. Our resort business performed favorably, also posting higher profits despite lower sales.

Outlook for the Fiscal Year Ending February 28, 2017

For fiscal year 2017, ending February 28, 2017, we at the Onward Group forecast that consolidated net sales will decrease 3.6%, to ¥254,000 million, while operating income will grow 19.1% year on year, to ¥4,500 million.

Amid the continuation of the quantitative and qualitative easing policies of the Bank of Japan, the domestic economy will not be able to cast off the shackles of deflation. One factor behind this outlook is a strong sense of wariness about the direction of the global economy, itself a product of the slowdown in the Chinese economy.

In the domestic apparel and fashion industries, progress in globalization and the trend toward selection and concentration of business activities will serve as a backdrop for ongoing difficult conditions characterized by fierce competition. In this operating environment, the Onward Group will seek to improve product value and enhance customer service in its core businesses with the aim of steadily improving profitability. At the same time, we will develop new business fields with a promising outlook for growth.

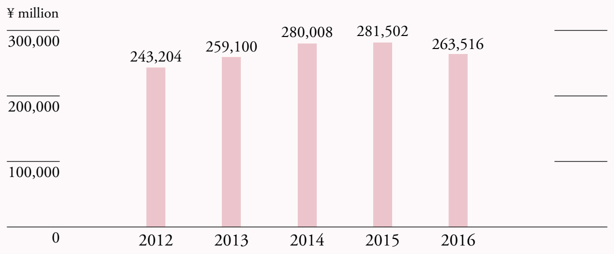
Domestic Business

In our domestic operations, we will focus on improving the margins of existing core operations at Onward Kashiyama and other important subsidiaries and on expanding operations in new business fields.

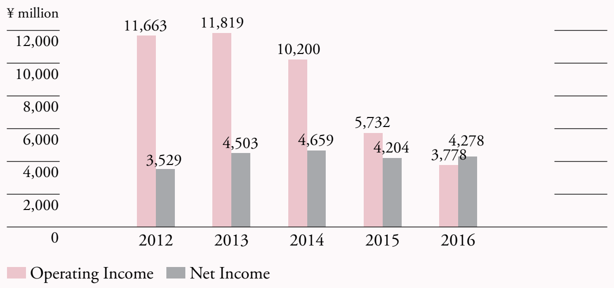
Overseas Business

Overseas, we will heighten our growth potential by utilizing our manufacturing platform in Europe to globalize our operations while strategically expanding our Asian business.

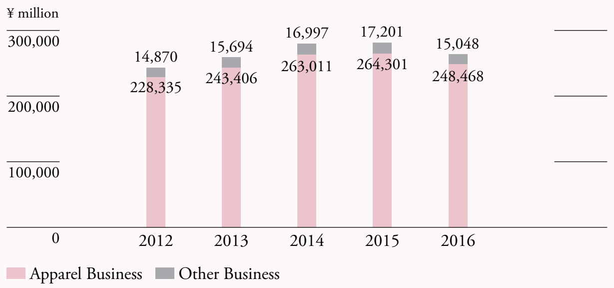
Net Sales



Operating Income and Net Income



Segment Sales



Financial Position

Assets
As of February 29, 2016, total assets decreased ¥27,400 million from the previous fiscal year-end, to ¥313,454 million. Total current assets rose ¥4,417 million, mainly from increases in deferred tax assets and other current assets. Fixed assets contracted ¥31,817 million, largely reflecting decreases in property, plant and equipment and goodwill.

Liabilities
Total liabilities as of February 29, 2016, were down ¥14,422 million from the previous fiscal year-end, to ¥141,117 million. Total current liabilities declined ¥3,509 million, mainly attributable to a decrease in accounts and notes payable. Total long-term liabilities declined ¥10,913 million, largely due to a decrease in long-term loans payable.

Net Assets
As of February 29, 2016, total net assets were down ¥12,978 million from the previous fiscal year-end, to ¥172,337 million. Total shareholders' equity decreased ¥3,616 million due to lower retained earnings. Total accumulated other comprehensive income declined ¥9,919 million, mainly because of a decrease in net unrealized gain on available-for-sale securities.

Cash Flows

Cash Flows from Operating Activities
Net cash provided by operating activities for fiscal year 2016 was ¥3,632 million (¥16,491 million in the previous fiscal year), mainly from income before income taxes and minority interests, a decrease in trade payables, and income taxes paid.

Cash Flows from Investing Activities
Net cash provided by investing activities for fiscal year 2016 totaled ¥1,783 million (compared with net cash used in investing activities of ¥15,657 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 2016 amounted to ¥6,357 million (compared with net cash provided by financing activities of ¥757 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 29, 2016, moved down ¥1,488 million, to ¥28,330 million.

Capital Expenditures

We at the Onward Group undertake capital expenditures on a continuous basis to upgrade and expand our planning, production, sales, and logistics structures and systems. Our Group's capital expenditures are the wellspring that enables us to address the diverse needs of our customers. In fiscal year 2016, our capital expenditures totaled ¥15,955 million. The details of expenditures by segment are as follows.

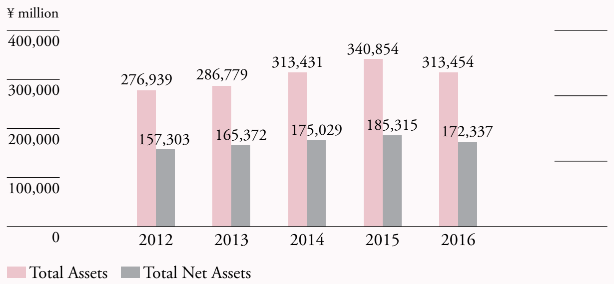
In the Apparel Business segment, capital expenditures amounted to ¥14,575 million, the majority of which was channeled to sales floors at department stores and directly managed stores with the aim of strengthening the Group's sales structure and systems. In the Other Business segment, we invested ¥741 million to upgrade commercial facilities and enhance operational efficiency.

Profit Distribution Policy

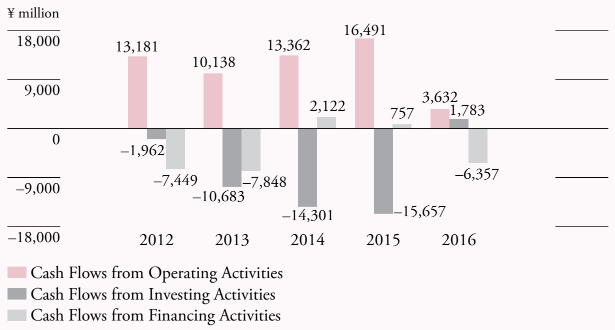
At Onward Holdings, we recognize that the distribution of profits to shareholders is one of our top priorities. Our basic policy is to distribute regular and stable dividends to shareholders based on our business performance, and we target a dividend payout ratio of at least 35%. For fiscal year 2016, we decided to distribute a cash dividend of ¥24.00 per share.

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

Total Assets and Total Net Assets



Cash Flows



Operating Risks

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

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

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

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

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

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

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

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

Moreover, we at the Onward Group are actively engaged in licensed brand business activities. In undertaking these activities, we as a Group secure rights to use intellectual property owned by our overseas partners. For unexpected reasons, the relevant contracts may be 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 28, 2015 and February 29, 2016

	Millions of yen		Thousands of U.S. dollars (Note 2. (22))
ASSETS	2015	2016	2016
Current assets:			
Cash and deposits (Notes 3 and 9)	¥ 31,123	¥ 29,407	$ 258,822
Accounts and notes receivable (Note 3)	30,793	27,819	244,838
Inventories (Note 2. (4))	43,862	42,770	376,433
Deferred tax assets (Note 11)	4,066	4,705	41,406
Other current assets	8,132	17,603	154,933
Less: Allowance for bad debt	(924)	(835)	(7,353)
Total current assets	117,052	121,469	1,069,079
Property, plant and equipment:			
Buildings and structures	82,220	82,715	727,997
Leased assets	8,804	8,020	70,589
Other depreciable property	35,747	34,188	300,896
Less: Accumulated depreciation	(79,148)	(76,266)	(671,239)
	47,623	48,657	428,243
Land (Note 12)	62,035	58,038	510,809
Total property, plant and equipment	109,658	106,695	939,052
Intangible assets, net:			
Goodwill	26,569	15,652	137,758
Other	7,487	7,785	68,516
Total intangible assets, net	34,056	23,437	206,274
Investments and other assets:			
Investments in securities (Notes 3 and 4)	54,162	33,922	298,560
Long-term loans receivable	2,294	2,276	20,035
Long-term prepaid expenses	1,119	661	5,816
Net defined benefit asset (Note 7)	3,267	1,417	12,473
Deferred tax assets (Note 11)	1,168	11,166	98,277
Other investments	18,726	13,086	115,171
Less: Allowance for bad debt	(648)	(675)	(5,943)
Total investments and other assets	80,088	61,853	544,389
Total assets	¥340,854	¥313,454	$2,758,794

	Millions of yen		Thousands of U.S. dollars (Note 2. (22))
LIABILITIES AND NET ASSETS	2015	2016	2016
Current liabilities:			
Accounts and notes payable (Note 3)	¥ 40,341	¥ 34,971	$ 307,786
Short-term loans payable (Notes 3 and 13)	42,404	45,326	398,930
Current portion of long-term loans payable (Notes 3 and 13)	3,250	3,828	33,696
Accrued income taxes	3,178	5,911	52,026
Accrued bonuses to employees	1,155	1,002	8,816
Accrued bonuses to directors	166	185	1,626
Allowance for sales returns	405	303	2,669
Provision for point program	331	436	3,833
Other current liabilities (Notes 11 and 13)	18,389	14,148	124,519
Total current liabilities	109,619	106,110	933,901
Long-term liabilities:			
Long-term loans payable (Notes 3 and 13)	20,979	16,026	141,050
Deferred tax liabilities—revaluation of land (Notes 11 and 12)	3,209	2,818	24,802
Net defined benefit liability (Note 7)	4,126	4,180	36,790
Lease obligations (Note 13)	5,892	5,195	45,720
Accrued retirement benefits for directors and corporate auditors	142	150	1,323
Other long-term liabilities (Note 11)	11,572	6,638	58,420
Total long-term liabilities	45,920	35,007	308,105
Total liabilities	155,539	141,117	1,242,006
Net assets:			
Shareholders' equity (Note 14):			
Common stock:			
Authorized—400,000,000 shares			
Issued—172,921,669 shares and 167,921,669 shares at February 28, 2015 and February 29, 2016, respectively	30,080	30,080	264,739
Capital surplus	50,043	50,043	440,444
Retained earnings	122,590	114,181	1,004,939
Less: Treasury stock, at cost, 15,846,086 shares and 13,767,509 shares at February 28, 2015 and February 29, 2016, respectively	(22,833)	(18,040)	(158,776)
Total shareholders' equity	179,880	176,264	1,551,346
Accumulated other comprehensive income:			
Net unrealized gain on available-for-sale securities (Note 4)	11,207	1,118	9,841
Deferred gain (loss) on hedging instruments	147	(303)	(2,666)
Net revaluation loss on land (Note 12)	(13,871)	(10,126)	(89,120)
Foreign currency translation adjustments	5,139	3,777	33,245
Remeasurements of defined benefit plans (Note 7)	788	(975)	(8,584)
Total accumulated other comprehensive income	3,410	(6,509)	(57,284)
Stock acquisition rights	871	844	7,428
Minority interests in consolidated subsidiaries	1,154	1,738	15,298
Total net assets	185,315	172,337	1,516,788
Total liabilities and net assets	¥340,854	¥313,454	$2,758,794

	Yen		U.S. dollars (Note 2. (22))
Per share:			
Net assets per share	¥1,166.89	¥1,101.21	$9.69

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

ONWARD HOLDINGS Co., Ltd. and Consolidated Subsidiaries
February 28, 2015 and February 29, 2016

	Millions of yen		Thousands of U.S. dollars (Note 2. (22))
	2015	2016	2016
Net sales	¥281,502	¥263,516	$2,319,275
Cost of sales	152,438	144,063	1,267,940
Gross profit	129,064	119,453	1,051,335
Selling, general and administrative expenses	123,332	115,675	1,018,084
Operating income	5,732	3,778	33,251
Other income (expenses):			
Interest income	97	108	955
Dividend income	463	464	4,087
Land and house rent received	890	1,296	11,407
Interest expenses	(583)	(546)	(4,807)
Equity in earnings (losses) of investees	(147)	43	376
Foreign currency exchange gain	397	49	432
Rent expenses	(215)	(734)	(6,464)
Gain on sale of investments in securities, net (Note 4)	5,363	8,812	77,560
Gain on sales or disposal of fixed assets, net	440	5,393	47,463
Gain on sale of investments in unconsolidated subsidiaries	—	1,929	16,981
Impairment loss on fixed assets (Note 6)	(1,660)	(14,051)	(123,671)
Special retirement expenses	(1,901)	—	—
Other, net	519	590	5,190
Income before income taxes and minority interests	9,395	7,131	62,760
Income taxes (Note 11):			
Current	5,033	8,680	76,395
Deferred	139	(5,812)	(51,153)
Income before minority interests	4,223	4,263	37,518
Minority interests in income of consolidated subsidiaries	(19)	15	134
Net income	¥ 4,204	¥ 4,278	$ 37,652

	Yen		U.S. dollars (Note 2. (22))
Per share (Notes 14, 15 and 17):			
Basic net income per share	¥26.78	¥28.27	$0.25
Diluted net income per share	26.48	27.96	0.25
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 28, 2015 and February 29, 2016

	Millions of yen		Thousands of U.S. dollars (Note 2. (22))
	2015	2016	2016
Income before minority interests	¥ 4,223	¥ 4,263	$ 37,518
Other comprehensive income:			
Net unrealized gain (loss) on available-for-sale securities	6,096	(9,875)	(86,915)
Deferred gain (loss) on hedging instruments	180	(450)	(3,961)
Net revaluation gain on land	—	294	2,583
Foreign currency translation adjustments	2,546	(1,442)	(12,688)
Remeasurements of defined benefit plans, net of tax	—	(1,764)	(15,523)
Share of other comprehensive income of associates accounted for using the equity method	225	(155)	(1,360)
Total other comprehensive income (Note 8)	9,047	(13,392)	(117,864)
Comprehensive income	¥13,270	¥ (9,129)	$ (80,346)
Comprehensive income attributable to:			
Owners of the parent	¥13,176	¥ (9,093)	$ (80,027)
Minority interests	94	(36)	(319)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

ONWARD HOLDINGS Co., Ltd. and Consolidated Subsidiaries
February 28, 2015 and February 29, 2016

	Number of shares of common stock (thousands)	Millions of yen — Shareholders' equity (Note 14) Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance as at March 1, 2014	172,922	¥30,080	¥50,043	¥121,008	¥(23,053)	¥178,078
Cash dividends	—	—	—	(3,766)	—	(3,766)
Net income	—	—	—	4,204	—	4,204
Purchase of treasury stock	—	—	—	—	(4)	(4)
Reissuance of treasury stock	—	—	—	(141)	224	83
Reversal of revaluation of land	—	—	—	1,368	—	1,368
Change of scope of consolidation	—	—	—	(83)	—	(83)
Net changes other than shareholders' equity	—	—	—	—	—	—
Total changes during the year	—	—	—	1,582	220	1,802
Balance as at February 28, 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)
Net income	—	—	—	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

	Thousands of U.S. dollars (Note 2. (22)) — Shareholders' equity (Note 14) Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance as at February 28, 2015	$264,739	$440,444	$1,078,943	$(200,958)	$1,583,168
Cumulative effects of changes in accounting policies	—	—	2,511	—	2,511
Restated balance	264,739	440,444	1,081,454	(200,958)	1,585,679
Cash dividends	—	—	(33,179)	—	(33,179)
Net income	—	—	37,652	—	37,652
Purchase of treasury stock	—	—	—	(20,189)	(20,189)
Reissuance of treasury stock	—	—	(730)	1,119	389
Retirement of treasury stock	—	—	(61,252)	61,252	—
Reversal of revaluation of land	—	—	(19,006)	—	(19,006)
Net changes other than shareholders' equity	—	—	—	—	—
Total changes during the year	—	—	(76,515)	42,182	(34,333)
Balance as at February 29, 2016	$264,739	$440,444	$1,004,939	$(158,776)	$1,551,346

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 (Note 12)	Foreign currency translation adjustments	Remeasurements of defined benefit plans (Note 7)	Total	Stock acquisition rights	Minority interests in consolidated subsidiaries	Total net assets
Balance as at March 1, 2014	¥ 5,005	¥ (33)	¥(12,503)	¥ 2,550	¥ —	¥(4,981)	¥823	¥1,109	¥175,029
Cash dividends	—	—	—	—	—	—	—	—	(3,766)
Net income	—	—	—	—	—	—	—	—	4,204
Purchase of treasury stock	—	—	—	—	—	—	—	—	(4)
Reissuance of treasury stock	—	—	—	—	—	—	—	—	83
Reversal of revaluation of land	—	—	—	—	—	—	—	—	1,368
Change of scope of consolidation	—	—	—	—	—	—	—	—	(83)
Net changes other than shareholders' equity	6,202	180	(1,368)	2,589	788	8,391	48	45	8,484
Total changes during the year	6,202	180	(1,368)	2,589	788	8,391	48	45	10,286
Balance as at February 28, 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)
Net income	—	—	—	—	—	—	—	—	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

	Thousands of U.S. dollars (Note 2. (22)) — 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 (Note 12)	Foreign currency translation adjustments	Remeasurements of defined benefit plans (Note 7)	Total	Stock acquisition rights	Minority interests in consolidated subsidiaries	Total net assets
Balance as at February 28, 2015	$ 98,634	$ 1,295	$(122,083)	$ 45,231	$ 6,939	$ 30,016	$7,669	$10,155	$1,631,008
Cumulative effects of changes in accounting policies	—	—	—	—	—	—	—	—	2,511
Restated balance	98,634	1,295	(122,083)	45,231	6,939	30,016	7,669	10,155	1,633,519
Cash dividends	—	—	—	—	—	—	—	—	(33,179)
Net income	—	—	—	—	—	—	—	—	37,652
Purchase of treasury stock	—	—	—	—	—	—	—	—	(20,189)
Reissuance of treasury stock	—	—	—	—	—	—	—	—	389
Retirement of treasury stock	—	—	—	—	—	—	—	—	—
Reversal of revaluation of land	—	—	—	—	—	—	—	—	(19,006)
Net changes other than shareholders' equity	(88,793)	(3,961)	32,963	(11,986)	(15,523)	(87,300)	(241)	5,143	(82,398)
Total changes during the year	(88,793)	(3,961)	32,963	(11,986)	(15,523)	(87,300)	(241)	5,143	(116,731)
Balance as at February 29, 2016	$ 9,841	$(2,666)	$ (89,120)	$ 33,245	$ (8,584)	$(57,284)	$7,428	$15,298	$1,516,788

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

ONWARD HOLDINGS Co., Ltd. and Consolidated Subsidiaries
February 28, 2015 and February 29, 2016

	Millions of yen		Thousands of U.S. dollars (Note 2. (22))
	2015	2016	2016
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 9,395	¥ 7,131	$ 62,760
Adjustments to reconcile income before income taxes			
and minority interests to net cash provided by operating activities:			
Depreciation and amortization	7,219	7,799	68,645
Impairment loss on fixed assets	1,660	14,051	123,671
Net amortization of goodwill on consolidation	3,327	3,027	26,638
Increase (decrease) in allowance for bad debt	(2,064)	(15)	(128)
(Increase) decrease in net defined benefit asset	—	2,363	20,796
Increase (decrease) in net defined benefit liability	(934)	181	1,597
Interest and dividend income	(560)	(573)	(5,042)
Interest expenses	583	546	4,807
Equity in (earnings) losses of investees	147	(43)	(376)
(Gain) loss on sales or disposal of fixed assets, net	(440)	(5,393)	(47,463)
(Gain) loss on sale of investments in securities, net	(5,363)	(8,812)	(77,560)
(Increase) decrease in trade receivables	(1,450)	1,694	14,908
(Increase) decrease in inventories	(1,948)	400	3,523
Increase (decrease) in trade payables	1,175	(4,672)	(41,122)
Other, net	7,231	(10,034)	(88,324)
Subtotal	17,978	7,650	67,330
Interest and dividends received	687	625	5,506
Interest paid	(600)	(526)	(4,631)
Income taxes paid	(2,595)	(4,356)	(38,334)
Refunded income taxes	1,021	239	2,100
Net cash provided by operating activities	16,491	3,632	31,971
Cash flows from investing activities:			
Increase in time deposits	(1,168)	(308)	(2,711)
Decrease in time deposits	16	533	4,692
Acquisition of property, plant and equipment	(22,182)	(12,140)	(106,844)
Proceeds from sale of property, plant and equipment	2,806	15,576	137,086
Acquisition of investments in securities	(543)	(5,522)	(48,604)
Proceeds from sale of investments in securities	10,170	16,739	147,323
Payments for long-term prepaid expenses	(586)	(429)	(3,771)
Payments for security deposits	(1,394)	(538)	(4,738)
Proceeds from security deposits	1,317	925	8,145
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(205)	(4,263)	(37,520)
Payments for sale of investments in subsidiaries resulting in change in scope of consolidation	—	(7,163)	(63,048)
Other, net	(3,888)	(1,627)	(14,323)
Net cash provided by (used in) investing activities	(15,657)	1,783	15,687

	Millions of yen		Thousands of U.S. dollars (Note 2. (22))
	2015	2016	2016
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	(875)	4,225	37,184
Proceeds from long-term loans payable	10,000	—	—
Repayments of long-term loans payable	(3,358)	(3,437)	(30,248)
Acquisition of treasury stock	(4)	(2,294)	(20,189)
Dividends paid by the parent company	(3,766)	(3,770)	(33,179)
Dividends paid to minority shareholders	(83)	(101)	(886)
Other, net	(1,157)	(980)	(8,633)
Net cash provided by (used in) financing activities	757	(6,357)	(55,951)
Effect of exchange rate changes on cash and cash equivalents	835	(546)	(4,807)
Net increase (decrease) in cash and cash equivalents	2,426	(1,488)	(13,100)
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	161	—	—
Cash and cash equivalents at beginning of year	27,231	29,818	262,439
Cash and cash equivalents at end of year (Note 9)	¥ 29,818	¥ 28,330	$ 249,339

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

ONWARD HOLDINGS Co., Ltd. and Subsidiaries
For the years ended February 28, 2015 and February 29, 2016

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 81 subsidiaries as at February 29, 2016 (81 as at February 28, 2015). The accompanying consolidated financial statements include the accounts of the Company and 72 of its subsidiaries (72 for 2015). 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
Birz Association Ltd.	100.0	February 28
Onward Luxury Group S.p.A.	100.0	November 30
Project Sloane Ltd.	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 29, 2016, all the shares in Booklet Co., Ltd., which had been a consolidated subsidiary of the Company, were transferred, Montenapoleone LLC. was liquidated, and Bus Stop Co., Ltd. was absorbed into Onward Global Fashion Co., Ltd.; therefore, these companies were removed from the scope of consolidation.

Onward J Bridge Co., Ltd. was newly established, and shares in Freeland S.R.L. were acquired; therefore, these companies and subsidiaries of Freeland S.R.L., Ypsilon S.R.L., Nadhour S.a.r.l., and Dauphin S.a.r.l., became consolidated subsidiaries of the Company.

Although Land S.R.L. was newly established and became a consolidated subsidiary of the Company, it was removed from the scope of consolidation as it was absorbed into Freeland S.R.L. Jil Sander Paris S.a.r.l. was absorbed into Onward Luxury Group S.a.r.l., and it was decided that all the shares in Across Transport Co., Ltd., which had been a consolidated subsidiary of the Company, would be transferred; 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. 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 2015) were not consolidated because their total assets, net sales, net income and retained earnings were not material individually or in the aggregate compared with those of the consolidated financial statements of the Companies.

(2) Consolidation and Elimination

For the purposes of preparing the consolidated financial statements of the Companies, all significant intercompany transactions, account balances and unrealized profits among the Companies have been entirely eliminated, and the portion attributable to minority interests 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 17 companies (18 companies for 2015) are accounted for by the equity method for the year ended February 29, 2016.

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 28, 2015 and February 29, 2016 were ¥11,466 million and ¥11,016 million ($96,956 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 net income 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, 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 Leases

Leased assets related to finance lease transactions that do not transfer ownership are depreciated on a straight-line basis, over the lease periods as their useful lives with no residual value.

(16) Accounting for Japanese Consumption Taxes

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

(17) Application of Consolidated Taxation System

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

(18) 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.

(19) 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.

(20) 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.

(21) 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.

(22) United States Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside of Japan. The rate of ¥113.62 = US$1, the rate of exchange as of February 29, 2016, 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.

(23) 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 29, 2016.

(Changes in Presentation Method)

"Bonds," which was set down separately under "Long-term liabilities" for the year ended February 28, 2015, have been included in "Other long-term liabilities" from the year ended February 29, 2016 since significance of the amount has decreased. To reflect this change in the method of presentation, the amounts in the consolidated balance sheet as of February 28, 2015 have been reclassified.

As a result, ¥100 million of "bonds" and ¥11,472 million of "Other current liabilities" under "Long-term liabilities" in the consolidated balance sheet as of February 28, 2015 have been reclassified to ¥11,572 million of "Other long-term liabilities."

"Rent expenses," which was included in "Other, net" under "Other income (expenses)" for the year ended February 28, 2015, have been set down separately from the year ended February 29, 2016 since significance of the amount has increased. To reflect this change in the method of presentation, the amounts in the consolidated statement of operations for the year ended February 28, 2015 have been reclassified.

As a result, ¥304 million of "Other, net" has been reclassified to ¥(215) million of "Rent expenses" and ¥519 million of "Other, net."

(24) Goodwill

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

(25) Changes in Accounting Policies

The Company has applied provisions in the main clause of Section 35 of the "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan ("ASBJ") Statement No. 26, May 17, 2012; the "Accounting Standard") and the main clause of Section 67 of the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, March 26, 2015) from the year ended February 29, 2016. Accordingly, the Company has reviewed the calculation methods of projected benefit obligations and service costs and has changed the method of attributing projected benefits to periods from the straight-line basis to the benefit formula basis and the method for determining the discount rate from the one based on the average period up to the estimated timing of benefit payment to a single weighted average discount rate reflecting the estimated timing and amount of benefit payment.

In accordance with the transitional provisions prescribed in Section 37 of the Accounting Standard, the effects of the changes in the calculation methods of projected benefit obligations and service costs have been added to or deducted from retained earnings as of the beginning of the year ended February 29, 2016.

As a result, as of the beginning of the year ended February 29, 2016, net defined benefit asset, net defined benefit liability, and retained earnings increased by ¥513 million ($4,518 thousand), ¥92 million ($809 thousand), and ¥285 million ($2,511 thousand), respectively. The impact on operating income and income before income taxes and minority interests for the year ended February 29, 2016 is 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 risks 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 risks associated with fluctuations of their market prices.

Accounts and notes payable are due within one year. Operating payables denominated in foreign currencies, being subject to risks associated with changes in 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 28, 2015 and February 29, 2016.

	Millions of yen		
February 28, 2015	Book value	Fair value	Difference
(a) Cash and deposits	¥ 31,123	¥ 31,123	¥ —
(b) Accounts and notes receivable	30,793	30,793	—
(c) Investments in securities:			
Available-for-sale securities	44,390	44,390	—
Investments in unconsolidated subsidiaries and affiliates	8,970	4,264	(4,706)
(d) Accounts and notes payable	(40,341)	(40,341)	—
(e) Short-term loans payable	(42,404)	(42,404)	—
(f) Long-term loans payable (including current portion of long-term loans payable)	(24,229)	(24,468)	239
(g) Derivative transactions	230	230	—

	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)	—

Notes to Consolidated Financial Statements

	Thousands of U.S. dollars		
February 29, 2016	Book value	Fair value	Difference
(a) Cash and deposits	$ 258,822	$ 258,822	$ —
(b) Accounts and notes receivable	244,838	244,838	—
(c) Investments in securities:			
Available-for-sale securities	215,516	215,516	—
Investments in unconsolidated subsidiaries and affiliates	76,794	31,706	(45,088)
(d) Accounts and notes payable	(307,786)	(307,786)	—
(e) Short-term loans payable	(398,930)	(398,930)	—
(f) Long-term loans payable (including current portion of long-term loans payable)	(174,746)	(175,091)	345
(g) Derivative transactions	(3,976)	(3,976)	—

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 and (e) Short-term loans payable
Since these items are settled in a short period of time, their book values approximate fair values.
(f) 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.
(g) Derivative transactions
The fair value is calculated on the basis of the price quoted by the financial institutions.

2. Book values of financial instruments deemed extremely difficult to determine their fair values as of February 28, 2015 and February 29, 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
Classification	2015	2016	2016
Investments in securities:			
Unlisted equity securities	¥802	¥710	$6,249

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, 2015 and February 29, 2016 are as follows:

	Millions of yen			
February 28, 2015	Due within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and deposits	¥31,123	¥—	¥—	¥ —
Accounts and notes receivable	30,793	—	—	—
Marketable securities and investments in securities:				
Available-for-sale securities with maturities	—	—	—	350
Total	¥61,916	¥—	¥—	¥350

	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	—	—	—
Marketable securities and investments in securities:				
Available-for-sale securities with maturities	—	—	—	—
Total	¥57,226	¥—	¥—	¥—

February 29, 2016	Thousands of U.S. dollars Due within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and deposits	$258,822	$—	$—	$—
Accounts and notes receivable	244,838	—	—	—
Marketable securities and investments in securities:				
Available-for-sale securities with maturities	—	—	—	—
Total	$503,660	$—	$—	$—

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, 2015

(a) Available-for-sale securities with readily determinable fair value:
Investments in securities whose fair values were readily determinable at February 28, 2015 are summarized as follows:

	Millions of yen Carrying value	Acquisition cost	Unrealized gain (loss)
Securities with unrealized gain:			
Equity securities	¥43,268	¥23,898	¥19,370
Other	355	133	222
Total	43,623	24,031	19,592
Securities with unrealized loss:			
Equity securities	767	910	(143)
Other	—	—	—
Total	767	910	(143)
Total	¥44,390	¥24,941	¥19,449

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, 2015:

	Millions of yen
Proceeds from sale of securities	¥10,170
Realized gain on sale of securities	5,363
Realized loss on sale of securities	—

(c) The aggregate carrying amount of investments in unconsolidated subsidiaries and affiliates as of February 28, 2015 was ¥9,435 million.

(2) 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			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	¥22,536	¥18,190	¥4,346	$198,348	$160,099	$38,249
Other	3	2	1	24	12	12
Total	22,539	18,192	4,347	198,372	160,111	38,261
Securities with unrealized loss:						
Equity securities	1,948	2,373	(425)	17,145	20,882	(3,737)
Other	—	—	—	—	—	—
Total	1,948	2,373	(425)	17,145	20,882	(3,737)
Total	¥24,487	¥20,565	¥3,922	$215,517	$180,993	$34,524

Note: Non-marketable equity securities of ¥336 million ($2,959 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.

Notes to Consolidated Financial Statements

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

	Millions of yen	Thousands of U.S. dollars
Proceeds from sale of securities	¥18,985	$167,093
Realized gain on sale of securities	8,888	78,226
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 ($80,085 thousand).

(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 ($68 thousand) as an impairment loss.

5. Derivative Transactions

The contract or notional amounts and fair values of derivative financial instruments held as of February 28, 2015 and February 29, 2016 are summarized as follows:
(1) Derivative transactions to which hedge accounting was not applied:

February 28, 2015	Millions of yen Contract or notional amount	Fair value	Valuation gain (loss)
Interest rate swap agreements:			
Variable rate receive / variable rate pay	¥300	¥ 0	¥ 0
Fixed rate receive / variable rate pay	100	(0)	(0)
	¥400	¥ 0	¥ 0

February 29, 2016	Millions of yen 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)

February 29, 2016	Thousands of U.S. dollars Contract or notional amount	Fair value	Valuation gain (loss)
Interest rate swap agreements:			
Fixed rate receive / variable rate pay	$880	$(7)	$(7)
	$880	$(7)	$(7)

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

February 28, 2015	Hedged item	Millions of yen Contract or notional amount	Fair value
Forward exchange contracts:			
To buy foreign currency:			
U.S. dollar	Accounts payable	¥4,660	¥265
Euro	Accounts payable	1,475	(37)
Pound	Accounts payable	38	2
Chinese yuan	Accounts payable	183	(0)
To sell foreign currency:			
U.S. dollar	Accounts receivable	1	(0)
		¥6,357	¥230

February 29, 2016	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	¥ 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 29, 2016	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	$ 61,689	$(2,511)
Euro	Accounts payable	27,421	(837)
Pound	Accounts payable	559	(65)
Chinese yuan	Accounts payable	847	(11)
Singapore dollar	Accounts payable	730	(22)
Currency options:			
To buy foreign currency:			
Call:			
U.S. dollar	Accounts payable	3,648	7
To sell foreign currency:			
Put:			
U.S. dollar	Accounts receivable	5,862	(530)
		$100,756	$(3,969)

6. Impairment Loss on Fixed Assets

For the years ended February 28, 2015 and February 29, 2016, the Companies reviewed its long-lived assets for impairment and, as a result, recognized an impairment loss as follows:

February 28, 2015

Location	Usage	Description	Millions of yen
Tokyo metropolitan area and other	Business assets	Buildings and structures	¥739
		Other	121
—	—	Goodwill	¥800

February 29, 2016

Location	Usage	Description	Millions of yen	Thousands of U.S. dollars
Tokyo metropolitan area and other	Business assets	Buildings and structures	¥ 1,275	$ 11,220
		Other	1,033	9,096
—	—	Goodwill	¥11,743	$103,354

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, 2015 and February 29, 2016 consisted of the following:

	Millions of yen 2015	Millions of yen 2016	Thousands of U.S. dollars 2016
Buildings and structures	¥ 739	¥ 1,275	$ 11,220
Other intangible assets	31	457	4,027
Other	78	560	4,930
Land	12	16	140
Goodwill	800	11,743	103,354
Total	¥1,660	¥14,051	$123,671

For the year ended February 28, 2015, based on the result of future cash flow analysis that the recoverable amount of goodwill on Birz Association Ltd., which is a consolidated subsidiary of the Company, was less than the carrying amount, the Company recognized impairment loss of ¥800 million on the remaining unamortized portion of the goodwill. 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 ($103,354 thousand) on the remaining unamortized portion of the goodwill.

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 5.5% and 5.1% for the years ended February 28, 2015 and February 29, 2016, respectively.

7. 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, of which some are funded, the Company and its subsidiaries grant lump-sum payments to their employees as retirement benefits, based on the salary levels and service periods. Retirement benefit trusts have been established in certain lump-sum retirement payment plans.

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 2015	Millions of yen 2016	Thousands of U.S. dollars 2016
Balance at beginning of year	¥18,591	¥16,552	$145,682
Cumulative effects of changes in accounting policies	—	(421)	(3,709)
Restated balance	18,591	16,131	141,973
Service cost	979	1,436	12,637
Interest cost	233	40	349
Actuarial differences	(764)	660	5,807
Benefits paid	(2,714)	(1,629)	(14,336)
Other	227	(432)	(3,793)
Balance at end of year	¥16,552	¥16,206	$142,637

(ii) Changes in plan assets

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Balance at beginning of year	¥13,859	¥15,693	$138,118
Expected return on plan assets	235	232	2,046
Actuarial differences	2,026	(1,984)	(17,460)
Employer contributions	293	271	2,381
Benefits paid	(720)	(558)	(4,910)
Other	—	(211)	(1,856)
Balance at end of year	¥15,693	¥13,443	$118,319

(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
	2015	2016	2016
Funded projected benefit obligations	¥ 15,786	¥ 15,392	$ 135,468
Plan assets	(15,693)	(13,443)	(118,319)
	93	1,949	17,149
Unfunded projected benefit obligations	766	814	7,168
Net amount of liability and asset recognized in the consolidated balance sheets	859	2,763	24,317
Net defined benefit liability	4,126	4,180	36,790
Net defined benefit asset	(3,267)	(1,417)	(12,473)
Net amount of liability and asset recognized in the consolidated balance sheets	¥ 859	¥ 2,763	$ 24,317

(iv) Net periodic pension expenses and their breakdown

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Service cost	¥ 979	¥1,436	$12,637
Interest cost	233	40	349
Expected return on plan assets	(235)	(232)	(2,046)
Amortization of unrecognized actuarial differences	228	28	250
Amortization of unrecognized prior service costs	(54)	(54)	(472)
Other	(14)	(9)	(73)
Net periodic pension expenses	¥1,137	¥1,209	$10,645

(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
	2015	2016	2016
Prior service costs	¥—	¥ (54)	$ (471)
Actuarial differences	—	(2,615)	(23,018)
Total	¥—	¥(2,669)	$(23,489)

(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
	2015	2016	2016
Unrecognized prior service costs	¥ 320	¥ 266	$ 2,343
Unrecognized actuarial differences	909	(1,706)	(15,015)
Total	¥1,229	¥(1,440)	$(12,672)

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

	2015	2016
Life insurance company general accounts	40%	43%
Equity securities	51%	47%
Debt securities	2%	2%
Short-term funds	7%	8%
Total	100%	100%

Total plan assets include retirement benefit trusts established for defined benefit corporate pension plans and lump-sum retirement payment plans of 54% and 51% for the years ended February 28, 2015 and February 29, 2016, 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

	2015	2016
Discount rate	1.5%	0.3% to 0.7%
Long-term expected rate of return on plan assets	1.2% to 2.1%	1.1% to 1.8%

B. Defined contribution plans
The amounts to be paid by the Companies to the defined contribution pension plans for the years ended February 28, 2015 and February 29, 2016 were ¥434 million and ¥402 million ($3,538 thousand), respectively.

8. Notes to Consolidated Statements of Comprehensive Income

Other comprehensive income for the years ended February 28, 2015 and February 29, 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Net unrealized gain (loss) on available-for-sale securities:			
Amount arising during the year	¥15,211	¥ (5,978)	$ (52,618)
Reclassification adjustment for gain and loss	(5,787)	(9,548)	(84,033)
Amount before income tax effect	9,424	(15,526)	(136,651)
Income tax effect	(3,328)	5,651	49,736
Total	6,096	(9,875)	(86,915)
Deferred gain (loss) on hedging instruments:			
Amount arising during the year	229	(443)	(3,896)
Reclassification adjustment for gain and loss	44	(229)	(2,018)
Amount before income tax effect	273	(672)	(5,914)
Income tax effect	(93)	222	1,953
Total	180	(450)	(3,961)
Revaluation gain on land:			
Income tax effect	—	294	2,583
Total	—	294	2,583
Foreign currency translation adjustments:			
Amount arising during the year	2,546	(1,442)	(12,688)
Total	2,546	(1,442)	(12,688)
Remeasurements of defined benefit plans:			
Amount arising during the year	—	(2,644)	(23,267)
Reclassification adjustment for gain and loss	—	(25)	(222)
Amount before income tax effect	—	(2,669)	(23,489)
Income tax effect	—	905	7,966
Total	—	(1,764)	(15,523)
Share of other comprehensive income of associates accounted for using the equity-method:			
Amount arising during the year	225	(155)	(1,360)
Total	225	(155)	(1,360)
Total other comprehensive income	¥ 9,047	¥(13,392)	$(117,864)

9. Notes to Consolidated Statements of Cash Flows

Cash and cash equivalents at February 28, 2015 and February 29, 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Cash and deposits	¥31,123	¥29,407	$258,822
Time deposits with maturities of more than three months	(1,305)	(1,077)	(9,483)
Cash and cash equivalents	¥29,818	¥28,330	$249,339

10. 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 depreciation method for leased assets is as described in “2. Summary of Significant Accounting Policies, (15) Accounting for Leases.”

11. 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, 2015 and February 29, 2016 consisted of the following elements:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Deferred tax assets:			
Loss on write-down of inventories	¥ 2,473	¥ 2,273	$ 20,003
Loss on write-down of investments in unconsolidated subsidiaries	130	7,718	67,932
Accrued bonuses to employees	412	331	2,914
Net defined benefit liability	3,082	2,866	25,224
Accrued retirement benefits for directors and corporate auditors	55	68	601
Allowance for bad debt	372	352	3,098
Tax loss carry forwards	10,625	10,380	91,360
Impairment loss on fixed assets	6,193	6,251	55,012
Investments in securities	432	111	980
Other	6,069	5,401	47,529
Subtotal	29,843	35,751	314,653
Less: Valuation allowance	(18,298)	(17,484)	(153,885)
Total deferred tax assets	11,545	18,267	160,768
Deferred tax liabilities:			
Gain on securities contributed to employee retirement benefit trusts	(113)	(82)	(723)
Net defined benefit asset	(1,164)	(505)	(4,443)
Provision for deferred capital gain on real property for tax purposes	(17)	(47)	(415)
Net unrealized gain on available-for-sale securities	(6,914)	(1,264)	(11,125)
Other	(709)	(509)	(4,476)
Total deferred tax liabilities	(8,917)	(2,407)	(21,182)
Net deferred tax assets	¥ 2,628	¥ 15,860	$ 139,586

The reconciliation of the difference between the statutory tax rate and the effective tax rate for the years ended February 28, 2015 and February 29, 2016 is as follows:

	%	
	2015	2016
Statutory tax rate	38.0	35.6
Reconciliation:		
Permanently non-deductible expenses (entertainment expenses, etc.)	2.5	2.7
Permanently non-taxable income (dividends received, etc.)	(1.6)	(1.4)
Per capita inhabitant tax	3.7	5.1
Amortization of goodwill	12.5	14.0
Impairment loss on goodwill	3.2	58.7
Changes in valuation allowance	11.1	(115.3)
Consolidation adjustments to gain or loss on sale of investments in consolidated subsidiaries	—	16.8
Differences in statutory tax rate	(9.2)	18.0
Other	(5.1)	6.0
Effective tax rate	55.1	40.2

(Adjustments to deferred tax assets and liabilities due to change in income tax rates, etc.)
On March 31, 2015, the “Act for Partial Revision of the Income Tax Act, etc.” (Act No. 9 of 2015) and “Act for Partial Revision of the Local Tax Act, etc.” (Act No. 2 of 2015) were promulgated, and the income tax rate is reduced from the fiscal years beginning on or after April 1, 2015. Accordingly, the statutory tax rates applied to the calculation of deferred tax assets and liabilities are lowered from 35.6%, which was applied to temporary differences expected to be settled in the fiscal years beginning on or after March 1, 2015, to 33.1% for temporary differences expected to be settled in the fiscal year beginning on March 1, 2016, and to 32.3% for temporary differences expected to be settled in the fiscal years beginning on or after March 1, 2017.

The effect of these changes in tax rates is immaterial.

(Change in income tax rates, etc. after the closing date of consolidated accounts)
On March 31, 2016, the “Act for Partial Revision of the Income Tax Act, etc.” (Act No. 15 of 2016) and “Act for Partial Revision, etc. of the Local Tax Act, etc.” (Act No. 13 of 2016) were promulgated, and the income tax rate is reduced from the fiscal years beginning on or after April 1, 2016. Accordingly, the statutory tax rates applied to the calculation of deferred tax assets and liabilities are lowered from 32.3%, which was applied to temporary differences expected to be settled in the fiscal years beginning on or after March 1, 2017, 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.

12. Revaluation of Land

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

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

The difference between the market value of land subject to the revaluation and the book value as at February 28, 2015 and February 29, 2016 was ¥1,774 million and ¥910 million ($8,013 thousand), respectively.

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

Short-term loans payable at February 28, 2015 and February 29, 2016 represented loans, principally from banks. The weighted-average interest rate on these loans was 0.7% in 2015 and 2016.

Long-term loans payable at February 28, 2015 and February 29, 2016 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Unsecured loans, principally from banks, maturing in installments through 2019	¥24,229	¥19,854	$174,746
Less current portion with weighted-average interest rate of 0.7% at February 29, 2016	3,250	3,828	33,696
Long-term loans payable, less current portion with weighted-average interest rate of 0.5% at February 29, 2016	¥20,979	¥16,026	$141,050

Lease obligations at February 28, 2015 and February 29, 2016 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Lease obligations	¥6,835	¥5,877	$51,726
Less current portion of lease obligations	943	682	6,006
	¥5,892	¥5,195	$45,720

The aggregate annual maturities of long-term loans payable after February 28, 2017 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending February 28 or 29:		
2018	¥13,026	$114,643
2019	3,000	26,406
2020	0	1
2021	—	—

The aggregate annual maturities of lease obligations after February 28, 2017 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending February 28 or 29:		
2018	¥620	$5,461
2019	533	4,690
2020	334	2,943
2021	280	2,465

Bonds at February 28, 2015 and February 29, 2016 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
0.39% in 2015 and 2016 unsecured yen bonds issued by a subsidiary, due 2018	¥150	¥100	$880
Less current portion	50	50	440
	¥100	¥ 50	$440

The aggregate annual maturities of bonds after February 28, 2017 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending February 28 or 29:		
2018	¥50	$440
2019	—	—
2020	—	—
2021	—	—

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 shareholders' 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, 2015 and February 29, 2016 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 26, 2016, are as follows:

(a) Total dividends:	¥3,700 million ($32,562 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 29, 2016
(e) Effective date:	May 27, 2016

15. Per Share Information

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

The basis for the calculation of basic and diluted net income per share for the years ended February 28, 2015 and February 29, 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Net income	¥4,204	¥4,278	$37,652
Less: Components not pertaining to common shareholders	—	—	—
Net income pertaining to common stock	¥4,204	¥4,278	$37,652
Average outstanding shares of common stock (thousand shares)	157,006	151,343	
Effect of dilutive stock options (thousand shares)	1,729	1,689	

16. Related-Party Transactions

Year ended February 28, 2015

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.

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 ($64 thousand). Also, Mr. Hirouchi paid a rental fee of ¥16 million ($143 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 ¥13 million ($117 thousand), and the balance of relevant accounts receivable as of February 29, 2016 was ¥2 million ($14 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, 2015 and February 29, 2016 was ¥131 million and ¥16 million ($142 thousand), 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 ($4.63)

A summary of the scale and movement of the stock option plan for the year ended February 29, 2016 is as follows:

	2014 stock option plan (No. 16)
Non-vested (shares):	
Outstanding at February 28, 2015	122,900
Granted	—
Forfeited	—
Vested	—
Outstanding at February 29, 2016	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 ($4.10)

A summary of the scale and movement of the stock option plan for the year ended February 29, 2016 is as follows:

	2014 stock option plan (No. 15)
Non-vested (shares):	
Outstanding at February 28, 2015	140,000
Granted	—
Forfeited	—
Vested	—
Outstanding at February 29, 2016	140,000

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.

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 ($5.54)

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A summary of the scale and movement of the stock option plan for the year ended February 29, 2016 is as follows:

	2013 stock option plan (No. 14)
Non-vested (shares):	
Outstanding at February 28, 2015	107,000
Granted	—
Forfeited	—
Vested	8,900
Outstanding at February 29, 2016	98,100
Vested (shares):	
Outstanding at February 28, 2015	—
Vested	8,900
Exercised	—
Forfeited	—
Outstanding at February 29, 2016	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 ($5.03)

A summary of the scale and movement of the stock option plan for the year ended February 29, 2016 is as follows:

	2013 stock option plan (No. 13)
Non-vested (shares):	
Outstanding at February 28, 2015	140,400
Granted	—
Forfeited	—
Vested	13,800
Outstanding at February 29, 2016	126,600
Vested (shares):	
Outstanding at February 28, 2015	—
Vested	13,800
Exercised	—
Forfeited	—
Outstanding at February 29, 2016	13,800

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 ($4.03)

A summary of the scale and movement of the stock option plan for the year ended February 29, 2016 is as follows:

	2012 stock option plan (No. 12)
Non-vested (shares):	
Outstanding at February 28, 2015	141,400
Granted	—
Forfeited	—
Vested	11,800
Outstanding at February 29, 2016	129,600
Vested (shares):	
Outstanding at February 28, 2015	—
Vested	11,800
Exercised	—
Forfeited	—
Outstanding at February 29, 2016	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)
Average stock price on the date the option was exercised:	¥756 ($6.65)
Fair value at the grant date:	¥444 ($3.91)

A summary of the scale and movement of the stock option plan for the year ended February 29, 2016 is as follows:

	2012 stock option plan (No. 11)
Non-vested (shares):	
Outstanding at February 28, 2015	142,400
Granted	—
Forfeited	—
Vested	18,700
Outstanding at February 29, 2016	123,700
Vested (shares):	
Outstanding at February 28, 2015	50,800
Vested	18,700
Exercised	8,200
Forfeited	—
Outstanding at February 29, 2016	61,300

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

2011 Stock Option Plan (No. 10)

Under the 2011 stock option plan (No. 10), stock options were granted to 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:	¥731 ($6.43)
Fair value at the grant date:	¥510 ($4.49)

A summary of the scale and movement of the stock option plan for the year ended February 29, 2016 is as follows:

	2011 stock option plan (No. 10)
Non-vested (shares):	
Outstanding at February 28, 2015	79,400
Granted	—
Forfeited	—
Vested	10,000
Outstanding at February 29, 2016	69,400
Vested (shares):	
Outstanding at February 28, 2015	65,400
Vested	10,000
Exercised	9,600
Forfeited	—
Outstanding at February 29, 2016	65,800

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.

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:	¥802 ($7.06)
Fair value at the grant date:	¥444 ($3.91)

A summary of the scale and movement of the stock option plan for the year ended February 29, 2016 is as follows:

	2011 stock option plan (No. 9)
Non-vested (shares):	
Outstanding at February 28, 2015	115,800
Granted	—
Forfeited	—
Vested	16,100
Outstanding at February 29, 2016	99,700
Vested (shares):	
Outstanding at February 28, 2015	51,300
Vested	16,100
Exercised	5,700
Forfeited	—
Outstanding at February 29, 2016	61,700

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)
Average stock price on the date the option was exercised:	¥731 ($6.43)
Fair value at the grant date:	¥613 ($5.40)

A summary of the scale and movement of the stock option plan for the year ended February 29, 2016 is as follows:

	2010 stock option plan (No. 8)
Non-vested (shares):	
Outstanding at February 28, 2015	52,300
Granted	—
Forfeited	—
Vested	—
Outstanding at February 29, 2016	52,300
Vested (shares):	
Outstanding at February 28, 2015	19,700
Vested	—
Exercised	4,000
Forfeited	—
Outstanding at February 29, 2016	15,700

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. 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:	¥719 ($6.33)
Fair value at the grant date:	¥475 ($4.18)

A summary of the scale and movement of the stock option plan for the year ended February 29, 2016 is as follows:

	2010 stock option plan (No. 7)
Non-vested (shares):	
Outstanding at February 28, 2015	94,000
Granted	—
Forfeited	—
Vested	17,600
Outstanding at February 29, 2016	76,400
Vested (shares):	
Outstanding at February 28, 2015	52,300
Vested	17,600
Exercised	17,500
Forfeited	—
Outstanding at February 29, 2016	52,400

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.

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 ($3.80)

A summary of the scale and movement of the stock option plan for the year ended February 29, 2016 is as follows:

	2009 stock option plan (No. 6)
Non-vested (shares):	
Outstanding at February 28, 2015	72,000
Granted	—
Forfeited	—
Vested	—
Outstanding at February 29, 2016	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:	¥713 ($6.28)
Fair value at the grant date:	¥362 ($3.19)

A summary of the scale and movement of the stock option plan for the year ended February 29, 2016 is as follows:

	2009 stock option plan (No. 5)
Non-vested (shares):	
Outstanding at February 28, 2015	100,300
Granted	—
Forfeited	—
Vested	15,900
Outstanding at February 29, 2016	84,400
Vested (shares):	
Outstanding at February 28, 2015	50,900
Vested	15,900
Exercised	34,000
Forfeited	—
Outstanding at February 29, 2016	32,800

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:	¥709 ($6.24)
Fair value at the grant date:	¥905 ($7.97)

A summary of the scale and movement of the stock option plan for the year ended February 29, 2016 is as follows:

	2008 stock option plan (No. 4)
Non-vested (shares):	
Outstanding at February 28, 2015	28,300
Granted	—
Forfeited	—
Vested	5,000
Outstanding at February 29, 2016	23,300
Vested (shares):	
Outstanding at February 28, 2015	10,000
Vested	5,000
Exercised	6,600
Forfeited	—
Outstanding at February 29, 2016	8,400

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

2008 Stock Option Plan (No. 3)

Under the 2008 stock option plan (No. 3), stock options were granted to 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 ($8.31)

A summary of the scale and movement of the stock option plan for the year ended February 29, 2016 is as follows:

	2008 stock option plan (No. 3)
Non-vested (shares):	
Outstanding at February 28, 2015	32,000
Granted	—
Forfeited	—
Vested	—
Outstanding at February 29, 2016	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)
Average stock price on the date the option was exercised:	¥796 ($7.01)
Fair value at the grant date:	¥1,284 ($11.30)

A summary of the scale and movement of the stock option plan for the year ended February 29, 2016 is as follows:

	2007 stock option plan (No. 2)
Non-vested (shares):	
Outstanding at February 28, 2015	16,600
Granted	—
Forfeited	—
Vested	—
Outstanding at February 29, 2016	16,600
Vested (shares):	
Outstanding at February 28, 2015	1,500
Vested	—
Exercised	1,500
Forfeited	—
Outstanding at February 29, 2016	—

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)
Average stock price on the date the option was exercised:	¥796 ($7.01)
Fair value at the grant date:	¥1,541 ($13.56)

A summary of the scale and movement of the stock option plan for the year ended February 29, 2016 is as follows:

	2006 stock option plan (No. 1)
Non-vested (shares):	
Outstanding at February 28, 2015	14,500
Granted	—
Forfeited	—
Vested	—
Outstanding at February 29, 2016	14,500
Vested (shares):	
Outstanding at February 28, 2015	1,000
Vested	—
Exercised	1,000
Forfeited	—
Outstanding at February 29, 2016	—

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."

Income by reportable segment refers to operating income. 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, 2015 and February 29, 2016 is as follows:

Millions of yen

	Apparel							
For the year ended February 28, 2015	Japan	Europe	Asia/North America	Total	Other	Total	Adjustments (Note 1)	Consolidated total (Note 3)
Net sales to outside customers	¥211,019	¥45,338	¥ 7,944	¥264,301	¥17,201	¥281,502	¥ —	¥281,502
Intersegment sales or transfers	1,343	2,485	611	4,439	8,090	12,529	(12,529)	—
Total	¥212,362	¥47,823	¥ 8,555	¥268,740	¥25,291	¥294,031	¥(12,529)	¥281,502
Segment income (loss)	¥ 10,573	¥ 62	¥(1,838)	¥ 8,797	¥ 390	¥ 9,187	¥ (3,455)	¥ 5,732
Segment assets	¥151,869	¥38,028	¥ 5,725	¥195,622	¥36,307	¥231,929	¥108,925	¥340,854
Depreciation and amortization (Note 2)	¥ 4,158	¥ 1,104	¥ 484	¥ 5,746	¥ 1,072	¥ 6,818	¥ 401	¥ 7,219
Investments in equity-method affiliates	8,970	73	—	9,043	—	9,043	—	9,043
Increases in property, plant and equipment, and intangible assets (Note 2)	10,140	841	520	11,501	778	12,279	14,605	26,884

(Notes) 1. Adjustments consist of the following:

(1) The adjustment amount for segment income (loss) of ¥(3,455) million includes amortization of goodwill of ¥(3,327) million, elimination of intersegment transactions of ¥3,859 million, and corporate expenses not allocated to reportable segments of ¥(3,987) million. Corporate expenses are mainly general administrative expenses that are not attributable to reportable segments.

(2) The adjustment amount for segment assets of ¥108,925 million includes the unamortized balance of goodwill of ¥26,569 million, elimination of intersegment transactions of ¥(134,150) million, and corporate assets not allocated to reportable segments of ¥216,506 million. Corporate assets are mainly assets held by the Company, a pure holding company.

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

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

Notes to Consolidated Financial Statements

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 income (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

Thousands of U.S. dollars

	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	$1,776,304	$349,251	$61,275	$2,186,830	$132,445	$2,319,275	$ —	$2,319,275
Intersegment sales or transfers	11,984	17,179	4,334	33,497	55,450	88,947	(88,947)	—
Total	$1,788,288	$366,430	$65,609	$2,220,327	$187,895	$2,408,222	$ (88,947)	$2,319,275
Segment income (loss)	$ 61,695	$ (6,138)	$ (6,644)	$ 48,913	$ 5,540	$ 54,453	$ (21,202)	$ 33,251
Segment assets	$1,308,646	$340,340	$39,440	$1,688,426	$233,776	$1,922,202	$836,592	$2,758,794
Depreciation and amortization (Note 2)	$ 41,564	$ 9,109	$ 4,814	$ 55,487	$ 8,741	$ 64,228	$ 4,417	$ 68,645
Investments in equity-method affiliates	76,794	644	—	77,438	—	77,438	—	77,438
Increases in property, plant and equipment, and intangible assets (Note 2)	110,024	16,055	2,196	128,275	6,526	134,801	5,624	140,425

(Notes) 1. Adjustments consist of the following:

(1) The adjustment amount for segment income (loss) of ¥(2,409) million ($(21,202) thousand) includes amortization of goodwill of ¥(3,027) million ($(26,638) thousand), elimination of intersegment transactions of ¥4,266 million ($37,548 thousand), and corporate expenses not allocated to reportable segments of ¥(3,648) million ($(32,112) thousand). 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 ($836,592 thousand) includes the unamortized balance of goodwill of ¥15,652 million ($137,758 thousand), elimination of intersegment transactions of ¥(117,485) million ($(1,034,017) thousand), and corporate assets not allocated to reportable segments of ¥196,887 million ($1,732,851 thousand). Corporate assets are mainly assets held by the Company, a pure holding company.

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

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

(4) Segment information by geographical area for the years ended February 28, 2015 and February 29, 2016 is as follows:

(a) Sales

For the year ended February 28, 2015 — Millions of yen

Japan	Europe	Other	Total
¥223,620	¥29,213	¥28,669	¥281,502

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 29, 2016 — Thousands of U.S. dollars

Japan	Europe	Other	Total
$1,867,623	$230,477	$221,175	$2,319,275

(b) Property, plant and equipment

For the year ended February 28, 2015 — Millions of yen

Japan	Europe	Other	Total
¥89,448	¥8,843	¥11,367	¥109,658

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 29, 2016 — Thousands of U.S. dollars

Japan	Europe	Other	Total
$769,096	$73,263	$96,693	$939,052

(5) Segment information on impairment losses on property, plant and equipment by reportable segment for the years ended February 28, 2015 and February 29, 2016 is as follows:

	Millions of yen						
	Apparel						
For the year ended February 28, 2015	Japan	Europe	Asia/North America	Total	Other	Unallocated amounts and elimination	Total
Impairment loss	¥632	¥—	¥216	¥848	¥12	¥800	¥1,660

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

	Thousands of U.S. dollars						
	Apparel						
For the year ended February 29, 2016	Japan	Europe	Asia/North America	Total	Other	Unallocated amounts and elimination	Total
Impairment loss	$15,138	$—	$2,540	$17,678	$—	$105,993	$123,671

Independent Auditor's Report

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Building a better working world

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 29, 2016, and the consolidated statements of operations, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ONWARD HOLDINGS Co., Ltd. and its consolidated subsidiaries as at February 29, 2016, 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 (22).

Ernst & Young ShinNihon LLC

May 27, 2016