Summary of Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending February 28, 2017 (Nine Months Ended November 30, 2016)

[Japanese GAAP]

December 29, 2016

Company name: Adastria Co., Ltd. Listing: TSE 1st section
Stock code: 2685 URL: http://www.adastria.co.jp
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Scheduled date of filing of Quarterly Report: January 13, 2017
Scheduled date of payment of dividend: -
Preparation of supplementary materials for quarterly financial results: Yes
Holding of quarterly financial results meeting: None

Note: The original disclosure in Japanese was released on December 29, 2016 at 15:00 (GMT +9).

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending February 28, 2017 (March 1, 2016 – November 30, 2016)

(1) Consolidated results of operations (cumulative) (Percentages represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended Nov. 30, 2016	148,925	1.4	13,632	(5.0)	13,800	(5.9)	11,172	40.3
Nine months ended Nov. 30, 2015	146,814	9.8	14,347	155.4	14,665	146.5	7,964	558.1

Note: Comprehensive income Nine months ended Nov. 30, 2016: 8,602 million yen (down 19.2%)
Nine months ended Nov. 30, 2015: 10,647 million yen (up 243.6%)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended Nov. 30, 2016	232.92	-
Nine months ended Nov. 30, 2015	164.09	-

Reference: EBITDA Nine months ended Nov. 30, 2016: 19,511 million yen (down 5.1%)
Nine months ended Nov. 30, 2015: 20,551 million yen
EPS before goodwill amortization Nine months ended Nov. 30, 2016: 267.07 yen (up 34.6%)
Nine months ended Nov. 30, 2015: 198.43 yen

(*) For more details regarding definition, computational method and other matters of these indices, please refer to the section "Explanation of Results of Operations" on page 2.

Note: The Company conducted a 2-for-1 common stock split on March 1, 2016. Net income per share has been calculated as if this stock split had taken place at the beginning of FY2/16.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Nov. 30, 2016	91,277	55,434	60.7
As of Feb. 29, 2016	90,454	53,282	58.9

Reference: Shareholders' equity As of Nov. 30, 2016: 55,434 million yen As of Feb. 29, 2016: 53,282 million yen

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Feb. 29, 2016	-	40.00	-	90.00	130.00
Fiscal year ending Feb. 28, 2017	-	35.00	-		
Fiscal year ending Feb. 28, 2017 (forecast)				40.00	75.00

Note: Revision to the most recently announced dividend forecast: None

Note: The Company conducted a 2-for-1 common stock split on March 1, 2016. Dividends per share for the fiscal year ended February 29, 2016 are the actual amounts before the stock split.

3. Consolidated Forecast for the Fiscal Year Ending February 28, 2017 (March 1, 2016 – February 28, 2017)

(Percentages represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	208,900	4.4	17,000	6.2	17,300	6.9	12,000	31.5	252.09

Note: Revision to the most recently announced consolidated forecast: None

Reference: EBITDA Fiscal year ending Feb. 28, 2017 (forecast): 24,900 million yen (up 1.2%)
EPS before goodwill amortization Fiscal year ending Feb. 28, 2017 (forecast): 298.30 yen (up 27.5%)

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation): Yes

Newly added: - Excluded: 1 (ADASTRIA SINGAPORE PTE. LTD.)

Note: Please refer to the section "2. Matters Related to Summary Information (Notes), (1) Changes in Significant Subsidiaries during the Period" on page 3 for further information.

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: None

(3) Changes in accounting policies and accounting-based estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others: Yes

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting-based estimates: None

4) Restatements: None

Note: Please refer to the section "2. Matters Related to Summary Information (Notes), (3) Changes in Accounting Policies and Accounting-based Estimates, and Restatements" on page 4 for further information.

(4) Number of outstanding shares (common stock)

1) Number of shares outstanding at the end of the period (including treasury shares)

As of Nov. 30, 2016:	48,800,000 shares	As of Feb. 29, 2016:	48,800,000 shares

2) Number of treasury shares at the end of the period

As of Nov. 30, 2016:	1,756,545 shares	As of Feb. 29, 2016:	643,396 shares

3) Average number of shares outstanding during the period

Nine months ended Nov. 30, 2016:	47,968,327 shares	Nine months ended Nov. 30, 2015:	48,539,369 shares

Note: The Company conducted a 2-for-1 common stock split on March 1, 2016. Number of outstanding shares (common stock) has been calculated as if this stock split had taken place at the beginning of FY2/16.

Note: Numbers of treasury shares include the Company's stock held by the Stock Compensation Employee Stock Ownership Plan (ESOP) Trust and the Board Incentive Plan (BIP) Trust (555,900 shares as of Nov. 30, 2016).

Note 1: Indication of quarterly review procedure implementation status

The current quarterly financial statements are exempted from quarterly review procedures based on the Financial Instruments and Exchange Act. At the time of disclosure, the review procedures for these quarterly financial statements have not been completed.

Note 2: Cautionary statement with respect to forward-looking statements

Forward-looking statements in this report are based on currently available information and certain assumptions judged to be reasonable. Actual results may differ significantly from these forecasts for a number of factors. Please refer to the section "Explanation of Consolidated Forecast and Other Forward-looking Statements" on page 3 regarding preconditions or other related matters for the forecast shown above.

Reference: Summary of Non-consolidated Forecast

Non-consolidated Forecast for the Fiscal Year Ending February 28, 2017 (March 1, 2016 – February 28, 2017)

(Percentages represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	196,700	4.7	16,400	6.7	16,300	5.4	11,200	34.3	235.28

Note: Revision to the most recently announced non-consolidated forecast: None

Contents of Attachments

1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

In the first nine months of the current fiscal year (March 1-November 30, 2016), the Japanese economy, although held down somewhat by sluggish corporate earnings and capital expenditures, continued to recover slowly, thanks to government stimulus measures. Consumer spending in Japan stayed generally firm due to improved consumer sentiment reflecting the gradual increase in real total wage income.

Regarding the store network, we opened 77 stores (including five overseas), and closed 33 (including seven overseas), resulting in a total network of 1,368 stores (including 102 overseas) at the end of November 2016.

The gross profit margin was almost flat year on year at 58.7%, 0.1 percentage point higher than one year earlier. Further progress in cost control more than offset the effect of the increase in price discounts during the late summer and early fall season.

The ratio of selling, general and administrative (SG&A expenses) to sales increased 0.8 percentage point from one year earlier to 49.6% mainly due to the substantial expenditures and investments to build a sound base for growth, namely, preparations for launching new brands and businesses and preliminary studies about upgrading the computer system and value chain process. As a result, the operating margin decreased 0.6 percentage point to 9.2%.

There was a gain on sales of investment securities of 3,763 million yen as extraordinary income. Extraordinary losses of 85 million yen for damage caused by the April 2016 earthquake in Kumamoto prefecture were also posted.

As a result, consolidated net sales in the first nine months increased 1.4% year-on-year to 148,925 million yen, operating income decreased 5.0% to 13,632 million yen, ordinary income decreased 5.9% to 13,800 million yen, and net income attributable to owners of the parent increased 40.3% to 11,172 million yen.

Earnings before interest, taxes, depreciation and amortization (EBITDA) decreased 5.1% to 19,511 million yen and earnings per share (EPS) before goodwill amortization rose 34.6% to 267.07 yen. (*)

(*) Amortization of goodwill that mainly resulted from the consolidation of TRINITY ARTS INC. (subsequently absorbed by the Company) has caused large declines in operating income and all subsequent categories of profits since the fiscal year that ended on February 28, 2014. Since goodwill amortization is not a cash expense, this amortization created a large gap between changes in cash flows and changes at all levels of profits starting with operating income. Furthermore, comparisons with foreign companies are difficult because of differences in accounting standards of individual countries for recording goodwill amortization. As a result, we are newly announcing EBITDA and EPS before goodwill amortization as reference financial indicators.

EBITDA

Operating income + Depreciation + Amortization of goodwill (SG&A expenses)

EPS before goodwill amortization

(Net income attributable to owners of the parent + Amortization of goodwill (SG&A expenses, and extraordinary losses) + Impairment losses (goodwill)) / Average number of shares outstanding during the period

(2) Explanation of Financial Position

Total assets increased 823 million yen from as of February 29, 2016 to 91,277 million yen as of November 30, 2016. This was mainly due to increases in notes and accounts receivable-trade of 6,404 million yen and inventories of 5,667 million yen, while there were decreases in cash and deposits of 8,799 million yen and investment securities of 2,948 million yen.

Liabilities decreased 1,328 million yen to 35,843 million yen. This was mainly due to decreases of 1,238 million yen in electronically recorded obligations-operating and 1,034 million yen in provision for bonuses, while there was an increase in accounts payable-other of 1,203 million yen.

Net assets increased 2,151 million yen to 55,434 million yen. This was mainly due to an increase of 7,301 million yen in retained earnings, while there was an increase of 2,818 million yen in treasury shares (decrease in net assets) and a decrease of 2,587 million yen in valuation difference on available-for-sale securities.

(3) Explanation of Consolidated Forecast and Other Forward-looking Statements

There are no revisions to the consolidated forecast for the current fiscal year that was announced on September 30, 2016.

Reference: Explanation of Non-consolidated Forecast and Other Forward-looking Statements

There are no revisions to the non-consolidated forecast for the current fiscal year that was announced on September 30, 2016.

2. Matters Related to Summary Information (Notes)

(1) Changes in Significant Subsidiaries during the Period

ADASTRIA SINGAPORE PTE. LTD. was excluded from the scope of consolidation in the second quarter of the current fiscal year, because of the completion of its liquidation.

ALICIA CO., LTD., a newly established subsidiary was included in the scope of consolidation, and peoples inc., a newly established joint venture company became an equity-method affiliate. These two companies, however, do not qualify as specified subsidiaries.

(2) Application of Special Accounting Methods for Presenting Quarterly Consolidated Financial Statements

Not applicable.

(3) Changes in Accounting Policies and Accounting-based Estimates, and Restatements

Application of the accounting standards for business combinations

The Company has adopted the “Accounting Standard for Business Combinations” (Accounting Standards Board of Japan (ASBJ) Statement No. 21, issued on September 13, 2013), “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, issued on September 13, 2013), “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, issued on September 13, 2013), etc. from the first quarter of the current fiscal year. Accordingly, difference arising from changes in the Company’s ownership interests in subsidiaries in cases where control is retained is recognized in capital surplus, and the acquisition costs in connection with business combinations are recognized as expenses in the fiscal year in which they arise. Regarding business combinations that take place on or after the beginning of the first quarter of the current fiscal year, the Company has revised the method to reflect reviewed allocation of the acquisition costs arising from determination of the provisional accounting treatment on the quarterly consolidated financial statements to which the date of the business combination belongs. In addition, the minority interests item has been renamed non-controlling interests. For consistency with these changes, the consolidated financial statements for the first nine months of the previous fiscal year and the previous fiscal year have been revised.

The Company has adopted these accounting standards, etc. from the beginning of the first quarter of the current fiscal year, in accordance with the transitional accounting treatments set forth in Article 58-2 (4) of the Accounting Standard for Business Combinations, Article 44-5 (4) of the Accounting Standard for Consolidated Financial Statements, and Article 57-4 (4) of the Accounting Standard for Business Divestitures.

The effect of this change on the quarterly consolidated financial statements for the first nine months is insignificant.

Change in depreciation method of property, plant and equipment

Following tax law revisions, the Company has adopted the “Practical Solution on a Change in Depreciation Method due to Tax Reform 2016” (ASBJ Practical Issue Task Force (PITF) No. 32, issued on June 17, 2016) from the first quarter of the current fiscal year, and changed the depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016, from the declining-balance method to the straight-line method.

The effect of this change on the quarterly consolidated financial statements for the first nine months is insignificant.

(4) Additional Information

Transactions of delivering the Company's own stock to employees, etc. through trusts

The Company has established a Stock Compensation Employee Stock Ownership Plan (ESOP) Trust as an incentive plan for the purpose of reinforcing the commitment of executive officers (excluding executive officers who are directors) and senior management officers to contribute to medium and long-term growth in sales and earnings as well as corporate value.

(1) Summary of the plan

The Company established this trust by making a payment to the trust for the acquisition of the Company's stock. The trust beneficiaries are all eligible executive officers and senior management officers. In accordance with rules for the distribution of stock, eligible executive officers and managers are awarded certain number of points based on their positions and individual performance evaluation and the results of operations. These individuals can then receive the Company's stock based on the number of points. The executive officers and senior management officers make no payments because the Company's contributions to the trust cover the entire cost of purchasing the Company's stock through trust account.

(2) The Company's stock held by the trust account

The Company's stock held by the trust account is included in net assets as treasury shares at book value (excluding associated expenses). The number of shares of the Company's stock held by the trust account was 412,500 shares with a book value of 1,348 million yen as of November 30, 2016.

Stock compensation plan for directors based on results of operations

The Company has established a Board Incentive Plan (BIP) Trust as the stock compensation plan based on the results of company operations for the purpose of reinforcing the commitment of directors (excluding outside directors and directors who are not residents of Japan) to contribute to medium and long-term growth in sales and earnings as well as corporate value.

(1) Summary of the plan

The Company established this trust by making a payment to the trust for the acquisition of the Company's stock. The trust beneficiaries are all eligible directors. In accordance with rules for the distribution of stock, eligible directors are awarded points based on their positions and the achievement of performance goals in the fiscal year to be evaluated. After three years from the beginning of applicable fiscal years, these directors can then receive the Company's stock and cash from the disposal of the Company's stock as compensation, based on the number of points.

(2) The Company's stock held by the trust account

The Company's stock held by the trust account is included in net assets as treasury shares at book value (excluding associated expenses). The number of shares of the Company's stock held by the trust account was 143,400 shares with a book value of 468 million yen as of November 30, 2016.

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheet

(Million yen)

	FY2/16 (As of Feb. 29, 2016)	Third quarter of FY2/17 (As of Nov. 30, 2016)
Assets		
Current assets		
Cash and deposits	19,460	10,660
Notes and accounts receivable-trade	7,668	14,072
Inventories	15,076	20,743
Other	3,313	3,286
Allowance for doubtful accounts	(53)	(97)
Total current assets	45,465	48,666
Non-current assets		
Property, plant and equipment		
Store interior equipment, net	6,933	7,402
Other, net	4,282	4,079
Total property, plant and equipment	11,215	11,482
Intangible assets		
Goodwill	5,493	3,855
Other	1,471	1,819
Total intangible assets	6,965	5,675
Investments and other assets		
Investment securities	10,231	7,283
Lease and guarantee deposits	16,622	16,915
Other	207	1,507
Allowance for doubtful accounts	(253)	(252)
Total investments and other assets	26,807	25,454
Total non-current assets	44,988	42,611
Total assets	90,454	91,277
Liabilities		
Current liabilities		
Notes and accounts payable-trade	6,768	7,642
Electronically recorded obligations-operating	9,901	8,662
Short-term loans payable	1,867	1,564
Accounts payable-other	10,331	11,535
Income taxes payable	4,368	3,853
Provision for bonuses	2,212	1,178
Other provision	412	441
Other	563	317
Total current liabilities	36,426	35,195
Non-current liabilities		
Provision	94	202
Other	650	445
Total non-current liabilities	745	647
Total liabilities	37,171	35,843

(Million yen)

	FY2/16 (As of Feb. 29, 2016)	Third quarter of FY2/17 (As of Nov. 30, 2016)
Net assets		
Shareholders’ equity		
Capital stock	2,660	2,660
Capital surplus	6,987	7,227
Retained earnings	39,709	47,010
Treasury shares	(1,824)	(4,643)
Total shareholders’ equity	47,533	52,255
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,445	2,858
Deferred gains or losses on hedges	(263)	211
Foreign currency translation adjustment	567	109
Total accumulated other comprehensive income	5,749	3,179
Total net assets	53,282	55,434
Total liabilities and net assets	90,454	91,277

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statement of Income

(For the Nine-month Period)

(Million yen)

	First nine months of FY2/16 (Mar. 1, 2015 – Nov. 30, 2015)	First nine months of FY2/17 (Mar. 1, 2016 – Nov. 30, 2016)
Net sales	146,814	148,925
Cost of sales	60,751	61,468
Gross profit	86,063	87,456
Selling, general and administrative expenses	71,715	73,823
Operating income	14,347	13,632
Non-operating income		
Dividend income	98	125
House rent income	99	84
Other	319	166
Total non-operating income	517	376
Non-operating expenses		
Interest expenses	27	10
Foreign exchange losses	65	-
Loss on valuation of derivatives	4	97
Cost of lease revenue	72	69
Other	29	31
Total non-operating expenses	199	209
Ordinary income	14,665	13,800
Extraordinary income		
Gain on sales of investment securities	-	3,763
Gain on liquidation of subsidiaries and associates	-	77
Total extraordinary income	-	3,841
Extraordinary losses		
Impairment loss	331	38
Loss on disaster	-	85
Loss on sales of shares of subsidiaries and associates	173	-
Loss on liquidation of subsidiaries and associates	-	10
Total extraordinary losses	505	134
Net income before income taxes	14,159	17,507
Income taxes-current	6,124	6,592
Income taxes-deferred	70	(257)
Total income taxes	6,195	6,334
Net income	7,964	11,172
Net income attributable to owners of the parent	7,964	11,172

Quarterly Consolidated Statement of Comprehensive Income

(For the Nine-month Period)

(Million yen)

	First nine months of FY2/16 (Mar. 1, 2015 – Nov. 30, 2015)	First nine months of FY2/17 (Mar. 1, 2016 – Nov. 30, 2016)
Net income	7,964	11,172
Other comprehensive income		
Valuation difference on available-for-sale securities	3,091	(2,587)
Deferred gains or losses on hedges	(265)	474
Foreign currency translation adjustment	(143)	(457)
Total other comprehensive income	2,682	(2,570)
Comprehensive income	10,647	8,602
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	10,647	8,602
Comprehensive income attributable to non-controlling interests	-	-

(3) Notes to Quarterly Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Significant Changes in Shareholders' Equity

The Company has purchased 1,108,000 shares of its own shares following the resolution approved at the Board of Directors meeting held on September 30, 2016. Mainly for this reason, treasury shares increased by 2,818 million yen during the first nine months of the fiscal year to 4,643 million yen at the end of the third quarter.

4. Supplementary Information

(1) Number of Stores

Store format / region	As of Feb. 29, 2016	First nine months of FY2/17: Opened	Rebranded	Closed	Increase /decrease	As of Nov. 30, 2016
GLOBAL WORK	184	10	-	(2)	8	192
LOWRYS FARM	157	4	(3)	(6)	(5)	152
niko and ...	123	9	-	(2)	7	130
STUDIO CLIP	171	11	-	-	11	182
LEPSIM (Note 3)	130	6	-	-	6	136
JEANASIS	83	3	-	(4)	(1)	82
RAGEBLUE	59	3	-	(1)	2	61
HEATHER	67	6	9	(2)	13	80
Others	246	20	(6)	(9)	5	251
Total (Adastria)	1,220	72	-	(26)	46	1,266
Hong Kong	27	-	-	(1)	(1)	26
China	40	4	-	(5)	(1)	39
Taiwan	27	1	-	-	1	28
South Korea	10	-	-	(1)	(1)	9
Total (Overseas)	104	5	-	(7)	(2)	102
Total (Group)	1,324	77	-	(33)	44	1,368

Notes: 1. The number of stores is categorized by using brand operating divisions and geographic regions.

2. The number of stores includes e-commerce websites of other companies and e-commerce websites of Adastria.

3. The brand name of *LEPSIM LOWRYS FARM* has changed to *LEPSIM* in the first quarter of FY2/17.

(2) Sales for Brands and Regions

Brand / region		First nine months of FY2/17		YoY change (%)
		Sales (million yen)	Composition (%)	
	GLOBAL WORK	27,963	18.8	6.9
	LOWRYS FARM	18,230	12.2	(6.3)
	niko and ...	17,871	12.0	8.1
	STUDIO CLIP	16,356	11.0	6.8
	LEPSIM (Note 3)	11,716	7.9	3.7
	JEANASIS	9,227	6.2	1.9
	RAGEBLUE	6,549	4.4	(1.0)
	HEATHER	5,752	3.8	(3.4)
	Others	27,395	18.4	1.2
Total (Adastria)		141,064	94.7	2.6
	Hong Kong	4,842	3.3	(11.8)
	China	1,342	0.9	(8.3)
	Taiwan	1,102	0.7	(3.5)
	South Korea	573	0.4	(12.8)
Total (Overseas)		7,860	5.3	(12.0)
Total (Group)		148,925	100.0	1.4

Notes: 1. The number of stores is categorized by using brand operating divisions and geographic regions.
2. The above figures are sales to external customers and do not include internal sales between consolidated subsidiaries.
3. The brand name of *LEPSIM LOWRYS FARM* has changed to *LEPSIM* in the first quarter of FY2/17.

(3) Sales for Merchandise Categories

Category	First nine months of FY2/17		YoY change (%)
	Sales (million yen)	Composition (%)	
Men’s apparel (bottoms, tops)	21,408	14.4	8.1
Lady’s apparel (bottoms, tops)	97,711	65.6	(0.4)
Others	29,804	20.0	3.1
Total	148,925	100.0	1.4

Notes: 1. The others category includes additions to the provision for point card certificates and other items.
2. The above figures are sales to external customers and do not include internal sales between consolidated subsidiaries.

This financial report is solely a translation of the Company’s Kessan Tanshin (including attachments) in Japanese, which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.