

**Summary of Consolidated Financial Results**  
**for the Second Quarter of the Fiscal Year Ending February 28, 2018**  
**(Six Months Ended August 31, 2017)**

[Japanese GAAP]

September 29, 2017

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: October 13, 2017  
 Scheduled date of payment of dividend: October 20, 2017  
 Preparation of supplementary materials for quarterly financial results: Yes  
 Holding of quarterly financial results meeting: Yes (for investors)  
 Note: The original disclosure in Japanese was released on September 29, 2017 at 15:00 (GMT +9).

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

**1. Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending February 28, 2018**  
**(March 1, 2017 – August 31, 2017)**

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

	Net sales		Operating profit		Ordinary profit		Net income attributable to owners of the parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended Aug. 31, 2017	107,793	10.3	4,033	(49.9)	4,143	(48.5)	5,037	3.9
Six months ended Aug. 31, 2016	97,726	0.7	8,054	(1.0)	8,050	(3.3)	4,848	16.6

Note: Comprehensive income Six months ended Aug. 31, 2017: 2,040 million yen (down 40.7%)  
 Six months ended Aug. 31, 2016: 3,441 million yen (down 52.9%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Aug. 31, 2017	107.09	-
Six months ended Aug. 31, 2016	100.70	-

Reference: EBITDA Six months ended Aug. 31, 2017: 8,601 million yen (down 27.7%)  
 Six months ended Aug. 31, 2016: 11,903 million yen  
 EPS before goodwill amortization Six months ended Aug. 31, 2017: 134.76 yen (up 9.2%)  
 Six months ended Aug. 31, 2016: 123.37 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.

(2) Consolidated financial position

	Total assets		Net assets		Equity ratio	
	Million yen		Million yen		%	
As of Aug. 31, 2017	96,498		56,706		58.8	
As of Feb. 28, 2017	90,389		56,035		62.0	

Reference: Shareholders' equity As of Aug. 31, 2017: 56,706 million yen As of Feb. 28, 2017: 56,035 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. 28, 2017	-	35.00	-	40.00	75.00
Fiscal year ending Feb. 28, 2018	-	35.00	-	-	-
Fiscal year ending Feb. 28, 2018 (forecast)	-	-	-	40.00	75.00

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

**3. Consolidated Forecast for the Fiscal Year Ending February 28, 2018 (March 1, 2017 – February 28, 2018)**

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Net income attributable to owners of the parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	230,500	13.2	13,500	(9.5)	13,500	(10.8)	11,000	(5.0)	233.84

Note: Revision to the most recently announced consolidated forecast: Yes

Reference: EBITDA Fiscal year ending Feb. 28, 2018 (forecast): 22,800 million yen (down 1.0%)  
 EPS before goodwill amortization Fiscal year ending Feb. 28, 2018 (forecast): 291.23 yen (up 1.0%)

**\* Notes**

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

Newly added: 1 (Velvet, LLC)

Excluded: -

(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. Quarterly Consolidated Financial Statements and Notes, (4) Notes to Quarterly Consolidated Financial Statements, Changes in Accounting Policies” on page 10 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 Aug. 31, 2017:	48,800,000 shares	As of Feb. 28, 2017:	48,800,000 shares
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2) Number of treasury shares at the end of the period

As of Aug. 31, 2017:	1,758,695 shares	As of Feb. 28, 2017:	1,757,425 shares
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3) Average number of shares outstanding during the period

Six months ended Aug. 31, 2017:	47,041,975 shares	Six months ended Aug. 31, 2016:	48,153,477 shares
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Note 1: The current quarterly financial report is not subject to quarterly review procedures.

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 “1. Qualitative Information on Quarterly Consolidated Financial Performance, (3) Explanation of Consolidated Forecast and Other Forward-looking Statements” on page 4 regarding preconditions or other related matters for the forecast shown above.

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## 1. Qualitative Information on Quarterly Consolidated Financial Performance

### (1) Explanation of Results of Operations

Consolidated results		(Million yen)		
	First six months of FY2/17 (Mar. 1, 2016 – Aug. 31, 2016)	First six months of FY2/18 (Mar. 1, 2017 – Aug. 31, 2017)	YoY change (Amount)	YoY change (%)
Net sales	97,726	107,793	10,066	10.3
Operating profit	8,054	4,033	(4,021)	(49.9)
Ordinary profit	8,050	4,143	(3,906)	(48.5)
Net income attributable to owners of the parent	4,848	5,037	188	3.9
EBITDA	11,903	8,601	(3,302)	(27.7)
EPS before goodwill amortization (Yen)	123.37	134.76	11.38	9.2

Consolidated net sales in the first half (March 1-August 31, 2017) increased 10.3% year-on-year to 107,793 million yen, operating profit decreased 49.9% to 4,033 million yen, ordinary profit decreased 48.5% to 4,143 million yen, and net income attributable to owners of the parent increased 3.9% to 5,037 million yen.

Earnings before interest, taxes, depreciation and amortization (EBITDA) decreased 27.7% to 8,601 million yen and earnings per share (EPS) before goodwill amortization rose 9.2% to 134.76 yen. (\*)

One reason for the 10.3% increase in first half sales was the 4.4% increase in non-consolidated sales in Japan. The transfer in the first quarter of *PAGEBOY* and other apparel brand operations to consolidated subsidiary *ALICIA* and inclusion of the sales of U.S.-based *Velvet, LLC* from the second quarter (this company was acquired in the first quarter) also contributed to the sales growth.

In Japan, the brands *niko and...*, *STUDIO CLIP* and *BAYFLOW* performed well in the first half. (Please refer to the section “3. Supplementary Information, (1) Sales for Brands and Regions” for further information.)

The number of stores in Japan increased by 113 because of the inclusion of the operations of *ALICIA*. Overseas, the acquisition of *Velvet, LLC* added nine stores. In addition, we opened 79 stores (including seven overseas) and closed 28 stores (including nine overseas), resulting in a total network of 1,524 stores (including 115 overseas) at the end of August 2017. (Please refer to the section “3. Supplementary Information, (3) Number of Stores” for further information.)

The gross profit margin decreased 2.1 percentage points from one year earlier to 55.8% because priority was placed on reducing inventories.

The ratio of selling, general and administrative (SG&A) expenses to sales increased 2.4 percentage points to 52.0%. This was attributable mainly to increased advertising expenditures for major brands, IT system investments and expenses for relocating the Tokyo head office. As a result, the operating margin decreased 4.5 percentage points to 3.7%.

There was a gain on sales of investment securities of 4,373 million yen as extraordinary income and an extraordinary loss of 151 million yen for the impairment of store assets.

(\*) Since the fiscal year that ended in February 2014, the amortization of goodwill, which is not a cash expense, has created a large gap between changes in cash flows and changes in operating profit and all subsequent levels of earnings. Furthermore, comparisons with foreign companies are difficult because of differences in accounting standards of individual countries for recording goodwill amortization. As a result, we disclose EBITDA and EPS before goodwill amortization as reference financial indicators.

**EBITDA**

Operating profit + 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**

**1) Balance sheet position**

Total assets increased 6,109 million yen from as of February 28, 2017 to 96,498 million yen as of August 31, 2017. This was mainly due to increases in notes and accounts receivable-trade of 2,001 million yen, inventories of 1,714 million yen, goodwill of 3,139 million yen, lease and guarantee deposits of 1,861 million yen and other (deferred tax assets, etc.) of 2,066 million yen, while there was a decrease in investment securities of 5,040 million yen.

Liabilities increased 5,438 million yen to 39,792 million yen. This was mainly due to increases of 4,393 million yen in notes and accounts payable-trade and 510 million yen in short-term loans payable, while there was a decrease in income taxes payable of 712 million yen.

Net assets increased 671 million yen to 56,706 million yen. This was mainly due to an increase of 3,671 million yen in retained earnings, while there was a decrease of 3,077 million yen in valuation difference on available-for-sale securities.

**2) Cash flow position**

Cash and cash equivalents (hereinafter “net cash”) as of August 31, 2017 amounted to 18,727 million yen, or 1,979 million yen less than as of February 28, 2017.

A summary of cash flows from each activity during the first half of the current fiscal year is as follows:

**Cash flows from operating activities**

Net cash provided by operating activities totaled 5,588 million yen (compared with 2,834 million yen provided in the same period of the previous fiscal year). The main positive factors include net income before income taxes of 8,391 million yen, depreciation of 3,353 million yen, and increase in notes and accounts payable-trade of 2,140 million yen. Main negative factors include gain on sales of investment securities of 4,373 million yen and income taxes paid of 4,246 million yen.

**Cash flows from investing activities**

Net cash used in investing activities totaled 4,589 million yen (compared with 3,688 million yen used in the same period of the previous fiscal year). This was mainly due to the payments of 4,366 million yen for the purchase of property, plant and equipment, 3,906 million yen for the purchase of shares of subsidiaries resulting in change in scope of consolidation, and 1,589 million yen for lease and guarantee deposits, while there was proceeds of 5,082 million yen from sales of investment securities.

**Cash flows from financing activities**

Net cash used in financing activities totaled 2,971 million yen (compared with 2,234 million yen used in the same period of the previous fiscal year). This was mainly due to cash dividends paid of 1,903 million yen and repayments of long-term loans payable of 725 million yen.

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

The Company has revised the full year forecasts for the fiscal year ending February 28, 2018 that were announced on April 4, 2017, based on the results of operations in the first half of the current fiscal year.

For more information about this revision, please see the September 29, 2017 press release concerning this revision (Japanese version only).

**2. Quarterly Consolidated Financial Statements and Notes****(1) Quarterly Consolidated Balance Sheet**

(Million yen)

	FY2/17 (As of Feb. 28, 2017)	Second quarter of FY2/18 (As of Aug. 31, 2017)
<b>Assets</b>		
Current assets		
Cash and deposits	20,734	18,774
Notes and accounts receivable-trade	7,860	9,862
Inventories	16,351	18,066
Other	3,285	3,282
Allowance for doubtful accounts	(53)	(127)
Total current assets	48,178	49,858
Non-current assets		
Property, plant and equipment		
Store interior equipment, net	6,491	7,758
Other, net	3,952	4,293
Total property, plant and equipment	10,444	12,052
Intangible assets		
Goodwill	3,309	6,449
Other	2,242	3,127
Total intangible assets	5,552	9,576
Investments and other assets		
Investment securities	7,677	2,637
Lease and guarantee deposits	17,237	19,099
Other	1,523	3,589
Allowance for doubtful accounts	(225)	(315)
Total investments and other assets	26,213	25,011
Total non-current assets	42,210	46,640
Total assets	90,389	96,498
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable-trade	6,361	10,755
Electronically recorded obligations-operating	8,919	8,737
Short-term loans payable	2,027	2,538
Accounts payable-other	8,941	9,243
Income taxes payable	4,470	3,757
Provision for bonuses	2,195	2,424
Other provision	453	705
Other	295	564
Total current liabilities	33,665	38,727
Non-current liabilities		
Provision	241	266
Other	447	797
Total non-current liabilities	688	1,064
Total liabilities	34,353	39,792

(Million yen)

	FY2/17 (As of Feb. 28, 2017)	Second quarter of FY2/18 (As of Aug. 31, 2017)
Net assets		
Shareholders' equity		
Capital stock	2,660	2,660
Capital surplus	7,227	7,227
Retained earnings	47,413	51,085
Treasury shares	(4,645)	(4,649)
Total shareholders' equity	52,654	56,323
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,190	112
Deferred gains or losses on hedges	(19)	(29)
Foreign currency translation adjustment	209	300
Total accumulated other comprehensive income	3,380	383
Total net assets	56,035	56,706
Total liabilities and net assets	90,389	96,498

**(2) Quarterly Consolidated Statements of Income and Comprehensive Income**

**Quarterly Consolidated Statement of Income**

**(For the Six-month Period)**

(Million yen)

	First six months of FY2/17 (Mar. 1, 2016 – Aug. 31, 2016)	First six months of FY2/18 (Mar. 1, 2017 – Aug. 31, 2017)
Net sales	97,726	107,793
Cost of sales	41,180	47,693
Gross profit	56,545	60,099
Selling, general and administrative expenses	48,491	56,066
Operating profit	8,054	4,033
Non-operating income		
Dividend income	69	45
House rent income	57	55
Other	103	171
Total non-operating income	230	272
Non-operating expenses		
Interest expenses	10	10
Share of loss of entities accounted for using equity method	-	39
Foreign exchange losses	117	17
Loss on valuation of derivatives	42	18
Cost of lease revenue	47	48
Other	16	26
Total non-operating expenses	233	161
Ordinary profit	8,050	4,143
Extraordinary income		
Gain on sales of non-current assets	-	25
Gain on sales of investment securities	-	4,373
Gain on liquidation of subsidiaries and associates	78	-
Total extraordinary income	78	4,398
Extraordinary losses		
Impairment loss	24	151
Loss on disaster	82	-
Loss on liquidation of subsidiaries and associates	10	-
Total extraordinary losses	117	151
Net income before income taxes	8,011	8,391
Income taxes-current	2,918	3,323
Income taxes-deferred	244	29
Total income taxes	3,162	3,353
Net income	4,848	5,037
Net income attributable to owners of the parent	4,848	5,037

**Quarterly Consolidated Statement of Comprehensive Income****(For the Six-month Period)**

(Million yen)

	First six months of FY2/17 (Mar. 1, 2016 – Aug. 31, 2016)	First six months of FY2/18 (Mar. 1, 2017 – Aug. 31, 2017)
Net income	4,848	5,037
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,140)	(3,077)
Deferred gains or losses on hedges	159	(10)
Foreign currency translation adjustment	(426)	91
Total other comprehensive income	(1,407)	(2,996)
Comprehensive income	3,441	2,040
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	3,441	2,040
Comprehensive income attributable to non-controlling interests	-	-

**(3) Quarterly Consolidated Statement of Cash Flows**

(Million yen)

	First six months of FY2/17 (Mar. 1, 2016 – Aug. 31, 2016)	First six months of FY2/18 (Mar. 1, 2017 – Aug. 31, 2017)
Cash flows from operating activities		
Net income before income taxes	8,011	8,391
Depreciation	2,859	3,353
Impairment loss	24	151
Amortization of goodwill	1,092	1,301
Increase (decrease) in allowance for doubtful accounts	10	59
Increase (decrease) in provision for bonuses	(14)	139
Share of (profit) loss of entities accounted for using equity method	-	39
Loss (gain) on sales of non-current assets	-	(25)
Loss (gain) on sales of investment securities	-	(4,373)
Loss (gain) on liquidation of subsidiaries and associates	(67)	-
Loss on disaster	82	-
Decrease (increase) in notes and accounts receivable-trade	(1,257)	(889)
Decrease (increase) in inventories	(1,830)	(523)
Increase (decrease) in notes and accounts payable-trade	(357)	2,140
Increase (decrease) in accounts payable-other	(570)	383
Increase (decrease) in accrued consumption taxes	(1,495)	(148)
Other, net	320	(201)
Subtotal	6,808	9,798
Interest and dividend income received	70	46
Interest expenses paid	(10)	(10)
Income taxes paid	(4,033)	(4,246)
Net cash provided by (used in) operating activities	2,834	5,588
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,743)	(4,366)
Proceeds from sales of property, plant and equipment	-	105
Purchase of intangible assets	(451)	(1,417)
Purchase of investment securities	(671)	(57)
Proceeds from sales of investment securities	-	5,082
Payments for lease and guarantee deposits	(428)	(1,589)
Proceeds from collection of lease and guarantee deposits	620	538
Purchase of shares of subsidiaries resulting in change in scope of consolidation	-	(3,906)
Proceeds from acquisition of business	-	1,023
Other, net	(13)	(2)
Net cash provided by (used in) investing activities	(3,688)	(4,589)
Cash flows from financing activities		
Increase (decrease) in short-term loans payable	-	(231)
Repayments of long-term loans payable	-	(725)
Cash dividends paid	(2,167)	(1,903)
Purchase of treasury shares	(13)	(3)
Other, net	(52)	(107)
Net cash provided by (used in) financing activities	(2,234)	(2,971)
Effect of exchange rate change on cash and cash equivalent	(163)	(6)
Net increase (decrease) in cash and cash equivalents	(3,250)	(1,979)
Cash and cash equivalents at beginning of period	19,452	20,706
Cash and cash equivalents at end of period	16,201	18,727

#### **(4) Notes to Quarterly Consolidated Financial Statements**

##### **Going Concern Assumption**

Not applicable.

##### **Significant Changes in Shareholders' Equity**

Not applicable.

##### **Changes in Accounting Policies**

The Company has adopted the “Implementation Guidance on Recoverability of Deferred Tax Assets” (Accounting Standards Board of Japan (ASBJ) Statement No. 26, March 28, 2016) from the first quarter of the current fiscal year and partially revised its accounting method for determining the recoverability of deferred tax assets.

The Company has applied this implementation guidance in accordance with the transitional accounting treatments set forth in Paragraph 49 (4) of this implementation guidance. Accordingly, the differences between deferred tax assets and deferred tax liabilities determined by applying the applicable provisions of Paragraph 49 (3), Items 1 through 3 of the implementation guidance at the beginning of the first quarter of the current fiscal year and deferred tax assets and deferred tax liabilities at the end of the previous fiscal year are added to retained earnings at the beginning of the first quarter of the current fiscal year.

The effect of this matter on the quarterly consolidated financial statements at the beginning of the first quarter of the current fiscal year is insignificant.

### 3. Supplementary Information

#### (1) Sales for Brands and Regions

Brand / region	First six months of FY2/18		YoY change (%)
	Sales (million yen)	Composition (%)	
GLOBAL WORK	18,828	17.5	2.5
niko and ...	13,609	12.6	17.0
STUDIO CLIP	12,404	11.5	12.7
LOWRYS FARM	11,150	10.4	(6.9)
LEPSIM	7,444	6.9	(3.8)
JEANASIS	5,970	5.5	(1.1)
RAGEBLUE	4,099	3.8	(5.1)
BAYFLOW	3,777	3.5	60.9
Others	19,230	17.8	1.0
Total (Adastria)	96,514	89.5	4.4
ALICIA CO., LTD.	5,057	4.7	-
Total (Japan)	101,572	94.2	9.8
Hong Kong	2,982	2.8	(8.2)
China	895	0.8	0.9
Taiwan	806	0.8	7.0
South Korea	421	0.4	17.4
USA (Note 3)	1,114	1.0	-
Total (Overseas)	6,220	5.8	18.5
Total (Group)	107,793	100.0	10.3

- 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 USA figures include the second quarter sales of Velvet, LLC, a consolidated subsidiary acquired at the end of the first quarter.

#### (2) Sales for Merchandise Categories

Category	First six months of FY2/18		YoY change (%)
	Sales (million yen)	Composition (%)	
Men's apparel (bottoms, tops)	14,742	13.7	5.3
Lady's apparel (bottoms, tops)	71,658	66.5	10.8
Others	21,392	19.8	12.2
Total	107,793	100.0	10.3

- 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.

**(3) Number of Stores**

Brand / region	Number of stores					
	As of Feb. 28, 2017	First six months of FY2/18				As of Aug. 31, 2017
		Increase (Note 3)	Opened	Closed	Increase /decrease	
GLOBAL WORK	192	-	10	(2)	8	200
niko and ...	129	-	7	(2)	5	134
STUDIO CLIP	182	-	10	-	10	192
LOWRYS FARM	152	-	5	(1)	4	156
LEPSIM	134	-	9	(3)	6	140
JEANASIS	80	-	3	(1)	2	82
RAGEBLUE	58	-	1	-	1	59
BAYFLOW	32	-	5	-	5	37
Others	284	-	21	(7)	14	298
Total (Adastria)	1,243	-	71	(16)	55	1,298
ALICIA CO., LTD.	-	113	1	(3)	111	111
Total (Japan)	1,243	113	72	(19)	166	1,409
Hong Kong	25	-	-	(1)	(1)	24
China	45	-	6	(8)	(2)	43
Taiwan	29	-	-	-	-	29
South Korea	9	-	1	-	1	10
USA	-	9	-	-	9	9
Total (Overseas)	108	9	7	(9)	7	115
Total (Group)	1,351	122	79	(28)	173	1,524

- 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. "Increase" represents the increase in the number of stores resulting from the transfer of the operations of ALICIA and the consolidation of Velvet, LLC in the United States.

*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.*