

Summary of Consolidated Financial Results for the Fiscal Year Ended February 28, 2022

[Japanese GAAP]

April 13, 2022

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Scheduled date of Annual General Meeting of Shareholders: May 26, 2022
 Scheduled date of payment of dividend: May 11, 2022
 Scheduled date of filing of Annual Securities Report: May 27, 2022
 Preparation of supplementary materials for financial results: Yes
 Holding of financial results meeting: Yes (for investors)

Note: The original disclosure in Japanese was released on April 13, 2022 at 15:30 (GMT +9).

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

1. Consolidated Financial Results for the Fiscal Year Ended February 28, 2022 (March 1, 2021 – February 28, 2022)

(1) Consolidated results of operations (Percentages shown for net sales and incomes 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	%
Fiscal year ended Feb. 28, 2022	201,582	9.6	6,564	756.1	8,166	173.9	4,917	-
Fiscal year ended Feb. 28, 2021	183,870	(17.3)	766	(94.0)	2,981	(76.8)	(693)	-
Note: Comprehensive income	Fiscal year ended Feb. 28, 2022: 5,280 million yen (-%)		Fiscal year ended Feb. 28, 2021: (888) million yen (-%)					
	Net income per share	Diluted net income per share	ROE	Ratio of ordinary profit to total assets	Ratio of operating profit to net sales			
	Yen	Yen	%	%	%			
Fiscal year ended Feb. 28, 2022	108.72	-	9.4	8.4	3.3			
Fiscal year ended Feb. 28, 2021	(14.88)	-	(1.3)	3.1	0.4			

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Feb. 28, 2022	97,957	54,963	55.1	1,192.62
As of Feb. 28, 2021	95,449	50,701	53.1	1,122.71
Reference: Shareholders' equity	As of Feb. 28, 2022: 53,963 million yen		As of Feb. 28, 2021: 50,701 million yen	

(3) Consolidated cash flow position

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of the period
	Million yen	Million yen	Million yen	Million yen
Fiscal year ended Feb. 28, 2022	3,504	(7,780)	(3,251)	16,863
Fiscal year ended Feb. 28, 2021	11,933	(7,366)	(6,840)	24,082

2. Dividends

	Dividend per share					Total dividends	Dividend payout ratio (consolidated)	Dividend on equity (consolidated)
	1Q-end	2Q-end	3Q-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Fiscal year ended Feb. 28, 2021	-	15.00	-	25.00	40.00	1,856	-	3.4
Fiscal year ended Feb. 28, 2022	-	25.00	-	30.00	55.00	2,510	50.6	4.8
Fiscal year ending Feb. 28, 2023 (forecast)	-	25.00	-	30.00	55.00		39.5	

3. Consolidated Forecast for the Fiscal Year Ending February 28, 2023 (March 1, 2022 – February 28, 2023)

(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	230,000	14.1	10,000	52.3	10,000	22.5	6,300	28.1	139.23

*** Notes**

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

Newly added: 1 (Zetton, Inc.)

Excluded: 1 (Adastria Korea Co., Ltd.)

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

1) Changes in accounting policies due to revisions in accounting standards, others: None

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

3) Changes in accounting-based estimates: None

4) Restatements: None

(3) Number of outstanding shares (common stock)

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

As of Feb. 28, 2022: 48,800,000 shares As of Feb. 28, 2021: 48,800,000 shares

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

As of Feb. 28, 2022: 3,552,459 shares As of Feb. 28, 2021: 3,639,505 shares

3) Average number of shares outstanding during the period

Fiscal year ended Feb. 28, 2022: 45,229,961 shares Fiscal year ended Feb. 28, 2021: 46,598,046 shares

Reference: Summary of Non-consolidated Financial Results

1. Non-consolidated Financial Results for the Fiscal Year Ended February 28, 2022

(March 1, 2021 – February 28, 2022)

(1) Non-consolidated results of operations

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended Feb. 28, 2022	174,065	8.2	5,533	263.6	6,667	140.2	4,443	-
Fiscal year ended Feb. 28, 2021	160,940	(18.5)	1,521	(87.3)	2,775	(74.2)	(527)	-

	Net income per share	Diluted net income per share
	Yen	Yen
Fiscal year ended Feb. 28, 2022	98.25	-
Fiscal year ended Feb. 28, 2021	(11.32)	-

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Feb. 28, 2022	78,983	46,973	59.5	1,038.14
As of Feb. 28, 2021	81,340	44,511	54.7	985.63

Reference: Shareholders' equity As of Feb. 28, 2022: 46,973 million yen As of Feb. 28, 2021: 44,511 million yen

Note 1: The current financial report is not subject to audit by certified public accountants or auditing firms.

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. These statements are not promises by Adastria regarding future performance. Actual results may differ significantly from these forecasts for a number of factors. Please refer to the section "1. Overview of Results of Operations (4) Outlook" on page 5 regarding preconditions or other related matters for the forecast shown above.

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1. Overview of Results of Operations

(1) Results of Operations

Consolidated results			(Million yen)	
	FY2/21 (Mar. 1, 2020 – Feb. 28, 2021)	FY2/22 (Mar. 1, 2021 – Feb. 28, 2022)	YoY change (Amount)	YoY change (%)
Net sales	183,870	201,582	17,711	9.6
Operating profit	766	6,564	5,797	756.1
Ordinary profit	2,981	8,166	5,184	173.9
Net income attributable to owners of the parent	(693)	4,917	5,610	-

Consolidated net sales increased 9.6% year-on-year to 201,582 million yen, operating profit increased 756.1% to 6,564 million yen, ordinary profit increased 173.9% to 8,166 million yen, and net income attributable to owners of the parent was 4,917 million yen (net loss of 693 million yen in the previous fiscal year).

Sales in Japan increased 8.9% year-on-year to 188,655 million yen. There were states of emergency and other pandemic safety measures in Japan during almost the entire first half of the fiscal year. In the second half, the number of customers at stores fell sharply for a while because of an upturn in the pandemic caused by a new variant. As a result, the business climate was uncertain with big swings in consumer sentiment during the fiscal year. Despite this challenging environment, store operations were better than in the previous fiscal year and there was a recovery in demand associated with outings during the second half.

E-commerce sales in Japan continued to grow, increasing 6.8%. As the e-commerce market grew during the pandemic, numerous activities to attract customers were strengthened, including the use of TV commercials for the Adastria e-commerce “.st” website. In addition, sales were higher at BUZZWIT, a subsidiary that handles brands exclusively for the e-commerce market.

Overseas sales increased 20.7% to 12,926 million yen. Sales increased 87.8% in Mainland China due to the opening of the second niko and ... store in Shanghai. Furthermore, sales increased in Hong Kong, Taiwan, the United States and other regions as economies recovered worldwide. As a result, there was a fiscal year profit in the overseas business.

We opened 97 stores (including 10 overseas) and closed 69 stores (including 5 overseas), resulting in a total of 1,428 stores (including 73 overseas) at the end of the fiscal year. The number of stores does not include the stores of Zetton, Inc., which became a consolidated subsidiary in February 2022.

Earnings were negatively affected by the need to reduce inventories during states of emergency, the yen’s depreciation and the higher cost of raw materials. Despite these difficulties, the gross profit margin increased 0.6 percentage point to 55.1% because discount sales were held down by supplying the right products at the right prices and at the right times.

Selling, general and administrative expenses increased 5,089 million yen. One reason was higher personnel expenses and store leasing expenses because of a decline in store operating hour reductions and suspensions of store operations from the previous fiscal year. Higher advertising expenditures to increase public awareness of the Adastria e-commerce “.st” website was another reason. However, there was an operating profit as the ratio of selling, general and administrative expenses to sales improved by 2.2 percentage points to 51.8% because of sales growth. The operating margin rose 2.9 percentage points to 3.3%. In addition, non-operating income includes employment adjustment subsidies of 549 million yen associated with temporary store closings and a subsidy of 676 million yen related to shortened operating hours caused by the pandemic and foreign exchange gains of 310 million yen.

There was extraordinary income of 264 million yen for the reversal of the allowance for doubtful accounts resulting from the conversion of a loan to Lovebonito Holdings Pte. Ltd., a Singapore company using the “Love Bonito” omnichannel fashion brand, to equity to become an equity partner of this company and 81 million yen due to a gain on the liquidation of the Korean subsidiary. There was an extraordinary loss of 600 million yen for

the impairment of store assets.

Supplementary Information

(1) Sales for Brands and Regions

Brand / region	FY2/22		YoY change (%)
	Sales (million yen)	Composition (%)	
GLOBAL WORK	37,762	18.7	11.6
niko and ...	27,227	13.5	4.3
LOWRYS FARM	20,374	10.1	4.8
studio CLIP	18,970	9.4	2.2
LEPSIM	11,790	5.9	5.9
JEANASIS	10,526	5.2	6.0
BAYFLOW	9,122	4.5	4.7
RAGEBLUE	5,801	2.9	6.8
Others	29,815	14.8	19.3
Total (Adataria)	171,390	85.0	8.4
BUZZWIT Co., Ltd.	6,884	3.4	8.0
ELEMENT RULE Co., Ltd.	9,828	4.9	18.1
Other consolidated subsidiaries	551	0.3	71.1
Total (Japan)	188,655	93.6	8.9
Hong Kong	2,820	1.4	8.9
Mainland China	2,356	1.2	87.8
Taiwan	3,046	1.5	11.0
USA	4,703	2.3	36.7
Total (Overseas)	12,926	6.4	20.7
Total (Group)	201,582	100.0	9.6

- 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.

(2) Sales for Merchandise Categories

Category	FY2/22		YoY change (%)
	Sales (million yen)	Composition (%)	
Men's apparel (bottoms, tops)	30,831	15.3	16.0
Lady's apparel (bottoms, tops)	128,570	63.8	10.3
Others	42,180	20.9	3.5
Total	201,582	100.0	9.6

- 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, 2021	FY2/22				As of Feb. 28, 2022
		Opened	Changed	Closed	Increase /decrease	
GLOBAL WORK	209	1	-	(4)	(3)	206
niko and ...	144	2	-	(2)	-	144
LOWRYS FARM	134	4	-	(2)	2	136
studio CLIP	183	3	-	(2)	1	184
LEPSIM	122	1	-	(3)	(2)	120
JEANASIS	72	3	-	(2)	1	73
BAYFLOW	56	4	-	-	4	60
RAGEBLUE	49	1	-	(2)	(1)	48
Others	259	40	-	(25)	15	274
Total (Adastria)	1,228	59	-	(42)	17	1,245
BUZZWIT Co., Ltd.	14	6	-	(2)	4	18
ELEMENT RULE Co., Ltd.	87	15	-	(18)	(3)	84
Other consolidated subsidiaries	3	7	-	(2)	5	8
Total (Japan)	1,332	87	-	(64)	23	1,355
Hong Kong	14	2	-	(2)	-	14
Mainland China	3	3	-	-	3	6
Taiwan	41	4	-	(2)	2	43
USA	10	1	-	(1)	-	10
Total (Overseas)	68	10	-	(5)	5	73
Total (Group)	1,400	97	-	(69)	28	1,428

- 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 number of stores does not include the stores of Zetton, Inc., which Adastria acquired during the current fiscal year, because the last day of the fiscal year is used as the acquisition date for accounting purposes.

(2) Financial Position

Assets

Current assets decreased 3,400 million yen from as of February 28, 2021 to 48,169 million yen as of February 28, 2022. This was mainly due to a decrease of 7,202 million yen in cash and deposits, while there was an increase of 3,540 million yen in inventories.

Non-current assets increased 5,907 million yen to 49,787 million yen. This was mainly due to increases of 814 million yen in buildings and structures, net, 1,784 million yen in goodwill and 1,330 million yen in other (software, etc.) under intangible assets.

Liabilities

Current liabilities decreased 2,638 million yen to 38,416 million yen. This was mainly due to decreases of 3,590 million yen in accounts payable-other and 903 million yen in income taxes payable, while there was an increase of 1,733 million yen in notes and accounts payable-trade.

Non-current liabilities increased 884 million yen to 4,577 million yen. This was mainly due to an increase of 896 million yen in long-term borrowings, while there was a decrease of 207 million yen in lease obligations.

Net assets

Net assets increased 4,261 million yen to 54,963 million yen. This was mainly due to increases of 2,634 million yen in retained earnings and 1,000 million yen in non-controlling interests.

(3) Cash Flows

Cash and cash equivalents (hereinafter “net cash”) as of February 28, 2022 amounted to 16,863 million yen, or 7,219 million yen less than as of February 28, 2021.

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

Cash flows from operating activities

Net cash provided by operating activities totaled 3,504 million yen (a decrease of 8,429 million yen, compared with the previous fiscal year). The main positive factors include net income before income taxes of 7,911 million yen and depreciation of 7,044 million yen. Main negative factors include an increase in inventories of 3,266 million yen, a decrease in accrued consumption taxes of 4,021 million yen and income taxes paid of 3,381 million yen.

Cash flows from investing activities

Net cash used in investing activities totaled 7,780 million yen (an increase of 414 million yen). This was mainly due to the payments of 3,796 million yen for the purchase of property, plant and equipment, 3,136 million yen for the purchase of intangible assets and 788 million yen for leasehold and guarantee deposits.

Cash flows from financing activities

Net cash used in financing activities totaled 3,251 million yen (a decrease of 3,588 million yen). This was mainly due to cash dividends paid of 2,283 million yen and repayments of lease obligations of 967 million yen.

Reference: Cash flow indicators

	FY2/20	FY2/21	FY2/22
Shareholders' equity ratio (%)	58.3	53.1	55.1
Shareholders' equity ratio based on market prices (%)	84.2	94.4	78.4
Interest-bearing debt to cash flow ratio	0.2	0.3	1.4
Interest coverage ratio (times)	200.8	74.6	23.6

Notes: 1. Shareholders' equity ratio: Shareholders' equity / Total assets

2. Shareholders' equity ratio based on market prices: Market capitalization / Total assets

3. Interest-bearing debt to cash flow ratio: Interest-bearing debt / Operating cash flows

4. Interest coverage ratio: Operating cash flows / Interest payments

* Market capitalization is calculated by multiplying the closing share price at the end of the period by the number of shares outstanding at the end of the period, excluding treasury shares.

* Operating cash flows are calculated using the figures for operating cash flows in the consolidated statement of cash flows. Interest-bearing debt includes all liabilities on the consolidated balance sheet that incur interest. Interest payments are calculated using the figures for interest expenses paid in the consolidated statement of cash flows.

(4) Outlook

The Japanese economy and the global economy are expected to slowly return to normal because vaccinations and other measures are making economic and social activity possible while living with COVID-19. However, there are increasing concerns about the business climate because of the rising cost of raw materials and energy, upturns in inflation and interest rates, the yen's depreciation, and geopolitical risk. Even if a recovery in consumer spending happens as economic activity returns to normal, lifestyle changes caused by the pandemic such as teleworking and different consumer preferences will not be reversed. The outlook for market conditions must be based on the premise that the behavior of consumers, including spending by foreign tourists in Japan, will not go back to the situation prior to the pandemic. At the same time, there are numerous positive trends for the Adastria Group. One example is increasing demand for one-mile wear and household products as people spend more time at home. Other beneficial shifts in consumer preferences are the increasing popularity of outdoor activities, the increasing use of casual apparel for business activities, and the growth of the e-commerce market. We are taking many actions to target these new categories of demand.

From a medium to long-term perspective, the apparel market in Japan is certain to structurally shrink slowly as

the population ages, the number of children falls and disposable income decreases. In other countries, the growth of apparel markets is likely to continue as populations increase and personal income in emerging countries climbs.

To continue growing in this business climate, we have updated our growth strategies for 2025 and established a medium-term management plan. This plan has the following four key elements.

- (1) In the apparel business in Japan, we will divide our multi-brand portfolio, which has a large number of innovative brands, into three categories. First is independent brands, where we will use our own initiatives for developing these into major brands. Second is growth brands, where our goal is rapid growth by focusing on new markets and new customers. Third is profit brands, where our goal is higher efficiency while building even stronger ties with customers. Our objective is growth of the scale of operations and of our earnings by making strategic investments and implementing business strategies that match the current stage of each category of brands.
- (2) For our digital strategy, as the e-commerce market continues to expand, we will make investments to raise the awareness of our e-commerce operations and the capabilities of these operations. In addition, we will add more merchandise categories to our e-commerce operations and strengthen relationships between our store personnel and customers. Our objectives to increase the number of active customers and the number of purchases these customers make.
- (3) Our overseas strategy is centered on a “glocal” approach that reflects the characteristics of each region where we have operations. We plan to continue growing in China while starting operations in Southeast Asia and other areas where we are not yet active. Expanding e-commerce outside Japan is another goal.
- (4) For new businesses, we plan to enlarge our lineup of businesses and sources of earnings, such as by adding a restaurant business, in order to reflect the diversification of our customers’ life styles and changes in consumption patterns. Launching and expanding B-to-B businesses is another goal for new businesses. The B-to-B sector will allow us to target new opportunities in the fashion industry and build new business models that span different business formats.

By taking actions based on these strategies, we are determined to reach the following targets for the fiscal year ending in February 2026: sales of 280 billion yen, operating margin of 8% and an ROE of at least 15%.

(5) Basic Policy on Profit Distribution, and Dividend Plans for the Current and Next Fiscal Years

Our goal is to maximize the overall satisfaction of our customers, shareholders, business partners and employees as we achieve the long-term growth of corporate value (shareholder value) by making investments needed to create highly appealing brands, increase the use of digital technologies and achieve business growth on a global scale. For the distribution of earnings to shareholders, we use a consolidated payout ratio before goodwill amortization of 30% as the basic policy. Repurchases will be determined in an appropriate and timely manner while taking into account changes in our stock price, our financial position and other factors.

The forecast for the year-end dividend for the fiscal year that ended in February 2022 was determined by taking into account the stability of dividends and the need for proper balance between investments and shareholder distributions. On March 18, 2022, we increased our net income forecast for the fiscal year that ended in February 2022 and raised the year-end dividend forecast from 25 yen to 30 yen. As a result, the fiscal year dividend forecast is 55 yen, 5 yen higher than the forecast announced on April 7, 2021.

For the fiscal year ending in February 2023, we plan to pay an annual dividend of 55 yen.

2. Basic Approach for the Selection of Accounting Standards

Adastria prepares its consolidated financial statements based on the generally accepted accounting principles in Japan to permit comparisons with prior years and with the financial data of other companies.

We will take suitable actions with regard to the application of International Financial Reporting Standards (IFRS) by taking into account associated factors in Japan and other countries.

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

(Million yen)

	FY2/21 (As of Feb. 28, 2021)	FY2/22 (As of Feb. 28, 2022)
Assets		
Current assets		
Cash and deposits	24,179	16,976
Notes and accounts receivable-trade	9,751	9,878
Inventories	15,718	19,259
Other	1,995	2,126
Allowance for doubtful accounts	(74)	(71)
Total current assets	51,569	48,169
Non-current assets		
Property, plant and equipment		
Buildings and structures	6,010	8,374
Accumulated depreciation	(2,318)	(3,868)
Buildings and structures, net	3,691	4,506
Store interior equipment	32,901	35,223
Accumulated depreciation	(28,678)	(30,818)
Store interior equipment, net	4,222	4,404
Land	2,366	2,366
Construction in progress	38	402
Other	7,042	9,291
Accumulated depreciation	(2,785)	(4,965)
Other, net	4,257	4,325
Total property, plant and equipment	14,577	16,005
Intangible assets		
Software	4,751	6,417
Goodwill	113	1,897
Other	2,428	2,092
Total intangible assets	7,292	10,406
Investments and other assets		
Investment securities	260	1,003
Leasehold and guarantee deposits	15,162	15,426
Deferred tax assets	6,463	7,090
Other	1,308	205
Allowance for doubtful accounts	(1,184)	(351)
Total investments and other assets	22,010	23,375
Total non-current assets	43,880	49,787
Total assets	95,449	97,957

(Million yen)

	FY2/21 (As of Feb. 28, 2021)	FY2/22 (As of Feb. 28, 2022)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	9,548	11,282
Electronically recorded obligations-operating	7,360	6,620
Short-term borrowings	-	95
Current portion of long-term borrowings	-	455
Lease obligations	672	805
Accounts payable-other	14,040	10,449
Income taxes payable	4,151	3,247
Provision for bonuses	2,170	2,179
Provision for point card certificates	1,285	1,728
Other provisions	420	446
Other	1,405	1,104
Total current liabilities	41,055	38,416
Non-current liabilities		
Long-term borrowings	-	896
Lease obligations	2,966	2,758
Provisions	356	322
Other	370	600
Total non-current liabilities	3,692	4,577
Total liabilities	44,747	42,994
Net assets		
Shareholders' equity		
Share capital	2,660	2,660
Capital surplus	7,213	7,213
Retained earnings	48,479	51,114
Treasury shares	(7,917)	(7,636)
Total shareholders' equity	50,435	53,351
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	0	8
Deferred gains or losses on hedges	34	45
Foreign currency translation adjustment	231	558
Total accumulated other comprehensive income	266	611
Non-controlling interests	-	1,000
Total net assets	50,701	54,963
Total liabilities and net assets	95,449	97,957

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

(Million yen)

	FY2/21 (Mar. 1, 2020 – Feb. 28, 2021)	FY2/22 (Mar. 1, 2021 – Feb. 28, 2022)
Net sales	183,870	201,582
Cost of sales	83,744	90,569
Gross profit	100,125	111,012
Selling, general and administrative expenses		
Advertising expenses	7,163	8,153
Provision of allowance for doubtful accounts	47	41
Remuneration for directors (and other officers)	457	497
Salaries and bonuses	29,195	29,605
Provision for bonuses	2,152	2,129
Welfare expenses	4,956	4,993
Rents	29,220	30,571
Lease payments	482	580
Depreciation	6,841	6,679
Amortization of goodwill	157	58
Other	18,683	21,136
Total selling, general and administrative expenses	99,358	104,448
Operating profit	766	6,564
Non-operating income		
Interest income	69	11
Dividend income	2	3
Foreign exchange gains	75	310
Income from contribution to facilities	60	71
Subsidy income	217	676
Revenue from electric power sales	36	34
Subsidies for employment adjustment	1,767	549
Other	333	221
Total non-operating income	2,562	1,880
Non-operating expenses		
Interest expenses	160	148
Loss on valuation of derivatives	89	59
Commitment fee	25	45
Other	72	26
Total non-operating expenses	346	278
Ordinary profit	2,981	8,166
Extraordinary income		
Gain on liquidation of subsidiaries and associates	-	81
Reversal of allowance for doubtful accounts	-	264
Total extraordinary income	-	346
Extraordinary losses		
Impairment loss	1,322	600
Provision of allowance for doubtful accounts	874	-
Loss on liquidation of business	137	-
Total extraordinary losses	2,335	600
Net income before income taxes	646	7,911
Income taxes-current	962	3,124
Income taxes-deferred	377	(129)
Total income taxes	1,340	2,994
Net income (loss)	(693)	4,917
Net loss attributable to non-controlling interests	-	(0)
Net income (loss) attributable to owners of the parent	(693)	4,917

Consolidated Statement of Comprehensive Income

(Million yen)

	FY2/21 (Mar. 1, 2020 – Feb. 28, 2021)	FY2/22 (Mar. 1, 2021 – Feb. 28, 2022)
Net income (loss)	(693)	4,917
Other comprehensive income		
Valuation difference on available-for-sale securities	0	8
Deferred gains or losses on hedges	27	10
Foreign currency translation adjustment	(222)	343
Total other comprehensive income	(195)	363
Comprehensive income	(888)	5,280
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	(888)	5,280
Comprehensive income attributable to non-controlling interests	-	(0)

(3) Consolidated Statement of Changes in Equity

FY2/21 (Mar. 1, 2020 – Feb. 28, 2021)

(Million yen)

	Shareholders' equity				Total shareholders' equity
	Share capital	Capital surplus	Retained earnings	Treasury shares	
Balance at beginning of period	2,660	7,213	51,079	(4,372)	56,580
Changes during period					
Dividends of surplus			(1,906)		(1,906)
Net loss attributable to owners of the parent			(693)		(693)
Purchase of treasury shares				(3,673)	(3,673)
Disposal of treasury shares				0	0
Disposal of treasury shares by stock ownership plan trust				128	128
Net changes in items other than shareholders' equity					-
Total changes during period	-	-	(2,599)	(3,544)	(6,144)
Balance at end of period	2,660	7,213	48,479	(7,917)	50,435

(Million yen)

	Accumulated other comprehensive income				Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Total accumulated other comprehensive income	
Balance at beginning of period	(0)	6	454	461	57,041
Changes during period					
Dividends of surplus				-	(1,906)
Net loss attributable to owners of the parent				-	(693)
Purchase of treasury shares				-	(3,673)
Disposal of treasury shares				-	0
Disposal of treasury shares by stock ownership plan trust				-	128
Net changes in items other than shareholders' equity	0	27	(222)	(195)	(195)
Total changes during period	0	27	(222)	(195)	(6,339)
Balance at end of period	0	34	231	266	50,701

FY2/22 (Mar. 1, 2021 – Feb. 28, 2022)

(Million yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	2,660	7,213	48,479	(7,917)	50,435
Changes during period					
Dividends of surplus			(2,282)		(2,282)
Net income attributable to owners of the parent			4,917		4,917
Purchase of treasury shares				(1)	(1)
Disposal of treasury shares by stock ownership plan trust				282	282
Net changes in items other than shareholders' equity					-
Total changes during period	-	-	2,634	281	2,915
Balance at end of period	2,660	7,213	51,114	(7,636)	53,351

(Million yen)

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of period	0	34	231	266	-	50,701
Changes during period						
Dividends of surplus				-		(2,282)
Net income attributable to owners of the parent				-		4,917
Purchase of treasury shares				-		(1)
Disposal of treasury shares by stock ownership plan trust				-		282
Net changes in items other than shareholders' equity	8	10	326	345	1,000	1,345
Total changes during period	8	10	326	345	1,000	4,261
Balance at end of period	8	45	558	611	1,000	54,963

(4) Consolidated Statement of Cash Flows

(Million yen)

	FY2/21 (Mar. 1, 2020 – Feb. 28, 2021)	FY2/22 (Mar. 1, 2021 – Feb. 28, 2022)
Cash flows from operating activities		
Net income before income taxes	646	7,911
Depreciation	7,156	7,044
Impairment loss	1,322	600
Amortization of goodwill	157	58
Loss on liquidation of business	137	-
Loss (gain) on liquidation of subsidiaries and associates	-	(81)
Interest and dividend income	(71)	(14)
Interest expenses	160	148
Increase (decrease) in allowance for doubtful accounts	921	(226)
Increase (decrease) in provision for bonuses	(17)	1
Increase (decrease) in provision for point card certificates	(651)	443
Decrease (increase) in trade receivables	190	72
Decrease (increase) in inventories	(771)	(3,266)
Increase (decrease) in trade payables	3	651
Increase (decrease) in accounts payable-other	(175)	(414)
Increase (decrease) in accrued consumption taxes	2,977	(4,021)
Other, net	644	(1,883)
Subtotal	12,630	7,022
Interest and dividends received	13	10
Interest paid	(160)	(148)
Income taxes paid	(550)	(3,381)
Net cash provided by (used in) operating activities	11,933	3,504
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,807)	(3,796)
Purchase of intangible assets	(2,695)	(3,136)
Purchase of investment securities	(21)	(202)
Long-term loan advances	(1,091)	-
Payments of leasehold and guarantee deposits	(663)	(788)
Proceeds from refund of leasehold and guarantee deposits	920	723
Purchase of shares of subsidiaries resulting in change in scope of consolidation	-	(563)
Other, net	(7)	(16)
Net cash provided by (used in) investing activities	(7,366)	(7,780)
Cash flows from financing activities		
Dividends paid	(1,907)	(2,283)
Purchase of treasury shares	(3,677)	(1)
Repayments of lease obligations	(1,255)	(967)
Other, net	0	-
Net cash provided by (used in) financing activities	(6,840)	(3,251)
Effect of exchange rate change on cash and cash equivalents	(22)	309
Net increase (decrease) in cash and cash equivalents	(2,294)	(7,219)
Cash and cash equivalents at beginning of period	26,377	24,082
Cash and cash equivalents at end of period	24,082	16,863

(5) Notes to Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Business Combinations

Business combination through acquisition

Zetton, Inc. became a consolidated subsidiary of Adastria on February 16, 2022. This was the result of the purchase of newly issued stock of zetton through a third-party allotment, which was completed on December 30, 2021, and the purchase of zetton stock by using a tender offer in accordance with the Financial Instruments and Exchange Act (Act No. 25 of 1948, including subsequent amendments) between January 4 and February 16, 2022. Due to these purchases, Adastria currently owns 51.00% of all stock issued by zetton.

1. Summary of business combination

(1) Acquired company and business activities

Acquired company: Zetton, Inc.

Business activities: Restaurant management, development and consulting

(2) Reasons for acquisition

Acquiring zetton will allow Adastria to target opportunities in the restaurant business as part of activities for accomplishing the goal of providing a broad range of life style ideas for consumers. Adastria believes that this acquisition will increase the earnings of zetton and raise its corporate value.

(3) Acquisition date

February 16, 2022 (stock acquisition date)

February 28, 2022 (assumed acquisition date)

(4) Legal form of acquisition

Acquisition of shares with cash

(5) Company name after acquisition

zetton's name will not change.

(6) Percentage of voting rights acquired

a. Pct. of voting rights acquired through third-party allotment: 25.14%

b. Pct. of voting rights acquired through tender offer: 25.86%

c. Percentage of voting rights after acquisition: 51.00%

(7) Basis for choosing the company to acquire

Adastria acquired the shares in exchange for consideration in cash.

2. Period of the acquired companies' performance included in the consolidated financial statements

Results of operations of zetton are not included in the consolidated statement of income for the fiscal year that ended in February 2022 because the acquisition date of zetton is the end of February 2022 for accounting purposes.

3. Acquisition cost of acquired company and breakdown by type of consideration

Payment for the acquisition:	Cash payment for the third-party allotment	1,292 million yen
	Cash payment for the tender offer	1,584 million yen
Acquisition cost:		2,876 million yen

4. Details of major acquisition-related costs

Advisory fees, etc.: 85 million yen

5. Goodwill resulting from the acquisition

(1) Amount

1,835 million yen

Goodwill is calculated provisionally because the allocation of the acquisition cost was incomplete at the end of the fiscal year.

(2) Source

The source of goodwill is primarily the expectation of excess earnings power emerging from business development in the future.

(3) Amortization method and period

Goodwill will be amortized in equal installments over the period during which benefits are expected. The amortization period will be determined based on the effects of the allocation of the cost of the acquisition.

Segment Information

The Adastria Group has only a single business segment, which is the planning and sales of clothing and related merchandise. There is no others segment because the levels of sales and earnings of other activities are insignificant.

Per Share Information

	(Yen)	
	FY2/21 (Mar. 1, 2020 – Feb. 28, 2021)	FY2/22 (Mar. 1, 2021 – Feb. 28, 2022)
Net assets per share	1,122.71	1,192.62
Net income (loss) per share	(14.88)	108.72

Notes: 1. Diluted net income per share is not presented since Adastria has no outstanding dilutive securities.

2. The Adastria stock held by the trust account recorded as treasury shares under shareholders' equity is included in treasury shares deducted from the number of shares that is used to calculate the average number of shares outstanding during the period for the determination of net income (loss) per share, and is included in treasury shares that is deducted from the number of shares outstanding at the end of the period for the determination of net assets per share.

For the determination of net income (loss) per share, the average numbers of treasury shares outstanding that were deducted were 501,000 for FY2/21 and 423,000 for FY2/22. For the determination of net assets per share, the numbers of treasury shares deducted were 493,000 for FY2/21 and 405,000 for FY2/22.

3. The basis of calculating the net income (loss) per share is as follows.

	(Million yen)	
	FY2/21 (Mar. 1, 2020 – Feb. 28, 2021)	FY2/22 (Mar. 1, 2021 – Feb. 28, 2022)
Net income (loss) attributable to owners of the parent	(693)	4,917
Amount not available to common stockholders	-	-
Net income (loss) attributable to owners of the parent applicable to common shares	(693)	4,917
Average number of common shares outstanding during the period (Thousand shares)	46,598	45,229

Subsequent Events

Business combination through acquisition

The Adastria Board of Directors approved a resolution on March 18, 2022 to acquire shares in OPEN AND NATURAL Inc. through the Company's consolidated subsidiary BUZZWIT Co., Ltd. and to make it a consolidated subsidiary (sub-subsidiary). The acquisition has been completed on March 31, 2022.

1. Summary of business combination

(1) Acquired company and business activities

Acquired company: OPEN AND NATURAL Inc.

Business activities: Marketing of "PAIRMANON," an EC brand for children's clothing

(2) Reasons for acquisition

As a part of our growth strategy for 2025, the Group is working to expand its digital customer communication channels. Starting operations in 2018, BUZZWIT has grown steadily as a company engaged in the development of a dedicated e-commerce brands for the economically priced market. In this context, BUZZWIT has sought out M&A opportunities to further expand its business and focused on the children's clothing category, which is an area of apparel that is a particularly suitable for e-commerce marketing.

OPEN AND NATURAL, the company being acquired, has been marketing "pairmanon," an EC-only children's clothing brand since its establishment in 2017. The economically priced and high-quality brand is moderately trend setting in the children's clothing market. With sales exceeding 2 billion yen in the fiscal year ended January 2022, it has growing presence in the e-commerce market for children's clothing and as well as in the overall children's clothing market.

The acquisition of the shares will enable BUZZWIT to share its know-how and business structure with OPEN AND NATURAL and operational capabilities to further expand this business.

(3) Acquisition date

March 31, 2022

(4) Legal form of acquisition

Acquisition of shares with cash

(5) Company name after acquisition

OPEN AND NATURAL's name will not change.

(6) Percentage of voting rights acquired

100.0% (indirect ownership)

(7) Basis for choosing the company to acquire

BUZZWIT acquired the shares in exchange for consideration in cash.

2. Acquisition cost of acquired companies and breakdown by type of consideration

Not disclosed due to a confidentiality agreement.

3. Goodwill resulting from the acquisition

Not yet determined.

4. Summary of assets acquired and liabilities assumed on the date of business combination

Not yet determined.

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.