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# **Corporate Governance Guideline**

## **Chapter 1 General Provisions**

### 1. Purpose

- The purpose of these guidelines is to describe the basic approach to corporate governance of Adastria Co., Ltd. (the “Company”). These guidelines encompass the Company’s aims to achieve sustainable growth and enhance corporate value over the medium to long term through effective corporate governance based on the Adastria basic philosophy.

### 2. Basic philosophy

- Guided by our corporate philosophy that says, “Be a person needed, Be a company needed,” the Company pursues our mission of *Play fashion!*, endeavoring to enrich lives and create happiness through fashion. To respond flexible to the needs of our customers and changes in the environment, as well as to contribute to the enrichment of lives and diverse values around the world, we strive for excellence in corporate governance that fosters quick decision-making.

### 3. Revised/abolished

- The board of directors shall decide whether to revise or abolish these guidelines.

## **Chapter 2 Relationship With Shareholders**

### 1. Ensuring shareholder rights

- The Company shall take appropriate measures to ensure the rights of shareholders are secured and exercised effectively. The Company shall give consideration to the equal treatment of all shareholders, including minority and foreign national shareholders.

### 2. General meeting of shareholders

- The Company views the general meeting of shareholders as the highest decision-making body in our organization. The Company shall ensure a sufficient period for shareholders to exercise their rights, and foster an environment in which shareholders can exercise their voting rights in an appropriate manner.
- The Company shall take appropriate measures to enable shareholders to exercise voting rights effectively at the general meeting of shareholders, providing appropriate information to shareholders to assist in making appropriate decisions.

### 3. Protecting shareholder rights

- The Company shall provide sufficient explanations of capital policies and other matters that may have a significant impact on the interests of shareholders.

### 4. Dialogue with shareholders

- In accordance with the Basic Policy on Constructive Dialogue With Shareholders (Attachment 1), the Company shall foster an understanding of Company management strategies, etc., and engage in appropriate actions based on an understanding of shareholder perspectives.

## 5. Related-party transactions

- In the event that a director engages in competing transactions or conflicts of interest, he or she shall obtain the approval of the board of directors in accordance with laws and regulations and the Rules of the Board of directors, and shall report such transaction appropriately to the board of directors as a material fact.
- In accordance with the provisions of the Auditing Standards for Corporate Auditors, members of the Audit and Supervisory Board shall monitor and confirm the presence of any facts that violate the duties of directors involved in such transactions.

## 6. Cross-shareholdings

- If the Company engages in cross-shareholdings of publicly traded shares, the Company shall disclose its policy on such shareholdings, including the policy and approach to reducing said shareholdings. The Company shall provide explanations on the purpose of such shareholdings and details of how the Company verifies the appropriateness of such shareholdings.
- Further, the Company shall formulate and disclose specific standards to ensure appropriate responses to the exercise of voting rights with respect to cross-shareholdings.
- In the event a company that holds Company shares as cross-shareholdings indicates its intention to sell said shares, the Company shall take appropriate action to the extent such action does not hinder such sale (e.g., suggesting such trade would result in a retaliatory reduction in business transactions, etc.). In addition, the Company shall not engage in transactions with strategic cross-shareholdings that are detrimental to the Company or the common interests of Company shareholders.

## Chapter 3 Relationships With Stakeholders Other Than Shareholders

### 1. Ensuring positive and smooth relationships with stakeholders other than shareholders

- The Company shall strive to maintain and improve positive and smooth relationships with stakeholders to achieve sustainable growth and enhance corporate value over the medium to long term. Stakeholders include including customers, employees, business partners, and local communities.
- The Company shall establish a mission and vision based on our corporate philosophy to express our basic stance and a guideline in conducting management activities. The Company shall also establish values and a group code of ethics as a code of conduct for officers and employees.
- The Company shall establish an appropriate internal reporting (whistle blowing) mechanism for employees, etc., operating this mechanism in an appropriate manner.

## Chapter 4 Information Disclosure

### 1. Information disclosure standards

- The Company shall disclose information in a timely, appropriate, and fair manner with the aim of engaging in fair and transparent management.
- To maintain and improve the trust of shareholders and other stakeholders, the Company shall disclose corporate information in an appropriate manner to ensure transparency. Corporate information includes financial information such as financial position and operating results, as well as information on management strategies and risk management.

## Chapter 5 Corporate Governance Structure

### 1. Institutional format

- The Company has been formed as a company with an Audit and Supervisory Board. Under this format, the Company shall ensure that the board of directors exercises its supervisory function appropriately and that the members of the Audit and Supervisory Board, which is an independent entity, exercise their audit function appropriately.
- The primary responsibility of the board of directors is to supervise the execution of business and make important decisions on matters such as basic management policies.

- The Company shall adopt an executive officer system to strengthen the supervisory function of the board of directors and to increase the speed and efficiency of decision-making. Executive officers shall execute business in accordance with basic management policies, plans, and strategies as determined by the board of directors. In addition, the Company shall establish an Executive Committee as a body to share information and deliberate on important matters in connection with the execution of duties by executive officers.

## 2. Board of directors

### (1) Role of the board of directors

- The board of directors shall make decisions on basic management policies and important matters, etc., as well as supervise business execution to ensure appropriate conduct by management.

### (2) Membership structure

- The board of directors shall consist of a diverse range of directors with different backgrounds, expertise, and experience to ensure an appropriate balance.
- The board of directors shall include at least two outside directors and outside directors shall make up at least one-third of the board as a means to strengthen the monitoring and supervisory functions of the board and to achieve highly transparent management.

### (3) Board of director operations

- The Company shall prepare an annual schedule of the board of director meetings, determining in advance the agenda items to be discussed and reported.
- An appropriate amount of time and opportunities for discussion shall be secured to ensure that necessary and sufficient deliberations are conducted at board meetings.
- Directors may request additional information from relevant departments of the Company to make appropriate decisions.
- The chairperson of the board of directors shall endeavor to improve the quality of discussions at board meetings, to operate the meetings effectively and efficiently, and to foster an environment conducive to the free, vigorous, and constructive discussions.

### (4) Board of director evaluations

- The board of directors shall analyze and evaluate the effectiveness of the board as a whole by conducting an annual questionnaire on the role, composition, and operation of the board. A summary of the results shall be disclosed by the Company.
- The board of directors shall strive to improve issues identified through said analysis and evaluation, aiming improve the function of the board of directors further.

## 3 . Members and meetings of the Audit and Supervisory Board

### (1) Roles of the members and meetings of the Audit and Supervisory Board

- Members of the Audit and Supervisory Board shall audit the execution of duties by directors, serving as an independent organization with the authority to investigate business operations and assets.
- Members of the Audit and Supervisory Board shall determine audit policies and other matters related to the duties of the members of the Audit and Supervisory Board, and shall hold discussions and make decisions related to the formation of audit opinions.

### (2) Ensuring the effectiveness of audits by member of the Audit and Supervisory Board

- Members of the Audit and Supervisory Board shall audit the execution of duties by Company directors. Members shall perform such duties by attending board of director meetings and other important meetings, by holding regular meetings with representative directors, etc., and by inspecting important approval documents, etc., in accordance with audit policies, audit assignments, etc., as determined by the Audit and Supervisory Board.
- Members of the Audit and Supervisory Board shall strive to enhance the effectiveness of audits by establishing an environment and systems for reporting to internal members of the Audit and Supervisory Board.
- Members of the Audit and Supervisory Board shall conduct systematic and efficient audits in cooperation with the Internal Audit Department and other related departments within the Company, as well as with the financial statement auditor.

- Auxiliary employees who are independent from executive officers shall be assigned to support the operations and audit-related work of the Audit and Supervisory Board.

#### 4. Criteria for the selection of candidates for directors and members of the Audit and Supervisory Board

##### (1) Candidates for directors

- The Company shall select directors from among individuals suitable for supervising Company management from the perspective of contributing to the creation of sustainable corporate value.
- The Company shall select outside directors from among individuals who have the necessary qualifications, experience, and knowledge to monitor and supervise management and to provide advice.
- The Company shall appoint independent outside directors whose independence is recognized in accordance with the criteria for appointing independent directors.
- In selecting candidates for the board of directors, the Nomination and Compensation Advisory Committee, acting as an advisory body to the board of directors, shall deliberate on matters related thereto and report to the board of directors, which shall then make a decision.

##### (2) Candidates for members of the Audit and Supervisory Board

- Active members of the Audit and Supervisory Board shall make decisions regarding the selection of candidates for member of the Audit and Supervisory Board after having evaluated the eligibility, independence, and likelihood of the individual to complete a term of office.

#### 5. Dismissal of representative directors and directors

- In the event that a representative director becomes subject to standards for dismissal as determined by the board of directors, the Nomination and Compensation Advisory Committee shall deliberate said dismissal, after which the board of directors shall make a decision.
- After deliberations by the Nomination and Compensation Advisory Committee, the board of directors make decisions regarding the dismissal of directors which are then submitted to the general meeting of shareholders.

#### 6. Remuneration, etc., for directors and members of the Audit and Supervisory Board

##### (1) Remuneration, etc., for directors

- Remuneration, etc. for directors shall be determined by the board of directors after deliberation by the Nomination and Remuneration Advisory Committee, acting as an advisory body to the board of directors. Such remuneration shall be determined within the scope approved at a general meeting of shareholders.
- Remuneration, etc. for directors (excluding outside directors) shall be based on a remuneration package in which a certain percentage is linked to business performance. The details of the remuneration package shall contribute to the sustainable development of the Company by securing superior management personnel.

##### (2) Remuneration, etc. for members of the Audit and Supervisory Board

- Remuneration, etc., for members of the Audit and Supervisory Board shall consist of a package separate system from remuneration, etc., for directors, and shall be determined by consultation among the Audit and Supervisory Board within a scope approved at a general meeting of shareholders.

#### 7. Support system and training policy for directors and members of the Audit and Supervisory Board

- The Company shall endeavor to establish a system and environment sufficient for directors and members of the Audit and Supervisory Board to fulfill their roles and responsibilities effectively.
- Directors and members of the Audit and Supervisory Board (including outside directors and members) possess the knowledge and experience necessary to make appropriate management decisions, etc. However, the Company shall pay for continuing education and training, including participation in outside seminars, that contribute to the collection of further information and improvement of their knowledge.
- The Company shall provide opportunities for newly appointed outside directors and members of the Audit and Supervisory Board to acquire knowledge of the Company's management strategies, financial position, and other important matters.

Attachment (1)

Basic Policy for Constructive Dialogue With Shareholders

1. The Company shall engage proactively in dialogue to build positive relationships with investors, including shareholders, through the department responsible for investor relations. In addition, the Company shall strive to understand the shareholder composition and engage actively in investor relations activities.
2. The department in charge of investor relations shall be responsible for dialogue with shareholders, and the director in charge of investor relations shall oversee such dialogues. Other directors or executive officers may attend to individual requests from shareholders as necessary.
3. The department in charge of investor relations shall take the lead in coordinating with related departments to engage in dialogue with shareholders in a rational and smooth manner.
4. The Company shall hold presentations on financial results and medium- to long-term management plans for institutional investors. For individual investors, the Company shall provide explanations of the management situation, etc., at shareholder roundtable meetings after the conclusion of general meetings of shareholders, management reporting meetings, etc.
5. Presentation materials and videos of financial results briefings, management briefings, etc. shall be published on the Company's official website.
6. When formulating and announcing management strategies and plans, the Company shall present basic policies, including capital policies, as well as qualitative and numerical targets and strategies for achieving said strategies and plans.
7. The opinions and questions obtained through dialogue with investors shall be reported to the board of directors and the Executive Committee in a timely manner. These opinions shall be reflected in the management of the Company to ensure the sustainable enhancement of corporate value.
8. The Company shall manage insider information appropriately in accordance with internal regulations.

Attachment (2)

Criteria for Appointing Independent Directors

For the Company to designate a director as an independent director, said director may not be subject to any of the following conditions.

1. A person who is an executive, non-executive director, or members of the Audit and Supervisory Board the Company or any group company
2. A person who has been an executive, non-executive director, or members of the Audit and Supervisory Board of the Company or any group company in the past (10 years)
3. A person who is an executive of a major shareholder or any such corporation or organization holding 10% or more of the total voting rights of the Company
4. A person who is a major Company business partner or an executive at a major Company business partner
5. Consultants, accounting experts, legal experts, etc., who receive significant remuneration or other financial benefits from the Company any group company other than remuneration as an officer, or in the case of a corporation or organization, a person who an executive at said corporation or organization
6. A person who is financial statement auditor of the Company or any group company, or an employee of said financial statement auditor
7. Any person who has been subject to any of 1. through 6. above in the previous year
8. Spouses or relatives within the second degree of kinship of persons subject to any of 1. through 7. above
9. Persons other than those listed above that may cause substantial conflicts of interest with the Company's general shareholders on a regular basis