Summary of Consolidated Financial Results
for the First Quarter of the Fiscal Year Ending February 28, 2017
(Three Months Ended May 31, 2016)

[Japanese GAAP]

June 30, 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: July 15, 2016
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 June 30, 2016 at 15:00 (GMT +9).

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

1. Consolidated Financial Results for the First Quarter of the Fiscal Year Ending February 28, 2017 (March 1, 2016 – May 31, 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	%
Three months ended May 31, 2016	48,552	2.4	5,224	9.8	5,284	7.2	2,983	27.6
Three months ended May 31, 2015	47,394	8.7	4,759	231.6	4,928	233.4	2,337	811.5

Note: Comprehensive income Three months ended May 31, 2016: 3,783 million yen (down 5.9%)
Three months ended May 31, 2015: 4,021 million yen (up 577.9%)

	Net income per share	Diluted net income per share
	Yen	Yen
Three months ended May 31, 2016	61.95	-
Three months ended May 31, 2015	48.13	-

Reference: EBITDA Three months ended May 31, 2016: 7,113 million yen (up 4.9%)
Three months ended May 31, 2015: 6,778 million yen
EPS before goodwill amortization Three months ended May 31, 2016: 73.29 yen (up 22.7%)
Three months ended May 31, 2015: 59.73 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 May 31, 2016	87,033	54,888	63.1
As of Feb. 29, 2016	90,454	53,282	58.9

Reference: Shareholders’ equity As of May 31, 2016: 54,888 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	-				
Fiscal year ending Feb. 28, 2017 (forecast)		35.00	-	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
First half	99,700	2.7	8,100	(0.4)	8,200	(1.5)	4,500	8.3	93.45
Full year	208,900	4.4	17,000	6.2	17,300	6.9	10,000	9.6	207.66

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): 253.34 yen (up 8.3%)

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation): None

(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 3 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 May 31, 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 May 31, 2016:	646,785 shares	As of Feb. 29, 2016:	643,396 shares

3) Average number of shares outstanding during the period

Three months ended May 31, 2016:	48,154,239 shares	Three months ended May 31, 2015:	48,563,624 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 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
First half	94,500	4.2	8,000	1.2	8,000	(2.8)	4,100	(39.2)	85.14
Full year	196,700	4.7	16,400	6.7	16,300	5.4	9,200	10.3	191.04

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

During the first quarter (March 1-May 31, 2016), the Japanese economy continued to recover slowly due to the benefits of government initiatives. However, the improvement in corporate earnings slowed and there were other signs of weakness. The outlook remained unclear mainly because of concerns over increased uncertainty about overseas economies and impact of volatility in financial markets. Consumer spending in Japan was generally flat as continuing improvements in jobs and personal income were offset by gloomy consumer sentiment.

Consolidated sales were 2.4% higher than in the first quarter of the previous fiscal year. This growth was attributable primarily to upgrades in merchandise development and sales capabilities and strong sales of spring and summer apparel backed by favorable weather. The *GLOBAL WORK*, *niko and…* and *JEANASIS* brands recorded strong sales growth.

Regarding the store network, we opened 34 stores (including three overseas), and closed one, resulting in a total network of 1,357 stores (including 107 overseas) at the end of May 2016.

The gross profit margin increased 0.5 percentage point from one year earlier to 61.2% as strong sales resulted in smaller price discounts.

The ratio of selling, general and administrative (SG&A) expenses to sales decreased 0.2 percentage point from one year earlier to 50.5% and the operating margin increased 0.8 percentage point to 10.8%. During the first quarter, SG&A expenses were mostly as planned, including substantial expenditures for TV commercials and other advertising activities.

In the first quarter, there were extraordinary losses of 18 million yen for the impairment of store assets and 61 million yen for damage caused by the April 2016 earthquake in Kumamoto prefecture.

As a result, consolidated net sales in the first quarter increased 2.4% year-on-year to 48,552 million yen, operating income increased 9.8% to 5,224 million yen, ordinary income increased 7.2% to 5,284 million yen, and net income attributable to owners of the parent increased 27.6% to 2,983 million yen.

Earnings before interest, taxes, depreciation and amortization (EBITDA) increased 4.9% to 7,113 million yen and earnings per share (EPS) before goodwill amortization rose 22.7% to 73.29 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 loss) + Impairment losses (goodwill)) / Average number of shares outstanding during the period

(2) Explanation of Financial Position

Total assets decreased 3,420 million yen from as of February 29, 2016 to 87,033 million yen as of May 31, 2016. This was mainly due to increases in notes and accounts receivable-trade of 4,448 million yen and investment securities of 1,741 million yen, while there was a decrease of 10,389 million yen in cash and deposits.

Liabilities decreased 5,025 million yen to 32,145 million yen. This was mainly due to decreases of 2,369 million yen in electronically recorded obligations-operating and 1,983 million yen in income taxes payable.

Net assets increased 1,605 million yen to 54,888 million yen. This was mainly due to increases in retained earnings of 815 million yen and valuation difference on available-for-sale securities of 889 million yen.

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

There are no revisions to the consolidated forecast for the first half and full fiscal year that was announced on April 4, 2016.

2. Matters Related to Summary Information (Notes)

(1) Changes in Significant Subsidiaries during the Period

Not applicable.

(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 presentation of net income and other items has been revised, and the minority interests item has been renamed non-controlling interests. For consistency with these changes, the consolidated financial statements for the first quarter 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.

There is no impact on the quarterly consolidated financial statements for the first quarter.

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 method for the depreciation of 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 quarter is insignificant.

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheet

(Million yen)

	FY2/16 (As of Feb. 29, 2016)	First quarter of FY2/17 (As of May 31, 2016)
Assets		
Current assets		
Cash and deposits	19,460	9,070
Notes and accounts receivable-trade	7,668	12,116
Inventories	15,076	16,602
Other	3,313	2,750
Allowance for doubtful accounts	(53)	(90)
Total current assets	45,465	40,450
Non-current assets		
Property, plant and equipment		
Store interior equipment, net	6,933	7,465
Other, net	4,282	4,218
Total property, plant and equipment	11,215	11,684
Intangible assets		
Goodwill	5,493	4,947
Other	1,471	1,531
Total intangible assets	6,965	6,479
Investments and other assets		
Investment securities	10,231	11,973
Lease and guarantee deposits	16,622	16,553
Other	207	143
Allowance for doubtful accounts	(253)	(250)
Total investments and other assets	26,807	28,419
Total non-current assets	44,988	46,583
Total assets	90,454	87,033
Liabilities		
Current liabilities		
Notes and accounts payable-trade	6,768	6,885
Electronically recorded obligations-operating	9,901	7,531
Short-term loans payable	1,867	1,743
Accounts payable-other	10,331	10,370
Income taxes payable	4,368	2,385
Provision for bonuses	2,212	1,111
Other provision	412	407
Other	563	716
Total current liabilities	36,426	31,152
Non-current liabilities		
Provision	94	94
Other	650	898
Total non-current liabilities	745	993
Total liabilities	37,171	32,145

(Million yen)

	FY2/16 (As of Feb. 29, 2016)	First quarter of FY2/17 (As of May 31, 2016)
Net assets		
Shareholders' equity		
Capital stock	2,660	2,660
Capital surplus	6,987	6,987
Retained earnings	39,709	40,525
Treasury shares	(1,824)	(1,835)
Total shareholders' equity	47,533	48,337
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,445	6,335
Deferred gains or losses on hedges	(263)	(186)
Foreign currency translation adjustment	567	401
Total accumulated other comprehensive income	5,749	6,550
Total net assets	53,282	54,888
Total liabilities and net assets	90,454	87,033

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statement of Income

(For the Three-month Period)

(Million yen)

	First three months of FY2/16 (Mar. 1, 2015 – May 31, 2015)	First three months of FY2/17 (Mar. 1, 2016 – May 31, 2016)
Net sales	47,394	48,552
Cost of sales	18,607	18,824
Gross profit	28,787	29,727
Selling, general and administrative expenses	24,027	24,502
Operating income	4,759	5,224
Non-operating income		
Dividend income	44	58
Foreign exchange gains	57	-
Other	162	89
Total non-operating income	264	147
Non-operating expenses		
Interest expenses	15	4
Loss on valuation of derivatives	67	49
Cost of lease revenue	-	24
Other	11	9
Total non-operating expenses	95	87
Ordinary income	4,928	5,284
Extraordinary losses		
Impairment loss	134	18
Loss on disaster	-	61
Total extraordinary losses	134	80
Net income before income taxes	4,794	5,204
Income taxes-current	1,879	2,184
Income taxes-deferred	577	36
Total income taxes	2,456	2,221
Net income	2,337	2,983
Net income attributable to owners of the parent	2,337	2,983

Quarterly Consolidated Statement of Comprehensive Income

(For the Three-month Period)

(Million yen)

	First three months of FY2/16 (Mar. 1, 2015 – May 31, 2015)	First three months of FY2/17 (Mar. 1, 2016 – May 31, 2016)
Net income	2,337	2,983
Other comprehensive income		
Valuation difference on available-for-sale securities	1,726	889
Deferred gains or losses on hedges	28	77
Foreign currency translation adjustment	(71)	(165)
Total other comprehensive income	1,683	800
Comprehensive income	4,021	3,783
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	4,021	3,783
Comprehensive income attributable to non-controlling interests	-	-

(3) Notes to Quarterly Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Subsequent Events

Conclusion of a significant contract

The Adastria Board of Directors approved a resolution on June 22, 2016 to establish a company jointly with Cafe Company Inc. A memorandum of understanding to establish this company was signed on June 29, 2016.

1. Purpose of establishing a jointly owned company and business model

Adastria has expertise concerning the operation of a chain of apparel stores and Cafe Company has expertise concerning the café and restaurant business. The two companies plan to combine this knowledge for the creation and expansion of new business domains closely associated with the apparel retailing business and the café and restaurant businesses. The goal is to use these activities to provide customers with more added value and to build stronger relationships with customers. To establish this new company, Cafe Company will divest its WIRED CAFE, wired kitchen and certain other businesses to create a new company and then sell up to 49% of the stock of this company to Adastria.

2. Joint venture partner

Cafe Company Inc.

3. Timetable

Signing of memorandum of understanding:	June 29, 2016
Signing of final contract:	July-August 2016 (planned)
Cafe Company extraordinary shareholders meeting to approve the divestiture to create the new company:	August-September 2016 (planned)
Sale of stock to Adastria based on the final contract:	October 2016 (planned)

4. Significant effects of the contract on business activities

Adastria believes that the establishment of this jointly owned company will have only a negligible effect on consolidated performance for the time being. However, Adastria expects this new company to contribute to medium to long-term growth of consolidated sales and earnings.

4. Supplementary Information

(1) Number of Stores

Store format / region	Number of stores					
	As of Feb. 29, 2016	First three months of FY2/17				As of May 31, 2016
		Opened	Rebranded	Closed, etc.	Increase /decrease	
GLOBAL WORK	184	4	-	-	4	188
LOWRYS FARM	157	3	(3)	-	-	157
niko and...	123	3	-	-	3	126
STUDIO CLIP	171	5	-	-	5	176
LEPSIM (Note 3)	130	5	-	-	5	135
JEANASIS	83	1	-	-	1	84
RAGEBLUE	59	2	-	-	2	61
HEATHER	67	2	9	(1)	10	77
Others	246	6	(6)	-	-	246
Total (Adastria)	1,220	31	-	(1)	30	1,250
Hong Kong	27	-	-	-	-	27
China	40	2	-	-	2	42
Taiwan	27	1	-	-	1	28
South Korea	10	-	-	-	-	10
Total (Overseas)	104	3	-	-	3	107
Total (Group)	1,324	34	-	(1)	33	1,357

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 three months of FY2/17.

(2) Sales for Brands and Regions

Brand / region	First three months of FY2/17		YoY change (%)
	Sales (million yen)	Composition (%)	
GLOBAL WORK	8,992	18.5	10.7
LOWRYS FARM	6,137	12.6	(2.8)
niko and...	5,591	11.5	11.7
STUDIO CLIP	4,853	10.0	4.1
LEPSIM (Note 3)	3,842	7.9	3.2
JEANASIS	3,031	6.3	6.4
RAGEBLUE	2,190	4.5	(1.4)
HEATHER	1,969	4.1	(3.6)
Others	9,236	19.0	1.8
Total (Adastria)	45,846	94.4	4.1
Hong Kong	1,677	3.5	(10.5)
China	451	0.9	(8.4)
Taiwan	395	0.8	(2.6)
South Korea	181	0.4	(21.3)
Total (Overseas)	2,705	5.6	(15.3)
Total (Group)	48,552	100.0	2.4

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 three months of FY2/17.

(3) Sales for Merchandise Categories

Category	First three months of FY2/17		YoY change (%)
	Sales (million yen)	Composition (%)	
Men’s apparel (bottoms, tops)	7,087	14.6	12.1
Lady’s apparel (bottoms, tops)	32,327	66.6	0.8
Others	9,136	18.8	1.5
Total	48,552	100.0	2.4

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.