Annual Securities Report

(Report based on Article 24, Par.1 of the Financial Instruments and Exchange Act)

For the year ended February 28,2025

Adastria co., ltd.
(E03368)

Note
This document is provided for informational purpose only. If there are any discrepancies between this and the original, the original Japanese document prevails.

1. Consolidated Financial Statements, etc.

(1) Consolidated Financial Statements

1) Consolidated Balance Sheet

(Million yen)

	FY2/24 (As of Feb. 29, 2024)	FY2/25 (As of Feb. 28, 2025)
Assets		
Current assets		
Cash and deposits	23,371	21,143
Notes and accounts receivable-trade	15,815	14,527
Inventories	26,839	29,082
Other	2,788	2,471
Allowance for doubtful accounts	(83)	(52)
Total current assets	68,731	67,173
Non-current assets		
Property, plant and equipment		
Buildings and structures	9,571	9,963
Accumulated depreciation	(4,590)	(5,032)
Buildings and structures, net	4,980	4,931
Store interior equipment	40,316	44,178
Accumulated depreciation	(33,537)	(36,298)
Store interior equipment, net	6,778	7,879
Land	2,366	2,366
Right-of-use assets	14,059	17,422
Accumulated depreciation	(6,831)	(9,394)
Right-of-use assets, net	7,227	8,028
Construction in progress	299	1,364
Other	5,618	6,251
Accumulated depreciation	(3,370)	(3,958)
Other, net	2,248	2,293
Total property, plant and equipment	23,901	26,864
Intangible assets		
Software	8,100	7,777
Goodwill	1,109	2,673
Other	3,166	4,232
Total intangible assets	12,376	14,683
Investments and other assets		
Investment securities	768	691
Leasehold and guarantee deposits	13,719	14,330
Deferred tax assets	8,497	9,373
Other	235	342
Allowance for doubtful accounts	(314)	(350)
Total investments and other assets	22,906	24,387
Total non-current assets	59,184	65,935
Total assets	127,915	133,108

(Million yen)

	FY2/24 (As of Feb. 29, 2024)	FY2/25 (As of Feb. 28, 2025)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	14,013	13,402
Electronically recorded obligations-operating	8,651	8,909
Current portion of long-term borrowings	401	-
Lease liabilities	2,007	2,464
Accounts payable-other	14,144	13,983
Income taxes payable	3,667	3,136
Contract liabilities	1,910	1,392
Provision for bonuses	2,460	2,498
Provision for point card certificates	175	85
Other provisions	477	364
Other	582	840
Total current liabilities	48,491	47,079
Non-current liabilities		
Long-term borrowings	504	-
Lease liabilities	6,037	6,495
Provisions	172	467
Other	1,128	1,866
Total non-current liabilities	7,842	8,828
Total liabilities	56,334	55,908
Net assets		
Shareholders' equity		
Share capital	2,660	2,660
Capital surplus	7,213	6,262
Retained earnings	66,286	71,980
Treasury shares	(7,516)	(5,627)
Total shareholders' equity	68,642	75,275
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	34	34
Deferred gains or losses on hedges	234	(81)
Foreign currency translation adjustment	1,231	1,874
Total accumulated other comprehensive income	1,500	1,827
Non-controlling interests	1,437	97
Total net assets	71,581	77,200
Total liabilities and net assets	127,915	133,108

2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Consolidated Statement of Income

(Million yen)

	FY2/24 (Mar. 1, 2023 – Feb. 29, 2024)	FY2/25 (Mar. 1, 2024 – Feb. 28, 2025)
Net sales	275,596	293,110
Cost of sales	123,242	132,828
Gross profit	152,354	160,282
Selling, general and administrative expenses		
Advertising expenses	8,712	8,514
Provision of allowance for doubtful accounts	18	(13)
Remuneration for directors (and other officers)	654	664
Salaries and bonuses	38,826	42,566
Provision for bonuses	2,395	2,480
Welfare expenses	6,456	7,292
Rents	37,534	40,427
Lease payments	725	813
Depreciation	9,525	10,785
Amortization of goodwill	223	395
Other	29,266	30,843
Total selling, general and administrative expenses	134,339	144,771
Operating profit	18,015	15,510
Non-operating income		
Interest income	25	67
Dividend income	2	3
Foreign exchange gains	235	266
Income from contribution to facilities	19	35
Insurance claim income	102	10
Subsidy income	52	74
Revenue from electric power sales	21	33
Other	279	304
Total non-operating income	739	794
Non-operating expenses		
Interest expenses	248	264
Commitment fee	18	-
Other	97	76
Total non-operating expenses	364	340
Ordinary profit	18,389	15,964
Extraordinary losses		
Impairment loss	1,029	1,249
Loss on valuation of investment securities	243	-
Loss on sales of investment securities	-	59
Total extraordinary losses	1,273	1,309
Net income before income taxes	17,116	14,655
Income taxes-current	5,146	5,184
Income taxes-deferred	(1,568)	(1)
Total income taxes	3,577	5,182
Net income	13,538	9,472
Profit (loss) attributable to non-controlling interests	24	(141)
Net income attributable to owners of the parent	13,513	9,614

Consolidated Statement of Comprehensive Income

(Million yen)

	FY2/24 (Mar. 1, 2023 – Feb. 29, 2024)	FY2/25 (Mar. 1, 2024 – Feb. 28, 2025)
Net income	13,538	9,472
Other comprehensive income		
Valuation difference on available-for-sale securities	(60)	(0)
Deferred gains or losses on hedges	354	(315)
Foreign currency translation adjustment	354	642
Total other comprehensive income	648	326
Comprehensive income	14,186	9,799
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	14,112	9,941
Comprehensive income attributable to non-controlling interests	74	(141)

3) Consolidated Statement of Changes in Equity

FY2/24 (Mar. 1, 2023 – Feb. 29, 2024)

(Million yen)

	Shareholders' equity					Accumulated other comprehensive income					
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at beginning of period	2,660	7,213	55,968	(7,286)	58,555	95	(120)	877	852	1,355	60,762
Changes during period											
Dividends of surplus			(3,195)		(3,195)				-		(3,195)
Net income attributable to owners of the parent			13,513		13,513				-		13,513
Purchase of treasury shares				(1)	(1)				-		(1)
Purchase of treasury shares by stock ownership plan trust				(755)	(755)				-		(755)
Disposal of treasury shares by stock ownership plan trust				527	527				-		527
Net changes in items other than shareholders' equity					-	(60)	354	354	648	82	730
Total changes during period	-	-	10,317	(230)	10,087	(60)	354	354	648	82	10,818
Balance at end of period	2,660	7,213	66,286	(7,516)	68,642	34	234	1,231	1,500	1,437	71,581

FY2/25 (Mar. 1, 2024 – Feb. 28, 2025)

(Million yen)

	Shareholders' equity					Accumulated other comprehensive income					
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at beginning of period	2,660	7,213	66,286	(7,516)	68,642	34	234	1,231	1,500	1,437	71,581
Changes during period											
Dividends of surplus			(3,920)		(3,920)				-		(3,920)
Net income attributable to owners of the parent			9,614		9,614				-		9,614
Purchase of treasury shares				(1)	(1)				-		(1)
Disposal of treasury shares				0	0				-		0
Increase by share		1,815		2,303	4,118				-		4,118

(Million yen)

	Shareholders' equity					Accumulated other comprehensive income					
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
exchanges											
Purchase of treasury shares by stock ownership plan trust				(698)	(698)				-		(698)
Disposal of treasury shares by stock ownership plan trust				284	284				-		284
Purchase of shares of consolidated subsidiaries		(2,766)			(2,766)				-		(2,766)
Net changes in items other than shareholders' equity					-	(0)	(315)	642	326	(1,340)	(1,013)
Total changes during period	-	(950)	5,694	1,888	6,632	(0)	(315)	642	326	(1,340)	5,618
Balance at end of period	2,660	6,262	71,980	(5,627)	75,275	34	(81)	1,874	1,827	97	77,200

4) Consolidated Statement of Cash Flows

(Million yen)

	FY2/24 (Mar. 1, 2023 – Feb. 29, 2024)	FY2/25 (Mar. 1, 2024 – Feb. 28, 2025)
Cash flows from operating activities		
Net income before income taxes	17,116	14,655
Depreciation	10,073	11,093
Impairment loss	1,029	1,249
Amortization of goodwill	223	395
Interest and dividend income	(27)	(70)
Interest expenses	248	264
Increase (decrease) in allowance for doubtful accounts	18	(13)
Increase (decrease) in provision for bonuses	338	26
Increase (decrease) in provision for point card certificates	15	(90)
Loss (gain) on sales of investment securities	-	59
Loss (gain) on valuation of investment securities	243	-
Decrease (increase) in trade receivables	(3,547)	1,403
Decrease (increase) in inventories	(1,980)	(1,426)
Increase (decrease) in trade payables	2,292	(466)
Increase (decrease) in accounts payable-other	123	356
Increase (decrease) in accrued consumption taxes	745	(722)
Other	14	594
Subtotal	26,926	27,311
Interest and dividends received	42	51
Interest paid	(248)	(264)
Income taxes paid	(4,496)	(5,725)
Net cash provided by (used in) operating activities	22,223	21,373
Cash flows from investing activities		
Purchase of property, plant and equipment	(5,670)	(7,521)
Purchase of intangible assets	(3,318)	(3,874)
Purchase of investment securities	(10)	(1)
Payments of leasehold and guarantee deposits	(1,475)	(1,348)
Proceeds from refund of leasehold and guarantee deposits	671	479
Purchase of shares of subsidiaries resulting in change in scope of consolidation	-	(4,493)
Other	(117)	(210)
Net cash provided by (used in) investing activities	(9,920)	(16,971)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings	(203)	-
Proceeds from long-term borrowings	380	220
Repayments of long-term borrowings	(405)	(1,125)
Dividends paid	(3,194)	(3,917)
Purchase of treasury shares	(757)	(699)
Repayments of lease liabilities	(1,408)	(1,690)
Other	8	101
Net cash provided by (used in) financing activities	(5,581)	(7,111)
Effect of exchange rate change on cash and cash equivalents	276	449
Net increase (decrease) in cash and cash equivalents	6,998	(2,260)
Cash and cash equivalents at beginning of period	16,343	23,341
Cash and cash equivalents at end of period	23,341	21,081

Notes to Consolidated Financial Statements

(Significant basis for the preparation of consolidated financial statements)

1. The scope of consolidation

Number of consolidated subsidiaries: 20

Name of the principal consolidated subsidiaries

Omitted as this information is stated in *I. Overview of the Company 4. Subsidiaries and associates*.

We added the newly created and ST Co., Ltd. and ADASTRIA PHILIPPINES INC. to the scope of consolidation during the current consolidated fiscal year.

In addition, TODAY'S SPECIAL Co., Ltd. (now Adastria Co., Ltd.) became a consolidated subsidiary during the current consolidated fiscal year following the acquisition of said company's shares on July 1, 2024.

There are no non-consolidated companies as all subsidiaries are consolidated.

2. Equity method

Adastria Co., Ltd. (the "Company") has no non-consolidated subsidiaries or affiliates accounted for using the equity method.

3. Accounting period of consolidated subsidiaries, etc.

Of the consolidated subsidiaries, the following companies (and four other overseas subsidiaries) have fiscal year ends ending on December 31: Adastria (Shanghai) Co., Ltd., niko and ... (Shanghai) Co., Ltd., Adastria Asia Co., Ltd., Adastria Taiwan Co., Ltd., Adastria (Thailand) Co., Ltd., ADASTRIA PHILIPPINES INC., Adastria USA, Inc., and Velvet, LLC. In preparing the consolidated financial statements, the Company uses current financial statements as of the same dates. However, the Company makes necessary adjustments to consolidations for significant transactions that occur between the fiscal year end of the relevant consolidated subsidiary and the consolidated fiscal year end date.

During the current consolidated fiscal year, consolidated subsidiary zetton inc. changed its fiscal year end from January 31 to the last day of February, mirroring the consolidated fiscal year end. The accounting period of said subsidiary for current consolidated fiscal year was 13 months, with the addition of February 2024 operating results. We made the appropriate adjustments to our consolidated statements of income to reflect this additional month.

4. Significant accounting policies

(1) Valuation standards and methods for significant assets

1) Securities

・Available-for-sale securities

Securities other than stock, etc., without a quoted market price

Fair value method (The valuation difference is recorded as a component of net assets, and cost of sales is determined by the moving-average method.)

Stock, etc., without a quoted market price

Cost method by the moving-average method

2) Net receivables and payables arising from derivative transactions

Fair value method

3) Inventories

Merchandise

Mainly cost is determined by the weighted average method (amount on balance sheets calculated by writing down the book value based on a decline in profitability)

(2) Depreciation method of significant depreciable assets

1) Tangible fixed assets (excluding right-of-use assets)

Mainly declining-balance method (However, we use the straight-line method for buildings (excluding facilities attached to buildings) acquired on or after April 1, 1998, and for facilities attached to buildings and structures acquired on or after April 1, 2016)

Major useful lives

・Buildings and structures: 3-50 years

・In-store equipment: 5 years

・Others (Tools, furniture and fixture): 2-20 years

2) Intangible assets

Straight-line method (Software for internal use is amortized by the straight-line method over the internal useful life of the software (generally 5 years))

3) Right-of-use assets

Straight-line method

(3) Accounting standards for significant reserves and allowances

1) Allowance for doubtful accounts

To allow for possible losses on trade receivables, the Company records the estimated amount of non-recoverable receivables based on the historical loss rate for general receivables and specific collectability for specific doubtful receivables.

2) Provision for bonuses

To provide for the payment of bonuses to employees, of the estimated amount to be paid, the Company records the amount to be borne by the Company for the current consolidated fiscal year.

3) Provision for point card certificates

To provide for the future use of points granted to customers other than for the sale of merchandise, the Company records the amount estimated to be used in the future at the end of the current consolidated fiscal year.

(4) Accounting standards for recording significant revenues and expenses

Principal performance obligations and the usual period of revenue recognition

1) Merchandise sales

The Company satisfies performance obligations and recognizes revenue at the time when the merchandise in question is delivered to the customer.

2) In-house points

The Company identifies in-house points granted from sales to customers as performance obligations, allocates the transaction price based on the standalone selling price (calculated by taking into account estimated future point usage), and recognizes revenue when the points are used.

(5) Translation of significant foreign currency-denominated assets and liabilities into Japanese yen

Assets and liabilities of overseas subsidiaries are translated into Japanese yen using the spot exchange rate at the fiscal year end, and incomes and expenses are translated into Japanese yen based on the average exchange rate during the fiscal year under review. The translation difference is included in foreign currency translation adjustments and non-controlling interests under net assets.

(6) Significant hedge accounting methods

1) Hedge accounting method

The Company relies on deferred hedge accounting. The Company uses the allocation method to account for forward exchange contracts that satisfy the allocation method requirements.

2) Hedging instruments and hedged items

Hedging instruments: Forward exchange contracts

Hedged items: Foreign currency-denominated liabilities

3) Hedging policy

The Company enters into forward foreign exchange contracts to hedge the risk of exchange rate fluctuations in foreign currency transactions based on actual demand. The Company does not engage in speculative transactions. The Company identifies hedged items on an individual contract basis.

4) Method of assessing hedge effectiveness

Given that the significant terms regarding hedged items and hedging instruments are the same, market fluctuations or cash flow fluctuations are assumed to be offset completely at the inception of the hedge and continuously thereafter. Therefore, the Company omits the assessment of hedge effectiveness.

(7) Goodwill amortization method and period

The Company estimates individual expected beneficial periods of investment and amortizes goodwill over a reasonable period of 20 years or less on a straight-line basis.

(8) Scope of funds in consolidated statements of cash flows

Funds (cash and cash equivalents) in the consolidated statements of cash flows consist of cash on hand, demand deposits, and short-term investments that are readily convertible into cash, are exposed to insignificant risk of changes in value, and are redeemable in three months or less from each acquisition date.

(9) Other important matters in the preparation of consolidated financial statements

Group tax sharing system

The Company and certain consolidated subsidiaries in Japan adopt the group tax sharing system.

(Significant accounting estimates)

1. Merchandise evaluation

(1) Amounts recorded in the consolidated financial statements for the current consolidated fiscal year

(Millions of yen)

	As of February 29, 2024	As of February 28, 2025
Merchandise	26,603	28,796
Merchandise related to the Company	21,377	22,515

(Note) Merchandise is included under inventories on the consolidated balance sheets.

(2) Information concerning contents of significant accounting estimates for identified items

Merchandise is stated mainly at cost determined by the weighted average method (amount on balance sheets calculated by writing down the book value based on a decline in profitability). If the net realizable value at the end of the period is lower than the acquisition cost, the Company uses the net selling price as the carrying value on the balance sheet. For products that have been on the market for a certain period of time, the Company reduces the book value to the estimated required amount based on prior rates.

Consolidated financial statements for the following fiscal year may be affected if it presents necessary to review the net selling price in question due to changes in market trends or the spread of infectious diseases.

2. Impairment losses of non-current assets

(1) Amounts recorded in the consolidated financial statements for the current consolidated fiscal year

(Millions of yen)

	As of February 29, 2024	As of February 28, 2025
Property, plant and equipment	23,901	26,864
Impairment loss	1,029	1,249

(2) Information concerning contents of significant accounting estimates for identified items

The Group groups assets with each store as the smallest unit that generates cash flow, and determines impairment loss in the asset groups with ongoing negative results, etc., in operating losses.

The book value of the assets subject to impairment is reduced to the recoverable amount (the higher of value in use or net selling price), and the reduced amount is recognized as an impairment loss under extraordinary losses.

The major assumptions used in estimating value in use consist of the business plan and discount rate used as the basis for future cash flow.

Value in use was calculated by discounting the future cash flows of each store by the discount rate. The value in use and net realizable value are reasonably determined based on information available at the time of closing of accounts. However, business may be affected by closures of commercial facilities where Company brand stores are located or reduced customer traffic resulting from market trend fluctuations or the spread of infectious diseases, etc. These effects may impact consolidated financial statements for the next consolidated fiscal year if actual recoverable amounts differ from the estimate.

(Accounting standards not yet adopted, etc.)

・*Accounting Standard for Current Income Taxes* (ASBJ Statement No. 27, October 28, 2022)

・*Accounting Standard for Presentation of Comprehensive Income* (ASBJ Statement No. 25, October 28, 2022)

・*Guidance on Accounting Standard for Tax Effect Accounting* (ASBJ Guidance No. 28, October 28, 2022)

(1) Overview

The standards and guidance above define the accounting classification of income taxes when other comprehensive income is taxable, as well as the tax effect related to the sales of shares of subsidiaries, etc. when a group taxation regime is applied.

(2) Effective date

The Company plans to adopt the standards from the beginning of the fiscal year ending February 28, 2026.

(3) Effect of adoption of the accounting standards, etc.

The Company is assessing impacts on consolidated financial statements from the application of the Accounting Standard for Current Income Taxes and other guidelines.

・*Accounting Standard for Leases* (ASBJ Statement No. 34, September 13, 2024)

・*Guidance on Accounting Standard for Leases* (ASBJ Guidance No. 33, September 13, 2024)

Other revisions to related ASBJ Statements, ASBJ Guidance, Practical Issue Task Force, and Transfer Guidance

(1) Overview

The Accounting Standards Board of Japan (ASBJ) examined the development of a lease accounting standard requiring lessees to recognize both assets and liabilities for all leases, as part of efforts to align Japanese GAAP with international standards. ASBJ based its approach on international standards, and included the IFRS 16 single accounting model as the foundation of its policy. However, rather than incorporating the entire standard, the ASBJ included only key provisions of IFRS 16. As a result, the ASBJ issued a simplified and user-friendly lease accounting standard designed to minimize the need for adjustments when applying IFRS 16 to non-consolidated financial statements under Japanese GAAP.

Under the new lease accounting standard, lessees apply a single accounting model, similar to IFRS 16, through which lessees recognize depreciation and amortization on right-of-use assets and interest expense on lease liabilities for all leases, regardless of whether they are classified as finance leases or operating leases.

(2) Effective date

The Company plans to adopt the standards from the beginning of the fiscal year ending February 28, 2029.

(3) Effect of adoption of the accounting standards, etc.

The Company is assessing impacts on consolidated financial statements from the application of the Accounting Standard for Leases and other guidelines.

(Additional information)

(Transactions in which company shares are granted to employees, etc., through a trust)

The Company and certain consolidated subsidiaries introduced the Stock Grant ESOP Trust, an incentive plan (the "Plan"). The Plan targets executive officers (excluding executive officers concurrently serving as directors) and management personnel ("Executive Officers, etc."), aiming to raise awareness of the need to contribute to improved Company performance and increase corporate value over the medium to long term.

1. Overview of transactions

Under the Plan, the Company designates eligible Executive Officers, etc., who satisfy beneficiary requirements as beneficiaries and establishes a trust by contributing funds for the acquisition of company shares. The Plan will acquire the company shares. Thereafter, in accordance with share delivery regulations, Executive Officers, etc., who meet the designated requirements receive points in accordance with their position, individual evaluation, and performance. The Company then grants company shares in proportion to the number of said points. Executive Officers, etc., bear no burden, as the Company contributes all funds for the trust to acquire company shares.

2. Company shares remaining in the trust

The Company records the book value (excluding incidental expenses) of company shares remaining in the trust as treasury stock under net assets. The book value and number of shares of said treasury stock in the previous consolidated fiscal year amounted to 414 million yen and 133 thousand shares. For the current consolidated fiscal year, the Company recorded 158 million yen and 51 thousand shares.

(Performance-linked stock compensation plan for directors)

The Company and certain consolidated subsidiaries introduced the Executive Compensation BIP (Board Incentive Plan) Trust, a performance-linked stock compensation plan (the "Plan"). The Plan targets directors (excluding directors who are Audit and Supervisory Board Members, outside directors, and non-residents of Japan), aiming to raise awareness of the need to contribute to improved Company performance and increase corporate value over the medium to long term.

1. Overview of transactions

Under the Plan, the Company designates eligible directors who satisfy beneficiary requirements as beneficiaries and establishes a trust by contributing funds for the acquisition of company shares. The Plan will acquire the company shares. Thereafter, in accordance with the share delivery regulations, directors who meet the designated requirements receive points according to their position and performance level in the fiscal year subject to evaluation. In principle, upon retirement of the director in question, the Company grants or pays the director with company shares, or an amount equivalent to the cash proceeds from the conversion of company shares, as director compensation in accordance with the number of points received.

2. Company shares remaining in the trust

The Company records the book value (excluding incidental expenses) of company shares remaining in the trust as treasury stock under net assets. The book value and number of shares of said treasury stock in the previous consolidated fiscal year amounted to 728 million yen and 238 thousand shares. For the current consolidated fiscal year, the Company recorded 1,397 million yen and 444 thousand shares.

(Notes to consolidated balance sheets)

*1. Breakdown of inventories

(Millions of yen)

	As of February 29, 2024	As of February 28, 2025
Merchandise	26,603	28,796
Raw materials and supplies	235	286
Total	26,839	29,082

*2. The reduction entry amount deducted from the acquisition price of tangible fixed assets due to national subsidies, etc., is as follows

(Millions of yen)

	As of February 29, 2024	As of February 28, 2025
Land	169	169

*3. Pledged assets and secured liabilities

(1) Assets pledged as collateral

(Millions of yen)

	As of February 29, 2024	As of February 28, 2025
Leasehold and guarantee deposits	100	100

(2) Obligations to the above

(Millions of yen)

	As of February 29, 2024	As of February 28, 2025
Accounts payable - trade	100	100

4. The Company executed overdraft agreements with four correspondent banks to procure operating capital in an efficient manner.

The balances of unexecuted loans related to said overdraft agreement at the end of the fiscal year are as follows:

(Millions of yen)

	As of February 29, 2024	As of February 28, 2025
Amount of overdraft limit	50,000	50,000
Used	—	—
Unused portion	50,000	50,000

5. Contingent liabilities

The U.S. Small Business Administration is investigating ZETTON, INC. (U.S.A.), a consolidated subsidiary of the Company, regarding the validity of the $8.2 million received in May 2021 as part of the establishment of the Restaurant Revitalization Fund (RRF) under the American Rescue Plan Act of 2021, which was enacted in March 2021.

The Group will continue to defend the legitimacy of this transaction to the administration. While future progressions may impact Group performance it is difficult to estimate the impact at this time.

(Notes to consolidated statements of income)

*1. Revenue from contracts with customers

Revenue from contracts with customers and other revenue are not presented separately under net sales. The amount of revenue from contracts with customers is as stated in Segment information, etc. under *Notes to Consolidated Financial Statements (Revenue Recognition) 1. Revenue from contracts with customers*.

*2. Impairment loss

The Group posted impairment losses on the following asset groups.

Year ended February 29, 2024 (March 1, 2023 to February 29, 2024)

(Millions of yen)

Use and location	Type	Amount
Stores (Japan) 9 stores in Tokyo, 7 stores in Osaka, 6 stores in Kanagawa, and 13 stores in 9 other prefectures Total: 35 stores (Overseas) 6 stores	Buildings and structures	61
	In-store equipment	905
	Other, net	37
Other, net	Software	6
	Other, net	19
	Total	1,029

The Group groups assets with each store as the smallest unit that generates cash flow, and determines impairment loss in the asset groups with ongoing negative results, etc., in operating losses.

The book value of the assets subject to impairment is reduced to the recoverable amount, and the reduced amount is recognized as an impairment loss under extraordinary losses.

The recoverable amount is the value measured based on value in use. Value in use is calculated by discounting future cash flows at a rate between 8.5% to 13.0%. Negative rates are evaluated as zero.

Year ended February 28, 2025 (March 1, 2024 to February 28, 2025)

(Millions of yen)

Use and location	Type	Amount
Stores (Japan) 10 stores in Tokyo, 4 stores in Osaka, 4 stores in Kanagawa, and 21 stores in 13 other prefectures Total: 39 stores (Overseas) 4 stores	Buildings and structures	92
	In-store equipment	327
	Other, net	14
Other, net	Goodwill	421
	Other, net	394
	Total	1,249

The Group groups assets with each store as the smallest unit that generates cash flow, and determines impairment loss in the asset groups with ongoing negative results, etc., in operating losses.

The book value of the assets subject to impairment is reduced to the recoverable amount, and the reduced amount is recognized as an impairment loss under extraordinary losses.

The recoverable amount is the value measured based on value in use. Value in use is calculated by discounting future cash flows at a rate between 5.3% to 18.5%. Negative rates are evaluated as zero.

(Notes to consolidated statements of comprehensive income)

*1. Reclassification adjustments and tax effects concerning other comprehensive income

(Millions of yen)

	Year ended February 29, 2024 (March 1, 2023 to February 29, 2024)	Year ended February 28, 2025 (March 1, 2024 to February 28, 2025)
Valuation difference on other securities		
Amount arising in the current period	(92)	0
Reclassification adjustment	—	—
Before tax effect adjustment	(92)	0
Tax effect amount	31	(1)
Valuation difference on other securities	(60)	(0)
Deferred gains (losses) on hedges		
Amount arising in the current period	511	(454)
Reclassification adjustment	—	—
Before tax effect adjustment	511	(454)
Tax effect amount	(156)	139
Deferred gains (losses) on hedges	354	(315)
Foreign currency translation adjustment		
Amount arising in the current period	354	642
Reclassification adjustment	—	—
Before tax effect adjustment	354	642
Tax effect amount	—	—
Foreign currency translation adjustment	354	642
Total other comprehensive income	648	326

(Notes to consolidated statements of changes in net assets)

Year ended February 29, 2024 (March 1, 2023 to February 29, 2024)

1 Type and total number of shares issued and outstanding, and type and number of treasury shares

(Thousands of shares)

	At the beginning of the current consolidated fiscal year	Increase	Decrease	At the end of the period
Shares outstanding				
Common shares	48,800	—	—	48,800
Total	48,800	—	—	48,800
Treasury shares				
Common shares	3,449	249	178	3,520
Total	3,449	249	178	3,520

(Notes) 1. The number of common shares of treasury stock at the beginning and end of the current consolidated fiscal year includes 209 thousand and 133 thousand shares, respectively, of company shares held as trust assets of the Stock Grant ESOP Trust.

2. The number of common shares of treasury stock at the beginning and end of the current consolidated fiscal year includes 91 thousand and 238 thousand shares, respectively, of company shares held as trust assets of the Executive Compensation BIP (Board Incentive Plan) Trust.

3. The increase in common shares of treasury stock was mainly due to the acquisition of 249 thousand shares in the Executive Compensation BIP Trust.

4. The decrease in common shares of treasury stock was due to 36 thousand shares delivered and 40 thousand shares sold in the Stock Grant ESOP Trust and 50 thousand shares delivered and 51 thousand shares sold in the Executive Compensation BIP Trust.

2 Share acquisition rights, etc.

Not applicable

3 Dividends

(1) Dividends paid

Resolution	Share type	Total dividends	Dividend per share	Record date	Effective date
April 4, 2023 Board of directors	Common shares	1,597 million yen	35yen	February 28, 2023	May 10, 2023
September 29, 2023 Board of directors	Common shares	1,597 million yen	35yen	August 31, 2023	October 23, 2023

(Notes) 1. Total dividends resolved by the board of directors on April 4, 2023, include dividends of 10 million yen for the company shares held by the trusts.

2. Total dividends resolved by the board of directors on September 29, 2023 includes dividends of 4 million yen for the company shares held by the trusts.

(2) Dividends for which the record date was in the current consolidated fiscal year and the effective date of which is in the following fiscal year

Resolution	Share type	Total dividends	Dividend per share	Dividend source	Record date	Effective date
April 4, 2024 Board of directors	Common shares	2,282 million yen	50 yen	Retained earnings	February 29, 2024	May 8, 2024

(Note) Total dividends resolved by the board of directors on April 4, 2024, include dividends of 18 million yen for company shares held by the trusts.

Year ended February 28, 2025 (March 1, 2024 to February 28, 2025)

1 Type and total number of shares issued and outstanding, and type and number of treasury shares

(Thousands of shares)

	At the beginning of the current consolidated fiscal year	Increase	Decrease	At the end of the period
Shares outstanding				
Common shares	48,800	―	―	48,800
Total	48,800	―	―	48,800
Treasury shares				
Common shares	3,520	215	1,229	2,506
Total	3,520	215	1,229	2,506

(Notes) 1. The number of common shares of treasury stock at the beginning and end of the current consolidated fiscal year includes 133 thousand and 51 thousand shares, respectively, of company shares held as trust assets of the Stock Grant ESOP Trust.

2. The number of common shares of treasury stock at the beginning and end of the current consolidated fiscal year includes 238 thousand and 444 thousand shares, respectively, of company shares held as trust assets of the Executive Compensation BIP (Board Incentive Plan) Trust.

3. The increase in common shares of treasury stock was mainly due to the acquisition of 215 thousand shares in the Executive Compensation BIP Trust.

4. The decrease in common shares of treasury stock was due to the allotment of 1,137 thousand shares under the share exchange, 38 thousand shares delivered and 44 thousand shares sold in the Stock Grant ESOP Trust, and 4 thousand shares delivered and 4 thousand shares sold in the Executive Compensation BIP Trust.

2 Share acquisition rights, etc.

Not applicable

3 Dividends

(1) Dividends paid

Resolution	Share type	Total dividends	Dividend per share	Record date	Effective date
April 4, 2024 Board of directors	Common shares	2,282 million yen	50yen	February 29, 2024	May 8, 2024
September 30, 2024 Board of directors	Common shares	1,637 million yen	35yen	August 31, 2024	October 22, 2024

(Notes) 1. Total dividends resolved by the board of directors on April 4, 2024, include dividends of 18 million yen for company shares held by the trusts.

2. Total dividends resolved by the board of directors on September 30, 2024, include dividends of 17 million yen for the company shares held by the trusts.

(2) Dividends for which the record date was in the current consolidated fiscal year and the effective date of which is in the following fiscal year

Resolution	Share type	Total dividends	Dividend per share	Dividend source	Record date	Effective date
April 4, 2025 Board of directors	Common shares	2,573 million yen	55 yen	Retained earnings	February 28, 2025	May 9, 2025

(Note) Total dividends resolved by the board of directors on April 4, 2025, include dividends of 27 million yen for the company shares held by the trusts.

(Notes to consolidated statements of cash flows)

*1. Cash and cash equivalents as of the fiscal year end reconciled to the accounts reported in the consolidated balance sheets

(Millions of yen)

	Year ended February 29, 2024 (March 1, 2023 to February 29, 2024)	Year ended February 28, 2025 (March 1, 2024 to February 28, 2025)
Cash and deposits	23,371	21,143
Separate deposits	(8)	(10)
Separate deposits in trust (*)	(21)	(51)
Cash and cash equivalents	23,341	21,081

(Note) The above items belong to the Stock Grant ESOP Trust and Executive Compensation BIP Trust.

*2. Breakdown of major assets and liabilities of a company that became a consolidated subsidiary through purchase of shares

Year ended February 29, 2024 (March 1, 2023 to February 29, 2024)

Not applicable

Year ended February 28, 2025 (March 1, 2024 to February 28, 2025)

Breakdown of assets and liabilities at the start of consolidation following the new consolidation of TODAY'S SPECIAL Co., Ltd., and the relationship between the share acquisition price of TODAY'S SPECIAL Co., Ltd. and payments for acquisition of shares (net) of TODAY'S SPECIAL Co., Ltd. are as follows:

	(Millions of yen)
Current assets	533
Fixed assets	1,592
Goodwill	2,381
Current liabilities	(7)
Fixed liabilities	—
Share acquisition price	4,500
Cash and cash equivalents	(6)
Net: Expenditures for acquisition	4,493

(Lease transactions)

Operating lease transactions

Remaining lease payments for operating lease transactions that are noncancelable

(Millions of yen)

	As of February 29, 2024	As of February 28, 2025
Current portion	3,058	3,916
More than one year	8,055	11,259
Total	11,114	15,176

(Financial instruments)

1. Matters related to the status of financial instruments

(1) Policies on financial instruments

The Group invests surplus funds in highly secure financial assets, procuring necessary funds (mainly through borrowings from financial institutions) for equipment and working capital according to capital investment plans. In derivative transactions, the Group enters into forward foreign exchange contracts to hedge the risk of exchange rate fluctuations in foreign currency transactions based on actual demand. In principle, the Group does not engage in speculative transactions.

(2) Nature and risk of financial instruments

Notes and accounts receivable – trade, under trade receivables, is exposed to counterparty credit risk.

Investment securities mainly consist of counterparty equity securities and are exposed to fluctuations in market prices.

Leasehold and guarantee deposits mainly consist of guarantee deposits, etc., associated with store openings and are exposed to credit risk of the counterparty to which they are pledged.

Trade payables, including notes and accounts payable - trade and electronically recorded obligations - operating, are due within one year.

Short-term borrowings payable and long-term debts are mainly for procuring funds necessary for working capital and capital investment. The longest repayment date is five years after the closing date.

For lease obligations, the Group mainly adopts *Leases* (IFRS 16 and ASC 842) for certain overseas affiliates.

Derivative transactions mainly consist of forward foreign exchange contract transactions used to hedge foreign currency risk of fluctuating exchange rates of foreign currency-denominated transactions. See *4. Significant accounting policies (6) Significant hedge accounting methods* for information on hedging instruments, hedged items, hedging policy, and methods of assessing hedge effectiveness.

(3) Risk management system related to financial instruments

1) Management of credit risks (risk of counterparty failure to perform contracted obligations, etc.)

The Group manages due dates and balances by store and counterparty while periodically monitoring credit information. In this way, the Group works to assess and mitigate the credit risk of counterparties related to notes and accounts receivable-trade as early as possible.

The Group works to works to assess recovery concerns regarding leasehold and guarantee deposits by monitoring the credit standing of the lessee at the time of entering the lease contract. The Group also strives to monitor regularly the credit standing of the lessee after the lessee has moved in.

The Group recognizes that there is almost no credit risk associated with derivative transactions, as the counterparties to such transactions are limited to financial institutions with high credit ratings.

2) Management of market risks (fluctuations in foreign exchange rates, interest rates, and other risk)

The Group uses forward exchange contracts to hedge against the risk of foreign currency exchange rate fluctuations for foreign currency-denominated transactions involving merchandise importation.

The Group monitors investment securities based on the regular identification of fair values and financial conditions of the issuer in accordance with the Securities Investment Management Regulations.

The Group conducts derivative transactions in line with the derivative management rules and regulations, while the Accounting Division is responsible for reconciliation of the balances, etc. Departments report monthly to the Accounting Division on the status of such transactions and report annually, while the Accounting Division reports to the Executive Committee on an annual basis.

3) Management of liquidity risks related to fund raising (risks of inability to make payments on the due date)

To manage liquidity risk, the Finance Department and other responsible departments of the Group prepare cash management plans based on annual budgets and update results and budgets on a monthly basis. At the same time, these departments maintain liquidity on hand with cash and deposits.

(4) Supplementary explanation about fair value of financial instruments, etc.

As variable factors are incorporated in determining the fair value of financial instruments, such value may change by adopting different preconditions, etc.

(5) Credit risk concentration

As of the current consolidated balance sheet date, a particular counterparty accounts for 33.1% of trade receivables.

2. Matters regarding fair values of financial instruments, etc.

Carrying amounts in the consolidated balance sheets, fair values, and their differences are as follows.

(As of February 29, 2024)

(Millions of yen)

	Carrying amount	Fair value	Difference
(1) Investment securities	34	34	―
(2) Leasehold and guarantee deposits (*2)	9,554	9,218	(335)
Total assets	9,589	9,253	(335)
(1) Long-term debt (including current portion)	905	927	21
(2) Lease obligations (including current portion)	8,045	8,000	(45)
Total liabilities	8,950	8,927	(23)
Derivative transactions (*3)	337	337	―
Total derivative transactions	337	337	―

(*1) The Company omits cash and items whose fair value approximates book value due to short maturities.

(*2) The difference between the amount of lease and guarantee deposits in the consolidated balance sheets and the carrying amount in the disclosure of fair value of financial instruments above is the sum of the unamortized balance of lease and guarantee deposits recognized as unrecoverable (estimated cost of restoring the leased building to its original condition) as of the end of the current consolidated fiscal year and allowance for doubtful accounts set aside for security deposits and guarantees.

(*3) Figure represents the net amount of net receivables and payables arising from derivative transactions.

(As of February 28, 2025)

(Millions of yen)

	Carrying amount	Fair value	Difference
(1) Investment securities	40	40	―
(2) Leasehold and guarantee deposits (*2)	10,303	9,659	(644)
Total assets	10,344	9,700	(644)
(1) Long-term debt (including current portion)	―	―	―
(2) Lease obligations (including current portion)	8,960	9,519	558
Total liabilities	8,960	9,519	558
Derivative transactions (*3)	(117)	(117)	―
Total derivative transactions	(117)	(117)	―

(*1) The Company omits cash and items whose fair value approximates book value due to short maturities.

(*2) The difference between the amount of lease and guarantee deposits in the consolidated balance sheets and the carrying amount in the disclosure of fair value of financial instruments above is the sum of the unamortized balance of lease and guarantee deposits recognized as unrecoverable (estimated cost of restoring the leased building to its original condition) as of the end of the current consolidated fiscal year and allowance for doubtful accounts set aside for security deposits and guarantees.

(*3) Figure represents the net amount of net receivables and payables arising from derivative transactions.

(Note 1) Shares, etc., without a quoted market price are not included in *(1) Investment securities*. Carrying amounts of said financial instruments are as follows:

(Millions of yen)

Classification	As of February 29, 2024	As of February 28, 2025
Unlisted equity securities	733	650

(Note 2) Scheduled redemption amounts of monetary claims and securities with maturity dates after the consolidated closing date

(As of February 29, 2024)

(Millions of yen)

	Due in 1 year or less	Due in 1-5 years	Due in 5-10 years	Due after 10 years
Cash and deposits	23,371	—	—	—
Notes and accounts receivable - trade	15,815	—	—	—
Leasehold and guarantee deposits	1,724	3,059	2,340	2,429
Total	40,912	3,059	2,340	2,429

(As of February 28, 2025)

(Millions of yen)

	Due in 1 year or less	Due in 1-5 years	Due in 5-10 years	Due after 10 years
Cash and deposits	21,143	—	—	—
Notes and accounts receivable - trade	14,527	—	—	—
Leasehold and guarantee deposits	1,826	3,395	2,155	2,926
Total	37,497	3,395	2,155	2,926

(Note 3) Scheduled repayment amounts of bonds, long-term debt, lease obligations, and other interest-bearing liabilities after the consolidated closing date

(As of February 29, 2024)

(Millions of yen)

	Due in 1 year or less	Due in 1-2 years	Due in 2-3 years	Due in 3-4 years	Due in 4-5 years
Long-term debt	401	198	125	125	54
Lease obligations	2,007	1,805	1,236	880	678
Total	2,408	2,004	1,361	1,005	733

(As of February 28, 2025)

(Millions of yen)

	Due in 1 year or less	Due in 1-2 years	Due in 2-3 years	Due in 3-4 years	Due in 4-5 years
Long-term debt	—	—	—	—	—
Lease obligations	2,464	2,036	1,693	1,121	438
Total	2,464	2,036	1,693	1,121	438

3. Fair value information by classification within the fair value hierarchy

The Company categorizes the fair value of financial instruments into the following three categories according to the observability and significance of inputs related to the measurement of fair value.

Fair Value Level 1 : Fair value calculated using (unadjusted) the quoted price for identical assets or liabilities in active markets

Fair Value Level 2 : Fair value calculated using inputs other than those in Level 1 that are observable either directly or indirectly

Fair Value Level 3 : Fair value calculated using significant unobservable inputs

If multiple inputs with significant impact on the measurement of fair value are used, the fair value is categorized under the lowest level in terms of priority in the fair value measurement among the levels of said inputs.

(1) Financial assets and liabilities measured at fair value in the consolidated balance sheets

(As of February 29, 2024)

Classification	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Investment securities				
Other securities				
Equity securities	24	—	—	24
Other, net	—	10	—	10
Total assets	24	10	—	34
Derivative transactions				
Currency related	—	337	—	337
Total liabilities	—	337	—	337

(As of February 28, 2025)

Classification	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Investment securities				
Other securities				
Equity securities	30	—	—	30
Other, net	—	10	—	10
Total assets	30	10	—	40
Derivative transactions				
Currency related	—	(117)	—	(117)
Total liabilities	—	(117)	—	(117)

(2) Financial assets and liabilities not measured at fair value in the consolidated balance sheets

(As of February 29, 2024)

Classification	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Leasehold and guarantee deposits	―	9,218	―	9,218
Total assets	―	9,218	―	9,218
Long-term debt (including current portion)	―	927	―	927
Lease obligations (including current portion)	―	8,000	―	8,000
Total liabilities	―	8,927	―	8,927

(As of February 28, 2025)

Classification	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Leasehold and guarantee deposits	―	9,659	―	9,659
Total assets	―	9,659	―	9,659
Long-term debt (including current portion)	―	―	―	―
Lease obligations (including current portion)	―	9,519	―	9,519
Total liabilities	―	9,519	―	9,519

(Notes) 1. The Company omits cash and items whose fair value approximates book value due to short maturities.

2. Explanations of valuation techniques and inputs used in fair value measurement

Investment securities

Listed equity securities are valued at quoted prices. As listed equity securities are traded in an active market, the fair value is categorized as Level 1. On the other hand, the fair value of bonds and investment trusts is calculated based on the price quoted by the exchange or by the correspondent financial institution. Therefore, the fair value is classified as Level 2.

Derivative transactions

The fair value of forward exchange contracts is based on prices quoted by correspondent financial institutions. Therefore, the fair value is classified as Level 2.

Leasehold and guarantee deposits

Leasehold and guarantee deposits are classified by certain periods of time, with the fair value calculated based on the present value of recoverable future cash flows, discounted by the yield of government bonds. Therefore, the fair value is classified as Level 2.

Long-term debt (including current portion)

The fair value of long-term debt is calculated based on the present value of the total principal and interest, discounted at an interest rate applicable to a similar new loan. Therefore, the fair value is classified as Level 2.

Lease obligations (including current portion)

The fair value of lease obligations is calculated based on the present value of the total principal and interest, discounted at an interest rate applicable to a similar new lease transaction. Therefore, the fair value is classified as Level 2.

(Securities)

1. Other securities

(As of February 29, 2024)

(Millions of yen)

	Type	Carrying amount	Acquisition cost	Difference
Securities whose carrying amounts exceed their acquisition cost	(1) Equity securities	24	23	1
	(2) Bonds	—	—	—
	(3) Other	—	—	—
	Subtotal	24	23	1
Securities whose carrying amounts do not exceed their acquisition costs	(1) Equity securities	—	—	—
	(2) Bonds	—	—	—
	(3) Other	10	10	(0)
	Subtotal	10	10	(0)
Total		34	33	1

(Notes) 1. For impairment, the Company considers a significant decline to be a decline of 30% or more of the market value compared to acquisition cost. The Company assumes values are likely to be unrecoverable and recognizes impairment loss if the fair value of individual stock declines by 50% or if the fair value of individual stock declines by between 30% to 50% at the end of the previous or current consolidated fiscal year.

2. Other securities in the above table do not include unlisted stocks (733 million yen on the consolidated balance sheet) as they do not have fair prices.

(As of February 28, 2025)

(Millions of yen)

	Type	Carrying amount	Acquisition cost	Difference
Securities whose carrying amounts exceed their acquisition cost	(1) Equity securities	30	25	5
	(2) Bonds	—	—	—
	(3) Other	10	10	0
	Subtotal	40	35	5
Securities whose carrying amounts do not exceed their acquisition costs	(1) Equity securities	—	—	—
	(2) Bonds	—	—	—
	(3) Other	—	—	—
	Subtotal	—	—	—
Total		40	35	5

(Notes) 1. For impairment, the Company considers a significant decline to be a decline of 30% or more of the market value compared to acquisition cost. The Company assumes values are likely to be unrecoverable and recognizes impairment loss if the fair value of individual stock declines by 50% or if the fair value of individual stock declines by between 30% to 50% at the end of the previous or current consolidated fiscal year.

2. Other securities in the above table do not include unlisted stocks (650 million yen on the consolidated balance sheet) as they do not have fair prices.

2. Other securities sold during the consolidated fiscal year

Year ended February 29, 2024 (March 1, 2023 to February 29, 2024)

Not applicable

Year ended February 28, 2025 (March 1, 2024 to February 28, 2025)

Not applicable

3. Impairment of securities

Year ended February 29, 2024 (March 1, 2023 to February 29, 2024)

In the current consolidated fiscal year, the Company recognized an impairment loss of 243 million yen (unlisted equity securities in other securities) for investment securities.

Year ended February 28, 2025 (March 1, 2024 to February 28, 2025)

Not applicable

(Derivative transactions)

1. Derivative transactions for which hedge accounting is not applied

Year ended February 29, 2024 (March 1, 2023 to February 29, 2024)

Not applicable

Year ended February 28, 2025 (March 1, 2024 to February 28, 2025)

Not applicable

2. Derivative transactions for which hedge accounting is applied

Currency related

Year ended February 29, 2024 (March 1, 2023 to February 29, 2024)

(Millions of yen)

Hedge accounting method	Type of derivative transaction, etc.	Major hedged items	Contract amounts	Contract amounts Over 1 year	Fair value
Allocation method of forward exchange contracts, etc.	Forward exchange contracts Short commitment US dollar Chinese Yuan	Accounts payable - trade	23,650 798	— —	331 6
Total			24,448	—	337

Year ended February 28, 2025 (March 1, 2024 to February 28, 2025)

(Millions of yen)

Hedge accounting method	Type of derivative transaction, etc.	Major hedged items	Contract amounts	Contract amounts Over 1 year	Fair value
Allocation method of forward exchange contracts, etc.	Forward exchange contracts Short commitment US dollar Chinese Yuan	Accounts payable - trade	17,783 400	— —	(111) (5)
Total			18,184	—	(117)

(Retirement benefits)

1. Summary of retirement benefit plans adopted

The Company and certain consolidated subsidiaries adopted a prepaid retirement benefit plan and a Defined Contribution Plan.

2. Retirement benefit expenses

(Millions of yen)

	Year ended February 29, 2024 (March 1, 2023 to February 29, 2024)	Year ended February 28, 2025 (March 1, 2024 to February 28, 2025)
Prepaid retirement benefits	284	300
Required contributions to Defined Contribution Plans	83	89
Retirement benefit expenses	368	389

(Tax effect accounting)

1. Major components of deferred tax assets and liabilities

(Millions of yen)

	As of February 29, 2024	As of February 28, 2025
Deferred tax assets		
Loss on valuation of merchandise	882	1,208
Enterprise tax payable	290	260
Allowance for doubtful accounts	141	129
Provision for bonuses	757	752
Provision for point card certificates	90	470
Contract liabilities	528	1
Tax loss carryforwards (Note 2)	2,877	3,395
Depreciation and amortization	3,930	4,265
Lump-sum depreciable assets	37	37
Asset retirement expenses	1,407	1,659
Other, net	388	3,208
Subtotal of deferred tax assets	11,332	15,388
Less valuation allowance for tax loss carryforwards (Note 2)	(1,836)	(3,144)
Less valuation allowance for total deductible temporary differences, etc.	(271)	(1,881)
Subtotal of valuation allowance (Note 1)	(2,107)	(5,026)
Total deferred tax assets	9,224	10,362
Deferred tax liabilities		
Valuation difference on other securities	(0)	(1)
Retained earnings	(412)	(520)
Intangible assets identified from business combination	(314)	(466)
Other, net	(26)	(61)
Total deferred tax liabilities	(753)	(1,050)
Net deferred tax assets	8,471	9,311

(Notes) 1. Valuation allowance increased by 2,918 million yen. This increase was due to a review of recoverability of deferred tax assets at consolidated subsidiaries.

2. Tax loss carryforwards and deferred tax asset by expiration date

(As of February 29, 2024)

(Millions of yen)

	Due in 1 year or less	Due in 1-2 years	Due in 2-3 years	Due in 3-4 years	Due in 4-5 years	Due after 5 years	Total
Tax loss carryforwards (a)	170	84	67	323	314	1,915	2,877
Valuation allowance	(170)	(84)	(67)	(323)	(314)	(874)	(1,836)
Deferred tax assets	—	—	—	—	—	1,040	1,040

(a) Amounts of tax loss carryforwards are calculated using the statutory tax rate.

(As of February 28, 2025)

(Millions of yen)

	Due in 1 year or less	Due in 1-2 years	Due in 2-3 years	Due in 3-4 years	Due in 4-5 years	Due after 5 years	Total
Tax loss carryforwards (a)	92	73	364	339	112	2,413	3,395
Valuation allowance	(92)	(73)	(364)	(339)	(112)	(2,162)	(3,144)
Deferred tax assets	—	—	—	—	—	251	251

(a) Amounts of tax loss carryforwards are calculated using the statutory tax rate.

2. Major items that cause significant differences between statutory tax rates and the effective tax rates after tax effect accounting, etc.

	As of February 29, 2024	As of February 28, 2025
Statutory tax rate	30.6%	30.6%
(Adjustments)		
Entertainment expenses and other items not permanently deductible for income tax purposes	0.6%	0.8%
Per capita inhabitant tax, etc.	1.9%	2.6%
Bonuses for directors	0.5%	0.2%
Valuation allowance	(7.7)%	8.2%
Special deduction for corporate tax	(4.6)%	(5.0)%
Other, net	(0.4)%	(2.0)%
Effective tax rate after tax effect accounting, etc.	20.9%	35.4%

3. Accounting for corporate and local income taxes or tax effect accounting related to these taxes

The Company and certain domestic consolidated subsidiaries apply the Group Tax Sharing System, accounting for and making disclosures related to income tax, local corporate income tax, and tax effect accounting in accordance with the *Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System* (ASBJ Practical Issues Task Force No. 42 issued August 12, 2021.)

4. Change in corporate income tax rate, etc., after the fiscal year-end

The National Diet enacted *Act Partially Amending the Income Tax Act* (Act No. 13 of 2025) on March 31, 2025. This legislation introduces the Defense Special Corporate Tax, which applies to consolidated fiscal years beginning on or after April 1, 2026.

As a result, the Company will change the statutory tax rate used to calculate deferred tax assets and liabilities for temporary differences expected to reverse in or after the consolidated fiscal year beginning on March 1, 2027, from 30.6% to 31.5%.

This change in will not have a material impact on the Company.

(Business combinations, etc.)

(Transactions under common control, etc.)

At meetings held on March 21, 2024, the Board of Director sectors of Adastria Co., Ltd. and Zetton, Inc. (collectively, the “Companies”) resolved to conduct a share exchange (“Share Exchange”) through which Zetton will become the wholly owned subsidiary. Further, the Companies concluded a share exchange agreement.

As a result of the Share Exchange, the Company became the wholly owning parent company of Zetton as of the effective date of the Share Exchange (June 1, 2024). Common stock of Zetton, the wholly owned subsidiary, were delisted from the Next Market operated by the Nagoya Stock Exchange Inc. on May 30, 2024 (last trading date was May 29, 2024).
The Share Exchange took place on June 1, 2024, and Zetton became a wholly owned subsidiary of the Company.

1. Overview of transactions
(1) Name and business activities of wholly owned subsidiary in share exchange
Name of wholly owned subsidiary in share exchange: Zetton, Inc.
Business activities: Restaurant management, development, and consulting
(2) Major reason for business combination
Zetton concluded that becoming a wholly owned subsidiary of the Company will enable the Companies to work more closely and provide Zetton with opportunities to expand its business while accelerating further the implementation of policies under the Capital and Business Alliance Agreement. Utilizing the product development, marketing expertise, human resources, financial strength, domestic and overseas networks, and other management resources of the Adastria Group, the Share Exchange will enable the Companies Groups to achieve their management strategies from a medium- to long-term perspective in a flexible and timely manner, and enhance the corporate value of Zetton.
(3) Date of business combination
May 1, 2024 (Deemed acquisition date)
June 1, 2024 (Share acquisition date)
(4) Legal form of business combination
The Share Exchange is to be conducted with the Company as the wholly owning parent company and Zetton as the wholly owned subsidiary. The Share Exchange became effective on June 1, 2024, after obtaining approval at the Zetton Ordinary General Meeting of Shareholders held on April 25, 2024, and without obtaining approval at the Company general meeting of shareholders, pursuant to the simplified share exchange procedure under Article 796-2 of the Companies Act.
(5) Name of company after combination
No change applicable

2. Outline of accounting procedures implemented
The Company accounted for the Share Exchange as a transaction with non-controlling shareholders under common control transaction, etc., based on the *Accounting Standard for Business Combinations* and the *Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures*.

3. Matters related to the additional acquisition of shares in the subsidiary

(Millions of yen)

Consideration for acquisition	Adastria common shares	4,118
Acquisition cost		4,118

4. Details and amounts of major acquisition-related expenses
Advisory fees, etc.: 19 million yen

5. Share exchange ratio, calculation method, and number of shares delivered
(1) Share exchange ratio
The Company delivered 0.36 shares of common stock of the Company for each share of Zetton common stock.
(2) Share exchange ratio calculation method
The Company and Zetton requested third-party appraisers independent of the Companies to calculate the share exchange ratio. Based on careful discussions and deliberations in reference to the results of these calculations, the Companies determined that it is appropriate to conduct the Share Exchange using the Share Exchange Ratio, as the Share Exchange is appropriate and in the best interest of all shareholders of the Companies.
(3) Number of shares delivered
1,137,723 shares

6. Matters related to changes in ownership interests of the Company resulting from transactions with non-controlling shareholders
(1) Major factors contributing to changes in capital surplus
The additional acquisition of shares in the subsidiary
(2) Amount of capital surplus decreased due to transactions with non-controlling shareholders
950 million yen

(Business combination through acquisition)

At a meeting held on April 17, 2024, the Board of Directors of the Company resolved to acquire all outstanding shares of a company (“Target Company”) scheduled to succeed the TODAY’S SPECIAL and GEORGE’S businesses of WELCOME Co., Ltd. via an absorption-type demerger, making said Target Company a subsidiary of Adastria.

This transaction was conducted by having TODAY’S SPECIAL Co., Ltd., wholly owned subsidiary of WELCOME Co., Ltd., succeed the TODAY’S SPECIAL and GEORGE’S businesses via absorption-type demerger. The Company then acquired all shares of the Target Company and completed the share acquisition process on July 1, 2024, at which point TODAY’S SPECIAL Co., Ltd. became a consolidated subsidiary.

1. Outline of the business combination

(1) Name of acquired company and its business

Name of acquired company: TODAY'S SPECIAL Co. Ltd.

Business activities: Retail-based lifestyle business

(2) Major reason for business combination

Pursuing the mission of *Play fashion!*, Adastria endeavors to enrich lives and create happiness through fashion, extending the company's reach by adding new product categories. As one example, the sundries division in the lifestyle brand has grown to account for nearly 25% of sales over the past few years, driven mainly by *niko and ...* and *studio CLIP* brands. Through this transaction, the Company intends to expand business further by enhancing our product lineup in areas adjacent to sundries.

Since its founding, WELCOME Co., Ltd. has developed high-quality lifestyle businesses, creating businesses built around unique brand. Among those brands, TODAY'S SPECIAL and GEORGE'S are core presences that have continued since the very first days of WELCOME, and these brands have the potential for further growth. The acquisition described herein was agreed upon by both companies to expand the potential of these businesses further by leveraging Adastria infrastructure and development expertise.

The Company and WELCOME share a common value in building better communities through lifestyle businesses such as fashion, design, and food. Under the new management structure, TODAY'S SPECIAL and GEORGE'S will aim for further growth for the next stage as members of the Adastria Group, which operates more than 30 multi-brands.

(3) Date of business combination

July 1, 2024

(4) Legal form of business combination

Share acquisition through cash consideration

(5) Name of company after combination

No change applicable

(6) Percentage of voting rights acquired

100.0%

(7) Major basis in determining the acquiring company

The Company acquired shares through cash consideration.

2. Period of performance by the acquired company included in the consolidated financial statements

July 1, 2024 - February 28, 2025

3. Breakdown of acquisition cost of the acquired company and type of consideration

(Millions of yen)

Consideration for acquisition	Cash	4,500
Acquisition cost		4,500

4. Details and amounts of major acquisition-related expenses

Advisory fees, etc.: 23 million yen

5. Amount of goodwill accrued, reason for accrual, amortization method, and amortization period

(1) Amount of goodwill accrued

2,381 million yen

(2) Reason for accrual

The goodwill primarily reflects the expected excess earnings derived from future business development.

(3) Amortization method and period

Equal amortization over nine (9) years

6. Amount of assets accepted and liabilities assumed on the date of business combination and their breakdown

	(Millions of yen)
Current assets	533
Non-current assets	1,120
Total assets	1,654
Current liabilities	7
Non-current liabilities	—
Total liabilities	7

7. Estimated impact on the consolidated statements of income for the current consolidated fiscal year assuming completion of the business combination on the first day of the fiscal year, and the calculation method used

The Company has omitted disclosure of the estimated impact on the consolidated statement of income, as the effect will not be material.

(Asset retirement obligations)

The Company and certain consolidated subsidiaries estimate the reasonable amount of leasehold and guarantee deposits related to real estate lease contracts, etc., for which recovery is not expected. In such cases, the Company and certain consolidated subsidiaries recognize the asset retirement obligation amount as an expense incurred in the current consolidated fiscal year. No liability is recognized.

The amount allocated for the current consolidated fiscal year is calculated based on the expected tenancy period.

The Company omits asset retirement obligations recorded by certain consolidated subsidiaries as said obligations are not material in terms of volume.

(Revenue recognition)

1. Detailed information on revenue from contracts with customers

Region	Year ended February 29, 2024 (March 1, 2023 to February 29, 2024)		Year ended February 28, 2025 (March 1, 2024 to February 28, 2025)	
	Net sales (million yen)	Composition ratio (%)	Net sales (million yen)	Composition ratio (%)
Adastria, Co., Ltd.	216,260	78.5	226,754	77.4
BUZZWIT Co., Ltd.	11,630	4.2	12,277	4.2
ELEMENT RULE Co., Ltd.	11,210	4.1	12,641	4.3
Other consolidated subsidiaries	955	0.3	2,981	0.9
Domestic Group company total	240,057	87.1	254,654	86.8
Overseas Group company total	22,787	8.3	23,920	8.2
Apparel and Sundry Goods-related Business total	262,844	95.4	278,574	95.0
Other (Food and Beverage) total	12,751	4.6	14,535	5.0
Revenue from contracts with customers	275,596	100.0	293,110	100.0

(Note) The above amounts indicate sales to external customers and do not include inter-company sales among consolidated companies.

2. Useful information in understanding revenue from contracts with customers

Information useful in understanding revenue is as presented in (Significant basis for the preparation of consolidated financial statements), *4. Significant accounting policies, (4) Accounting standards for recording significant revenues and expenses.*

3. Useful information in understanding the revenue amounts in the current and subsequent consolidated fiscal years

(1) Outstanding contract liabilities arising from contracts with customers

(Millions of yen)

	Year ended February 29, 2024 (March 1, 2023 to February 29, 2024)	Year ended February 28, 2025 (March 1, 2024 to February 28, 2025)
Receivables arising from contracts with customers (balance at beginning of period)		
Notes receivable - trade	—	3
Accounts receivable - trade	12,171	15,812
	12,171	15,815
Receivables arising from contracts with customers (balance at end of period)		
Notes receivable - trade	3	11
Accounts receivable - trade	15,812	14,516
	15,815	14,527
Contract liabilities (balance at beginning of period)	2,535	1,910
Contract liabilities (balance at end of period)	1,910	1,392

Contract liabilities refer to in-house points granted from sales to customers.

(2) Transaction price allocated to remaining performance obligations

The Group applied a practical expedient and omitted disclosure of information on remaining performance obligations, as there are no material contracts with an individual expected term exceeding one year.

In addition, no material amounts of consideration arising from contracts with customers are excluded from the transaction price.

(Segment Information, etc.)

[Segment information]

1. Overview of reportable segments

The reportable segments of the Group are those business units for which separate financial statements can be obtained and for which the board of directors considers the allocation of management resources and evaluates operating performance on a regular basis

Primary business of the Group includes the planning and sale of apparel and related products. Accordingly, the Group designates the Apparel and Sundry Goods-related Business as the reportable segment.

2. Calculation methods for net sales, income/loss, assets, and other items by reportable segment

Accounting methods for reported business segments are generally the same as those used to prepare the consolidated financial statements.

Profit by reportable segment is based on ordinary income. Intersegment revenues and transfers are based on prevailing market prices.

3. Net sales, income/loss, assets, and other items and information on details of revenue by reportable segment

Year ended February 29, 2024 (March 1, 2023 to February 29, 2024)

(Millions of yen)

	Reportable segment	Other (Note 1)	Total	Adjustments (Note 2)	Amount recorded on consolidated financial statements (Note 3)
	Apparel and Sundry Goods-related Business				
Net sales					
Sales to external customers	262,844	12,751	275,596	—	275,596
Intersegment sales and transfers	1	48	50	(50)	—
Total	262,846	12,800	275,646	(50)	275,596
Segment profit (loss)	18,558	(139)	18,418	(29)	18,389
Segment assets	120,559	8,969	129,528	(1,612)	127,915
Other items					
Depreciation and amortization	9,358	714	10,073	—	10,073
Amortization of goodwill	74	148	223	—	223
Impairment loss	968	61	1,029	—	1,029
Increase in tangible fixed assets and intangible assets	11,134	1,542	12,676	—	12,676

(Notes) 1. *Other* refers to business segments not included under reportable segments. Here, this segment indicates the food and beverage business.

2. The adjustments are as follows.
   (1) Adjustments to segment profit (loss) includes the adjustment, etc., of unrealized income related to intersegment transactions.
   (2) Adjustments to *segment assets* is the elimination of intersegment transactions.
3. Segment profit (loss) is consistent with ordinary income on the consolidated statements of income.
4. Segment profit (loss) includes corporate expenses allocated to each reportable segment.
5. Depreciation and amortization and increase in tangible fixed assets and intangible assets include long-term prepaid expenses and amortization.

Year ended February 28, 2025 (March 1, 2024 to February 28, 2025)

(Millions of yen)

	Reportable segment	Other (Note 1)	Total	Adjustments (Note 2)	Amount recorded on consolidated financial statements (Note 3)
	Apparel and Sundries Related Business				
Net sales					
Sales to external customers	278,574	14,535	293,110	―	293,110
Intersegment sales and transfers	0	70	71	(71)	―
Total	278,575	14,606	293,181	(71)	293,110
Segment profit (loss)	16,682	(717)	15,964	―	15,964
Segment assets	129,477	9,521	138,998	(5,890)	133,108
Other items					
Depreciation and amortization	10,184	908	11,093	―	11,093
Amortization of goodwill	250	144	395	―	395
Impairment loss	1,244	5	1,249	―	1,249
Increase in tangible fixed assets and intangible assets	15,058	1,770	16,828	―	16,828

(Notes) 1. *Other* refers to business segments not included under reportable segments. Here, this segment indicates the food and beverage business.

2. The adjustments are as follows.

(1) Adjustments to segment profit (loss) includes the adjustment, etc., of unrealized income related to intersegment transactions.

(2) Adjustments to segment assets is the elimination of intersegment transactions.

3. Segment profit (loss) is consistent with ordinary income on the consolidated statements of income.

4. Segment profit (loss) includes corporate expenses allocated to each reportable segment.

5. Depreciation and amortization and increase in tangible fixed assets and intangible assets include long-term prepaid expenses and amortization.

[Related information]

Year ended February 29, 2024 (March 1, 2023 to February 29, 2024)

1. Information by product and service

Omitted as sales to external customers under the single product or service category exceed 90% of net sales on the consolidated statements of income.

2. Information by region

(1) Net sales

Omitted as sales to external customers in Japan account for more than 90% of the net sales on the consolidated statements of income.

(2) Tangible fixed assets

(Millions of yen)

Japan	China	Hong Kong	Taiwan	Thailand	U.S.	Total
14,252	2,750	1,472	1,027	355	4,043	23,901

3. Information by major customer

Omitted as there are no sales to external customers that account for 10% or more of net sales on the consolidated statements of income.

Year ended February 28, 2025 (March 1, 2024 to February 28, 2025)

1. Information by product and service

Omitted as sales to external customers under the single product or service category exceed 90% of net sales on the consolidated statements of income.

2. Information by region

(1) Net sales

Omitted as sales to external customers in Japan account for more than 90% of the net sales on the consolidated statements of income.

(2) Tangible fixed assets

(Millions of yen)

Japan	China	Hong Kong	Taiwan	Thailand	The Philippines	U.S.	Total
16,042	2,574	1,832	816	453	219	4,924	26,864

3. Information by major customer

Omitted as there are no sales to external customers that account for 10% or more of net sales on the consolidated statements of income.

[Impairment loss on tangible fixed assets by reportable segment]

Year ended February 29, 2024 (March 1, 2023 to February 29, 2024)

Omitted as this information is stated under segment information.

Year ended February 28, 2025 (March 1, 2024 to February 28, 2025)

Omitted as this information is stated under segment information.

[Amortization of goodwill and unamortized balance by reportable segment]

Year ended February 29, 2024 (March 1, 2023 to February 29, 2024)

(Millions of yen)

	Reportable segment	Other (Note 1)	Total
	Apparel and Sundry Goods-related Business		
Unamortized balance at the end of the period	534	575	1,109

(Notes) 1. *Other* refers to business segments not included under reportable segments. Here, this segment indicates the food and beverage business.

2. Omitted information on amortization of goodwill, as this information is stated under segment information.

Year ended February 28, 2025 (March 1, 2024 to February 28, 2025)

(Millions of yen)

	Reportable segment	Other (Note 1)	Total
	Apparel and Sundry Goods-related Business		
Unamortized balance at the end of the period	2,243	430	2,673

(Notes) 1. *Other* refers to business segments not included under reportable segments. Here, this segment indicates the food and beverage business.

2. Omitted information on amortization of goodwill, as this information is stated under segment information.

[Gain on negative goodwill by reportable segment]

Year ended February 29, 2024 (March 1, 2023 to February 29, 2024)

Not applicable

Year ended February 28, 2025 (March 1, 2024 to February 28, 2025)

Not applicable

[Related party information]

Transaction with related parties

Transactions of the Company with related parties

Officers and major shareholders (limited to individuals) of the Company, etc.

Year ended February 29, 2024 (March 1, 2023 to February 29, 2024)

Not applicable

Year ended February 28, 2025 (March 1, 2024 to February 28, 2025)

Not applicable

Per share information

Year ended February 29, 2024 (March 1, 2023 to February 29, 2024)		Year ended February 28, 2025 (March 1, 2024 to February 28, 2025)	
Net assets per share	1,549.13 yen	Net assets per share	1,665.51 yen
Net income per share	297.75 yen	Net income per share	208.93 yen

(Notes) 1. The Company omitted diluted net income per share as there are no latent shares.

2. Company shares remaining in the trust are recorded as treasury stock in shareholders' equity and are included in treasury stock as a deduction from the average number of shares outstanding during the period for the calculation of net income per share. Company shares are also included in treasury stock as a deduction from the number of shares outstanding at the end of the period for the calculation of net assets per share.

In the calculation of net income per share, the average number of such treasury stock deducted during the period was 266 thousand shares in the previous consolidated fiscal year and 438 thousand shares in the current consolidated fiscal year. In the calculation of net assets per share, the number of such treasury stock deducted at the end of the period was 372 thousand shares in the previous consolidated fiscal year and 495 thousand shares in the current consolidated fiscal year.

3. The basis for calculating net income per share is as follows.

Item	Year ended February 29, 2024 (March 1, 2023 to February 29, 2024)	Year ended February 28, 2025 (March 1, 2024 to February 28, 2025)
Net income attributable to owners of the parent (millions of yen)	13,513	9,614
Amount not attributable to common stockholders (millions of yen)	—	—
Net income attributable to owners of the parent for common stock (millions of yen)	13,513	9,614
Average number of common stock outstanding during term (thousands of shares)	45,385	46,018

(Significant subsequent events)

(Specified subsidiary to be liquidated)

At a meeting held March 19, 2025, the Adastria Co., Ltd. Board of Directors resolved to resolved to liquidate Adastria USA, Inc., a specified subsidiary and an intermediate holding company in the United States.

1. Reasons for Liquidation

The Company established Adastria USA, Inc. in February 2017 as an intermediate holding company in the United States to acquire expertise in the U.S. brand business. In April 2017, the Company acquired Velvet, LLC ("VV"), which operated in the U.S. contemporary apparel market. After acquisition, the Company focused on expanding the performance of VV by strengthening its wholesale business while enhancing directly managed stores and e-commerce operations in the U.S., successfully navigating the challenges posed by the COVID-19 pandemic. The Company implemented measures to expand directly managed stores and implement cost-cutting measures in response to the increasingly challenging business environment in recent years. However, the U.S. business recorded a significant decline in profits for the fiscal year ended December 2024. Furthermore, a swift recovery through structural reforms is unlikely due to rising tensions in international trade.

Against this backdrop, the Company decided to withdraw from the U.S. business and liquidate Adastria USA, Inc., determining that optimizing and reallocating management resources in its international operations will contribute to greater corporate value.

2. Overview of the Specified Subsidiary to Be Liquidated

(1) Name
Adastria USA, Inc.

(2) Location
Delaware, U.S.

(3) Business lines
Intermediate holding company

(4) Capital
USD 43 million (JPY 4,781 million)

(5) Investment ratio
100.0%

3. Liquidation Schedule

March 19, 2025	The Company Board of Directors to approved the resolution for liquidation
July 2025 (Planned)	The Adastria USA, Inc. Board of Directors and Shareholders' Meeting to approve the resolution for liquidation

*The Company expects to complete the liquidation around June 2026, pending the completion of all necessary procedures under local laws.

4. Impact of Liquidation on Operating Results

The Company is researching the details of the impact of the liquidation of this subsidiary on the Adastria Group's operating results for the next consolidated fiscal year.

Transition to a Holding Company Structure

At a meeting held on April 4, 2025, the Adastria Co., Ltd. Board of Directors approved a resolution to establish a wholly owned subsidiary, Adastria Co., Ltd. ("New Adastria"), as a preparatory company for the purpose of a company split in order to transition to a holding company structure. The Board of Directors also approved the signing of an absorption-type company split agreement ("Absorption-Type Company Split Agreement") with respect to the absorption-type company split ("Absorption-Type Company Split") by which New Adastria will succeed to all rights and obligations related to all businesses ("Business") of the Adastria Group (excluding businesses related to the management and operation of the Adastria Group). As a result, New Adastria has been established as of April 4, 2025, and we have signed the Absorption-Type Company Split Agreement with New Adastria. The aforementioned Absorption-Type Company Split is subject to the approval of the Absorption-Type Company Split Agreement at the Company's general meeting of shareholders.

In addition, the Company's Board of Directors approved a proposal at the meeting held on April 4, 2025, to change the Company's trade name to and ST HD Co., Ltd. and make other necessary amendments to the Company's Articles of Incorporation upon the conclusion of the Absorption-Type Company Split. This proposal will be submitted to the Ordinary General Meeting of Shareholders schedule to be held May 29, 2025.

1. Background and purpose of the transition to a holding company and the absorption-type split

To respond quickly to this changing business environment and transform our business structure, the Adastria Group formulated the new Medium-Term Management Plan 2030, as disclosed on April 4, 2025, which covers the period through the fiscal year ending February 2030. Medium-Term Management Plan 2030 describes how the Company will evolve our e-commerce site, *and ST*, into a *Play fashion!* platformer. To this end, the Company intends to leverage connections with the *and ST* membership base cultivated through company staff and physical multi-brand stores. The Company also plans to create synergies between our three businesses: Platform Business, Global Business, and Brand Retail Business. As part of this process, the Company has decided to transition to a holding company structure effective September 1, 2025, changing the Company trade name to and ST HD Co., Ltd.

This transition to a holding company structure will coordinate group operating companies around the *and ST* platform, while providing greater clarity to missions and roles. This approach lends itself to a multi-company management model that allows group companies to formulate and execute growth strategies independently. At the same time, the Adastria Group aims to expand categories and services while accelerating overseas expansion, pursuing M&A of companies having special characteristics not currently present within the group.

2. Overview of the company split and transition to a holding company structure

(1) Splitting company and the businesses subject to transfer

1) Splitting company

Adastria Co., Ltd. (the Company)

2) Succeeding company

Adastria Co., Ltd. (New Adastria)

3) Businesses subject to transfer

All businesses of the Adastria Group, with the exception of Adastria Group business management

(2) Effective date of the absorption-type company split

September 1, 2025 (tentative)

(3) Method of company split

The Company intends to conduct a company split (absorption-type company split) in which the Company will be the splitting company and wholly owned subsidiary New Adastria will be the successor company. New Adastria will succeed to the rights and obligations related to the Business. As a result of this transaction, the Adastria Group will transition to a holding company structure.

Upon the Absorption-Type Company Split, New Adastria will issue one share of common stock to be allocated to the Company.

(4) Company name after the effective date of the company split

Subject to the Absorption-Type Company Split taking effect, the Company will change our trade name to and ST HD Co., Ltd., amending the Company's business purpose and other necessary matters in the Articles of Incorporation. The Company Annual General Meeting of Shareholders, held on May 29, 2025, resolved to amend the Articles of Incorporation to include the change in trade name and other amendments to the Articles of Incorporation.

3. Outline of accounting procedures

The Company plans to account for the transaction as a transaction under common control, etc., in accordance with the *Accounting Standard for Business Combinations* (ASBJ Statement No. 21, January 16, 2019) and the *Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures* (ASBJ Guidance No. 10, January 16, 2019).

5) [Consolidated supplementary schedules]

[Schedule of bonds payable]

Not applicable

[Schedule of borrowings, etc.]

Classification	Balance at the beginning of current period (Millions of yen)	Balance at the end of current period (Millions of yen)	Average interest rate (%)	Maturity
Current portion of long-term debt	401	—	—	—
Current portion of lease obligations	2,007	2,464	4.32	—
Long-term debt (excluding current portion)	504	—	—	—
Lease obligations (excluding current portion)	6,037	6,495	4.08	March 2026 to July 2037
Total	8,950	8,960	—	—

(Notes) 1. The average interest rate is the weighted average interest rate applicable to the balance at the end of the current period.

2. Certain lease obligations are recorded on the consolidated balance sheets at the amount before deducting the amount equivalent to interest included in the total lease payments. Such lease obligations are not included in the calculation of the average interest rate.

3. Aggregate annual maturities of lease obligations (excluding current portion) for the five years following the closing date

(Millions of yen)

Classification	Due in 1-2 years	Due in 2-3 years	Due in 3-4 years	Due in 4-5 years
Lease obligations	2,036	1,693	1,121	438

[Schedule of asset retirement obligations]

Not applicable

(2) [Other]

Semiannual information, etc., for the current consolidated fiscal year

		Interim Consolidated Period	Current consolidated fiscal year
Net sales	(millions of yen)	144,203	293,110
Net income before income taxes	(millions of yen)	10,272	14,655
Net income attributable to owners of the parent	(millions of yen)	6,948	9,614
Net income per share	(yen)	151.90	208.93