

Annual Securities Report

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

For the year ended February 29,2024

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)

	FY2/23 (As of Feb. 28, 2023)	FY2/24 (As of Feb. 29, 2024)
Assets		
Current assets		
Cash and deposits	16,380	23,371
Notes and accounts receivable-trade	12,171	15,815
Inventories	*1 24,679	*1 26,839
Other	2,622	2,788
Allowance for doubtful accounts	(81)	(83)
Total current assets	55,772	68,731
Non-current assets		
Property, plant and equipment		
Buildings and structures	8,986	9,571
Accumulated depreciation	(4,185)	(4,590)
Buildings and structures, net	4,801	4,980
Store interior equipment	37,705	40,316
Accumulated depreciation	(31,705)	(33,537)
Store interior equipment, net	6,000	6,778
Land	*2 2,366	*2 2,366
Right-of-use assets	10,949	14,059
Accumulated depreciation	(4,584)	(6,831)
Right-of-use assets, net	6,364	7,227
Construction in progress	292	299
Other	5,109	5,618
Accumulated depreciation	(2,870)	(3,370)
Other, net	2,239	2,248
Total property, plant and equipment	22,065	23,901
Intangible assets		
Software	6,870	8,100
Goodwill	1,331	1,109
Other	3,706	3,166
Total intangible assets	11,908	12,376
Investments and other assets		
Investment securities	1,108	768
Leasehold and guarantee deposits	*3 13,545	*3 13,719
Deferred tax assets	7,124	8,497
Other	165	235
Allowance for doubtful accounts	(298)	(314)
Total investments and other assets	21,645	22,906
Total non-current assets	55,619	59,184
Total assets	111,392	127,915

(Million yen)

	FY2/23 (As of Feb. 28, 2023)	FY2/24 (As of Feb. 29, 2024)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	*3 13,280	*3 14,013
Electronically recorded obligations-operating	6,990	8,651
Short-term borrowings	197	-
Current portion of long-term borrowings	375	401
Lease liabilities	1,695	2,007
Accounts payable-other	12,114	14,144
Income taxes payable	2,970	3,667
Contract liabilities	2,535	1,910
Provision for bonuses	2,112	2,460
Provision for point card certificates	160	175
Other provisions	779	477
Other	777	582
Total current liabilities	43,989	48,491
Non-current liabilities		
Long-term borrowings	554	504
Lease liabilities	5,359	6,037
Provisions	-	172
Other	725	1,128
Total non-current liabilities	6,639	7,842
Total liabilities	50,629	56,334
Net assets		
Shareholders' equity		
Share capital	2,660	2,660
Capital surplus	7,213	7,213
Retained earnings	55,968	66,286
Treasury shares	(7,286)	(7,516)
Total shareholders' equity	58,555	68,642
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	95	34
Deferred gains or losses on hedges	(120)	234
Foreign currency translation adjustment	877	1,231
Total accumulated other comprehensive income	852	1,500
Non-controlling interests	1,355	1,437
Total net assets	60,762	71,581
Total liabilities and net assets	111,392	127,915

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

Consolidated Statement of Income

(Million yen)

	FY2/23 (Mar. 1, 2022 – Feb. 28, 2023)	FY2/24 (Mar. 1, 2023 – Feb. 29, 2024)
Net sales	*1 242,552	*1 275,596
Cost of sales	109,887	123,242
Gross profit	132,664	152,354
Selling, general and administrative expenses		
Advertising expenses	8,037	8,712
Provision of allowance for doubtful accounts	(42)	18
Remuneration for directors (and other officers)	682	654
Salaries and bonuses	34,609	38,826
Provision for bonuses	2,113	2,395
Welfare expenses	5,671	6,456
Rents	34,967	37,534
Lease payments	656	725
Depreciation	8,185	9,525
Amortization of goodwill	263	223
Other	26,003	29,266
Total selling, general and administrative expenses	121,149	134,339
Operating profit	11,515	18,015
Non-operating income		
Interest income	16	25
Dividend income	2	2
Foreign exchange gains	291	235
Income from contribution to facilities	43	19
Insurance claim income	0	102
Subsidy income	231	52
Revenue from electric power sales	29	21
Subsidies for employment adjustment	37	-
Other	230	279
Total non-operating income	883	739
Non-operating expenses		
Interest expenses	193	248
Loss on valuation of derivatives	106	-
Commitment fee	44	18
Other	27	97
Total non-operating expenses	372	364
Ordinary profit	12,026	18,389
Extraordinary losses		
Impairment loss	*2 492	*2 1,029
Loss on valuation of investment securities	100	243
Total extraordinary losses	592	1,273
Net income before income taxes	11,433	17,116
Income taxes-current	4,028	5,146
Income taxes-deferred	(373)	(1,568)
Total income taxes	3,654	3,577
Net income	7,778	13,538
Net income attributable to non-controlling interests	238	24
Net income attributable to owners of the parent	7,540	13,513

Consolidated Statement of Comprehensive Income

(Million yen)

	FY2/23 (Mar. 1, 2022 – Feb. 28, 2023)	FY2/24 (Mar. 1, 2023 – Feb. 29, 2024)
Net income	7,778	13,538
Other comprehensive income		
Valuation difference on available-for-sale securities	87	(60)
Deferred gains or losses on hedges	(165)	354
Foreign currency translation adjustment	319	354
Total other comprehensive income	*1 240	*1 648
Comprehensive income	8,019	14,186
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	7,663	14,112
Comprehensive income attributable to non-controlling interests	355	74

3) Consolidated Statement of Changes in Equity

FY2/23 (Mar. 1, 2022 – Feb. 28, 2023)

(Million yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	2,660	7,213	51,114	(7,636)	53,351
Cumulative effects of changes in accounting policies			(175)		(175)
Restated balance	2,660	7,213	50,939	(7,636)	53,176
Changes during period					
Dividends of surplus			(2,510)		(2,510)
Net income attributable to owners of the parent			7,540		7,540
Purchase of treasury shares				(1)	(1)
Purchase of treasury shares by stock ownership plan trust				(92)	(92)
Disposal of treasury shares by stock ownership plan trust				443	443
Net changes in items other than shareholders' equity					-
Total changes during period	-	-	5,029	349	5,379
Balance at end of period	2,660	7,213	55,968	(7,286)	58,555

(Million yen)

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of period	8	45	558	611	1,000	54,963
Cumulative effects of changes in accounting policies				-		(175)
Restated balance	8	45	558	611	1,000	54,787
Changes during period						
Dividends of surplus				-		(2,510)
Net income attributable to owners of the parent				-		7,540
Purchase of treasury shares				-		(1)
Purchase of treasury shares by stock ownership plan trust				-		(92)
Disposal of treasury shares by stock ownership plan trust				-		443
Net changes in items other than shareholders' equity	87	(165)	319	240	355	595
Total changes during period	87	(165)	319	240	355	5,974
Balance at end of period	95	(120)	877	852	1,355	60,762

FY2/24 (Mar. 1, 2023 – Feb. 29, 2024)

(Million yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	2,660	7,213	55,968	(7,286)	58,555
Changes during period					
Dividends of surplus			(3,195)		(3,195)
Net income attributable to owners of the parent			13,513		13,513
Purchase of treasury shares				(1)	(1)
Purchase of treasury shares by stock ownership plan trust				(755)	(755)
Disposal of treasury shares by stock ownership plan trust				527	527
Net changes in items other than shareholders' equity					-
Total changes during period	-	-	10,317	(230)	10,087
Balance at end of period	2,660	7,213	66,286	(7,516)	68,642

(Million yen)

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of period	95	(120)	877	852	1,355	60,762
Changes during period						
Dividends of surplus				-		(3,195)
Net income attributable to owners of the parent				-		13,513
Purchase of treasury shares				-		(1)
Purchase of treasury shares by stock ownership plan trust				-		(755)
Disposal of treasury shares by stock ownership plan trust				-		527
Net changes in items other than shareholders' equity	(60)	354	354	648	82	730
Total changes during period	(60)	354	354	648	82	10,818
Balance at end of period	34	234	1,231	1,500	1,437	71,581

4) Consolidated Statement of Cash Flows

(Million yen)

	FY2/23 (Mar. 1, 2022 – Feb. 28, 2023)	FY2/24 (Mar. 1, 2023 – Feb. 29, 2024)
Cash flows from operating activities		
Net income before income taxes	11,433	17,116
Depreciation	8,796	10,073
Impairment loss	492	1,029
Amortization of goodwill	263	223
Interest and dividend income	(19)	(27)
Interest expenses	193	248
Increase (decrease) in allowance for doubtful accounts	(42)	18
Increase (decrease) in provision for bonuses	(72)	338
Increase (decrease) in provision for point card certificates	(98)	15
Loss (gain) on valuation of investment securities	100	243
Decrease (increase) in trade receivables	(2,019)	(3,547)
Decrease (increase) in inventories	(4,939)	(1,980)
Increase (decrease) in trade payables	2,130	2,292
Increase (decrease) in accounts payable-other	1,728	123
Increase (decrease) in accrued consumption taxes	232	745
Other, net	(182)	14
Subtotal	17,995	26,926
Interest and dividends received	26	42
Interest paid	(193)	(248)
Income taxes paid	(4,367)	(4,496)
Net cash provided by (used in) operating activities	13,460	22,223
Cash flows from investing activities		
Purchase of property, plant and equipment	(6,988)	(5,670)
Purchase of intangible assets	(3,520)	(3,318)
Purchase of investment securities	(88)	(10)
Payments of leasehold and guarantee deposits	(1,000)	(1,475)
Proceeds from refund of leasehold and guarantee deposits	2,555	671
Purchase of shares of subsidiaries resulting in change in scope of consolidation	*2 (839)	-
Other, net	(82)	(117)
Net cash provided by (used in) investing activities	(9,963)	(9,920)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings	(64)	(203)
Proceeds from long-term borrowings	200	380
Repayments of long-term borrowings	(692)	(405)
Dividends paid	(2,510)	(3,194)
Purchase of treasury shares	(93)	(757)
Repayments of lease liabilities	(1,188)	(1,408)
Other, net	(49)	8
Net cash provided by (used in) financing activities	(4,398)	(5,581)
Effect of exchange rate change on cash and cash equivalents	381	276
Net increase (decrease) in cash and cash equivalents	(519)	6,998
Cash and cash equivalents at beginning of period	16,863	16,343
Cash and cash equivalents at end of period	*1 16,343	*1 23,341

Notes to Consolidated Financial Statements

(Significant basis for the preparation of consolidated financial statements)

1. The scope of consolidation

Number of consolidated subsidiaries: 18

Name of the principal consolidated subsidiaries

- BUZZWIT Co., Ltd.
- ELEMENT RULE Co., Ltd.
- Zetton, Inc.
- Adastria Logistics Co., Ltd.
- Adastria Asia Co., Ltd.
- Adastria (Shanghai) Co., Ltd.
- niko and ... (Shanghai) Co., Ltd.
- Adastria Taiwan Co., Ltd.
- Adastria USA, Inc.
- Velvet, LLC
- Adastria (Thailand) Co., Ltd.

In the current consolidated fiscal year, Open and Natural Co., Ltd., a former consolidated subsidiary of Adastria Co., Ltd. (the "Company"), dissolved on July 1, 2023, through an absorption-type merger with BUZZWIT Co., Ltd. as the surviving company.

ADASTRIA eat Creations Inc. has also been removed from the scope of consolidation due to liquidation of the company on February 2, 2024.

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

2. Equity method

Number of affiliates accounted for by the equity method: 1

Name of the principal affiliates, etc.

MARIN FASHION LLC

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 Asia Co., Ltd.
- Adastria (Shanghai) Co., Ltd.
- niko and ... (Shanghai) Co., Ltd.
- Adastria Taiwan Co., Ltd.
- Adastria USA, Inc.
- Velvet, LLC
- Adastria (Thailand) Co., Ltd.

The fiscal year end of Zetton, Inc. is January 31. 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.

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 28, 2023	As of February 29, 2024
Merchandise	24,458	26,603
Merchandise related to the Company	19,540	21,377

(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 28, 2023	As of February 29, 2024
Tangible fixed assets	22,065	23,901
Impairment losses	492	1,029

(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., under 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.

(Changes in accounting policies)

(Implementation guidance on accounting standards relating to the measurement of fair value)

Effective as of the beginning of the current consolidated fiscal year, the Company adopted the Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, June 17, 2021). In accordance with the transitional treatment provided in Paragraph 27-2 of the Implementation Guidance on Accounting Standard for Fair Value Measurement, the Company opted to apply the new accounting policies under the Implementation Guidance on Accounting Standard for Fair Value Measurement prospectively. The adoption of this accounting policy has no impact on the consolidated financial statements of the Company.

(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.

(Changes in presentation methods)

(Consolidated statements of income)

Insurance claim income, which has been included in *other* under *non-operating income* in the previous consolidated fiscal year, is presented separately in the current consolidated fiscal year due to increased monetary significance. The Company reclassified the consolidated financial statements for the previous consolidated fiscal year to reflect this change in presentation.

As a result, the Company reclassified 231 million yen presented as *Other* in *Non-operating income* in the consolidated statement of income for the previous consolidated fiscal year as 0 million yen in *Insurance claim income* under *Non-operating income* and 230 million yen in *Other*.

(Additional information)

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

The Company 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 650 million yen and 209 thousand shares. For the current consolidated fiscal year, the Company recorded 414 million yen and 133 thousand shares.

(Performance-linked stock compensation plan for directors)

The Company 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 264 million yen and 91 thousand shares. For the current consolidated fiscal year, the Company recorded 728 million yen and 238 thousand shares.

(Notes to consolidated balance sheets)

*1. Breakdown of inventories

(Millions of yen)

	As of February 28, 2023	As of February 29, 2024
Merchandise	24,458	26,603
Raw materials and supplies	220	235
Total	24,679	26,839

*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 28, 2023	As of February 29, 2024
Land	169	169

*3. Pledged assets and secured liabilities

(1) Assets pledged as collateral

(Millions of yen)

	As of February 28, 2023	As of February 29, 2024
Leasehold and guarantee deposits	100	100

(2) Obligations to the above

(Millions of yen)

	As of February 28, 2023	As of February 29, 2024
Accounts payable - trade	100	100

4. The Company executed overdraft agreements with four correspondent banks to procure operating capital in an efficient manner. Loan commitment contracts ended during the current consolidated fiscal year due to expiration of the contracts. The balances of unexecuted loans related to said overdraft agreement and loan commitments at the end of the fiscal year are as follows:

(Millions of yen)

	As of February 28, 2023	As of February 29, 2024
Total amount of overdraft limit and loan commitment	80,000	50,000
Used	—	—
Unused portion	80,000	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 losses

The Group posted impairment losses on the following asset groups.

Year ended February 28, 2023 (March 1, 2022 to February 28, 2023)

(Millions of yen)

Use and location	Type	Amount
Stores (Japan) 6 stores each in Osaka and Kanagawa Prefectures, 5 stores in Tokyo, and 24 stores in 19 other prefectures Total: 41 stores (Overseas) 5 stores	Buildings and structures	40
	In-store equipment	304
	Other	78
Other	Software	1
	Other	67
	Total	492

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 1.2% to 13.0%. Negative rates are evaluated as zero.

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	37
Other	Software	6
	Other	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.

(Notes to consolidated statements of comprehensive income)

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

(Millions of yen)

	Year ended February 28, 2023	Year ended February 29, 2024
	(March 1, 2022 to February 28, 2023)	(March 1, 2023 to February 29, 2024)
Valuation difference on other securities		
Amount arising in the current period	118	(92)
Reclassification adjustment	—	—
Before tax effect adjustment	118	(92)
Tax effect amount	(30)	31
Valuation difference on other securities	87	(60)
Deferred gains (losses) on hedges		
Amount arising in the current period	(238)	511
Reclassification adjustment	—	—
Before tax effect adjustment	(238)	511
Tax effect amount	73	(156)
Deferred gains (losses) on hedges	(165)	354
Foreign currency translation adjustment		
Amount arising in the current period	319	354
Reclassification adjustment	—	—
Before tax effect adjustment	319	354
Tax effect amount	—	—
Foreign currency translation adjustment	319	354
Total other comprehensive income	240	648

(Notes to consolidated statements of changes in net assets)

Year ended February 28, 2023 (March 1, 2022 to February 28, 2023)

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	3,552	44	147	3,449
Total	3,552	44	147	3,449

(Notes) 1. The number of common shares of treasury stock at the beginning and end of the current consolidated fiscal year includes 251 thousand and 209 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 153 thousand and 91 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 43 thousand shares by the Stock Grant ESOP Trust.

4. The decrease in common shares of treasury stock was due to 35 thousand shares delivered and 49 thousand shares sold in the Stock Grant ESOP Trust and 30 thousand shares delivered and 31 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 13, 2022 Board of directors	Common shares	1,369 million yen	30 yen	February 28, 2022	May 11, 2022
October 7, 2022 Board of directors	Common shares	1,141 million yen	25 yen	August 31, 2022	October 24, 2022

(Notes) 1. Total dividends resolved by the board of directors on April 13, 2022, include dividends of 12 million yen for the company shares held by the trusts.

2. Total dividends resolved by the board of directors on October 7, 2022, include dividends of 7 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, 2023 Board of directors	Common shares	1,597 million yen	35 yen	Retained earnings	February 28, 2023	May 10, 2023

(Note) 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.

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	35 yen	February 28, 2023	May 10, 2023
September 29, 2023 Board of directors	Common shares	1,597 million yen	35 yen	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.

(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 28, 2023 (March 1, 2022 to February 28, 2023)	Year ended February 29, 2024 (March 1, 2023 to February 29, 2024)
Cash and deposits	16,380	23,371
Separate deposits	(7)	(8)
Separate deposits in trust (*)	(29)	(21)
Cash and cash equivalents	16,343	23,341

(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 28, 2023 (March 1, 2022 to February 28, 2023)

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

(Millions of yen)

Current assets	755
Fixed assets	287
Goodwill	670
Current liabilities	(411)
Fixed liabilities	(202)
Share acquisition price	1,100
Cash and cash equivalents	(260)
Net: Expenditures for acquisition	839

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

Not applicable

(Lease transactions)

Operating lease transactions

Remaining lease payments for operating lease transactions that are noncancelable

(Millions of yen)

	As of February 28, 2023	As of February 29, 2024
Current portion	2,529	3,058
More than one year	6,460	8,055
Total	8,989	11,114

(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 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 to the Executive Committee.

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 43.3% 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 28, 2023)

(Millions of yen)

	Carrying amount	Fair value	Difference
(1) Investment securities	33	33	—
(2) Leasehold and guarantee deposits (*2)	10,205	9,922	(282)
Total assets	10,238	9,956	(282)
(1) Long-term debt (including current portion)	930	927	(3)
(2) Lease obligations (including current portion)	7,054	7,059	5
Total liabilities	7,985	7,987	1
Derivative transactions (*3)	(173)	(173)	—
Total derivative transactions	(173)	(173)	—

(*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 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.

(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 28, 2023	As of February 29, 2024
Unlisted equity securities	1,074	733

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

(As of February 28, 2023)

(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	16,380	—	—	—
Notes and accounts receivable - trade	12,171	—	—	—
Leasehold and guarantee deposits	1,790	2,813	2,850	2,749
Total	30,342	2,813	2,850	2,749

(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

(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 28, 2023)

(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	375	325	122	49	49
Lease obligations	1,695	1,459	1,213	887	642
Total	2,071	1,784	1,335	936	691

(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

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 28, 2023)

Classification	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Investment securities				
Other securities				
Equity securities	23	—	—	23
Other	—	10	—	10
Total assets	23	10	—	33
Derivative transactions				
Currency related	—	(173)	—	(173)
Total liabilities	—	(173)	—	(173)

(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	—	10	—	10
Total assets	24	10	—	34
Derivative transactions				
Currency related	—	337	—	337
Total liabilities	—	337	—	337

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

(As of February 28, 2023)

Classification	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Leasehold and guarantee deposits	—	9,922	—	9,922
Total assets	—	9,922	—	9,922
Long-term debt (including current portion)	—	927	—	927
Lease obligations (including current portion)	—	7,059	—	7,059
Total liabilities	—	7,987	—	7,987

(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

(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 28, 2023)

(Millions of yen)

	Type	Carrying amount	Acquisition cost	Difference
Securities whose carrying amounts exceed their acquisition cost	(1) Equity securities	23	21	1
	(2) Bonds	—	—	—
	(3) Other	—	—	—
	Subtotal	23	21	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		33	32	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 (1,074 million yen on the consolidated balance sheet) as they do not have fair prices.

(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.

2. Other securities sold during the consolidated fiscal year

Year ended February 28, 2023 (March 1, 2022 to February 28, 2023)

Not applicable

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

Not applicable

3. Impairment of securities

Year ended February 28, 2023 (March 1, 2022 to February 28, 2023)

In the current consolidated fiscal year, the Company recognized an impairment loss of 100 million yen (unlisted equity securities in other securities) for investment 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.

(Derivative transactions)

1. Derivative transactions for which hedge accounting is not applied

Year ended February 28, 2023 (March 1, 2022 to February 28, 2023)

Not applicable

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

Not applicable

2. Derivative transactions for which hedge accounting is applied

Currency related

Year ended February 28, 2023 (March 1, 2022 to February 28, 2023)

(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 Buy US dollar	Accounts payable - trade	15,357	—	(173)
Total			15,357	—	(173)

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 Buy US dollar Chinese Yuan	Accounts payable - trade	23,650 798	— —	331 6
Total			24,448	—	337

(Retirement benefits)

1. Summary of retirement benefit plans adopted

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

2. Retirement benefit expenses

(Millions of yen)

	Year ended February 28, 2023 (March 1, 2022 to February 28, 2023)	Year ended February 29, 2024 (March 1, 2023 to February 29, 2024)
Prepaid retirement benefits	274	284
Required contributions to Defined Contribution Plans	81	83
Retirement benefit expenses	355	368

(Tax effect accounting)

1. Major components of deferred tax assets and liabilities

(Millions of yen)

	As of February 28, 2023	As of February 29, 2024
Deferred tax assets		
Loss on valuation of merchandise	647	882
Enterprise tax payable	248	290
Allowance for doubtful accounts	122	141
Provision for bonuses	636	757
Provision for point card certificates	105	90
Contract liabilities	720	528
Tax loss carryforwards (Note 2)	3,042	2,877
Depreciation and amortization	3,628	3,930
Lump-sum depreciable assets	34	37
Asset retirement expenses	1,163	1,407
Other	1,250	388
Subtotal of deferred tax assets	11,600	11,332
Less valuation allowance for tax loss carryforwards (Note 2)	(2,454)	(1,836)
Less valuation allowance for total deductible temporary differences, etc.	(1,342)	(271)
Subtotal of valuation allowance (Note 1)	(3,796)	(2,107)
Total deferred tax assets	7,803	9,224
Deferred tax liabilities		
Valuation difference on other securities, before tax	(32)	(0)
Retained earnings	(270)	(412)
Intangible assets identified from business combination	(460)	(314)
Other	(26)	(26)
Total deferred tax liabilities	(788)	(753)
Net deferred tax assets	7,014	8,471

(Notes) 1. Valuation allowance decreased by 1,688 million yen. This decrease 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 28, 2023)

(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)	236	163	121	86	310	2,122	3,042
Valuation allowance	(236)	(163)	(81)	(86)	(310)	(1,575)	(2,454)
Deferred tax assets	—	—	40	—	—	547	587

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

(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.

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

	As of February 28, 2023	As of February 29, 2024
Statutory tax rate	—%	30.6%
(Adjustments)		
Entertainment expenses and other items not permanently deductible for income tax purposes	—%	0.6%
Per capita inhabitant tax, etc.	—%	1.9%
Bonuses for directors	—%	0.5%
Valuation allowance	—%	(7.7)%
Special deduction for corporate tax	—%	(4.6)%
Other	—%	(0.4)%
Effective tax rate after tax effect accounting, etc.	—%	20.9%

(Note) Notes are omitted as the difference between the statutory tax rate and the effective income tax rate after the tax effect accounting in the previous consolidated fiscal year amounted to less than 5/100 of the statutory tax rate.

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

The Company and certain consolidated subsidiaries in Japan adopted the group tax sharing system in the current consolidated fiscal year. In addition, the Company accounts for and makes 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* (Accounting Standards Board of Japan (ASBJ) Practical Issues Task Force No. 42 issued August 12, 2021.)

(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 28, 2023 (March 1, 2022 to February 28, 2023)		Year ended February 29, 2024 (March 1, 2023 to February 29, 2024)	
	Net sales (million yen)	Composition ratio (%)	Net sales (million yen)	Composition ratio (%)
Adastria, Co., Ltd.	193,671	79.8	216,260	78.5
BUZZWIT Co., Ltd.	10,369	4.3	11,630	4.2
ELEMENT RULE Co., Ltd.	11,068	4.6	11,210	4.1
Other consolidated subsidiaries	280	0.1	955	0.3
Domestic Group company total	215,390	88.8	240,057	87.1
Overseas Group company total	17,535	7.2	22,787	8.3
Apparel and Sundry Goods-related Business total	232,925	96.0	262,844	95.4
Other (Food and Beverage) total	9,626	4.0	12,751	4.6
Revenue from contracts with customers	242,552	100.0	275,596	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

	(Millions of yen)	
	Year ended February 28, 2023 (March 1, 2022 to February 28, 2023)	Year ended February 29, 2024 (March 1, 2023 to February 29, 2024)
Receivables arising from contracts with customers (balance at beginning of period)		
Notes receivable - trade	—	—
Accounts receivable - trade	9,878	12,171
	9,878	12,171
Receivables arising from contracts with customers (balance at end of period)		
Notes receivable - trade	—	3
Accounts receivable - trade	12,171	15,812
	12,171	15,815
Contract liabilities (balance at beginning of period)	1,604	2,535
Contract liabilities (balance at end of period)	2,535	1,910

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

(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 28, 2023 (March 1, 2022 to February 28, 2023)

(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	232,925	9,626	242,552	—	242,552
Intersegment sales and transfers	1	39	40	(40)	—
Total	232,927	9,665	242,593	(40)	242,552
Segment profit (loss)	12,289	(263)	12,026	—	12,026
Segment assets	104,522	8,520	113,043	(1,651)	111,392
Other items					
Depreciation and amortization	8,124	671	8,796	—	8,796
Amortization of goodwill	116	147	263	—	263
Impairment losses	347	144	492	—	492
Increase in tangible fixed assets and intangible assets	15,256	2,218	17,474	—	17,474

(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 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 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 losses	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.

[Related information]

Year ended February 28, 2023 (March 1, 2022 to February 28, 2023)

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	Hong Kong	China	Taiwan	U.S.	Total
13,124	1,022	4,228	694	2,994	22,065

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 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	Hong Kong	China	Taiwan	Thailand	U.S.	Total
14,252	1,472	2,750	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.

[Impairment loss on tangible fixed assets by reportable segment

Year ended February 28, 2023 (March 1, 2022 to February 28, 2023)

Omitted as this information is stated under segment information.

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

Omitted as this information is stated under segment information.

[Amortization of goodwill and unamortized balance by reportable segment]

Year ended February 28, 2023 (March 1, 2022 to February 28, 2023)

(Millions of yen)

	Reportable segment	Other (Note 1)	Total
	Apparel and Sundry Goods-related Business		
Unamortized balance at the end of the period	608	722	1,331

(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 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.

[Gain on negative goodwill by reportable segment]

Year ended February 28, 2023 (March 1, 2022 to February 28, 2023)

Not applicable

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

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 28, 2023 (March 1, 2022 to February 28, 2023)

Not applicable

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

Not applicable

Per share information

Year ended February 28, 2023 (March 1, 2022 to February 28, 2023)	Year ended February 29, 2024 (March 1, 2023 to February 29, 2024)
Net assets per share 1,309.96 yen	Net assets per share 1,549.13 yen
Net income per share 166.37 yen	Net income per share 297.75 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 329 thousand shares in the previous consolidated fiscal year and 266 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 301 thousand shares in the previous consolidated fiscal year and 372 thousand shares in the current consolidated fiscal year.

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

Item	Year ended February 28, 2023 (March 1, 2022 to February 28, 2023)	Year ended February 29, 2024 (March 1, 2023 to February 29, 2024)
Net income attributable to owners of the parent (millions of yen)	7,540	13,513
Amount not attributable to common stockholders (millions of yen)	—	—
Net income attributable to owners of the parent for common stock (millions of yen)	7,540	13,513
Average number of common stock outstanding during term (thousands of shares)	45,322	45,385

(Significant subsequent events)

(Becoming a wholly owned subsidiary through a simplified share exchange)

At meetings held on March 21, 2024, the board of directors 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 (the “Agreement”).

As a result of the Share Exchange, the Company will become the wholly owning parent company of Zetton as of the effective date of the Share Exchange (scheduled for June 1, 2024). Common stock of Zetton, which will become the wholly owned subsidiary, will be delisted from the Next Market operated by the Nagoya Stock Exchange Inc. on May 30, 2024 (last trading date to be May 29, 2024).

1. Outline of the Share Exchange

(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) Objective of the Share Exchange

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) Effective date of the Share Exchange

June 1, 2024 (Scheduled)

(4) Share Exchange method

The Share Exchange is to be conducted with the Company as the wholly owning parent company and Zetton as the wholly owned subsidiary. The effective date of the Share Exchange is scheduled for 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.

2. Outline of accounting procedures to be implemented

The Company expects the Share Exchange to meet the requirements of a common control transaction, etc., in the *Accounting Standard for Business Combinations* and the *Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures*.

3. Share exchange ratio, calculation method, and number of shares to be delivered

(1) Share exchange ratio

The Company will deliver 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 to be delivered

1,137,731

(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 will be 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, with Adastria then acquiring all shares of Target Company.

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 its product lineup in areas adjacent to sundries.

Since its founding, WELCOME Co., Ltd. has developed high-quality lifestyle businesses, creating businesses built around unique brands. 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 (scheduled)

(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 to be acquired

100.0%

(7) Major basis in determining the acquiring company

The Company plans to acquire shares through cash consideration.

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

		(Millions of yen)
Consideration for acquisition	Cash	4,500 (scheduled)
<hr/>		
Acquisition cost		4,500 (scheduled)

3. Amount of goodwill to be accrued, reason for accrual, amortization method, and amortization period

Not confirmed at this time.

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

Not confirmed at this time.

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
Short-term borrowings	197	—	—	—
Current portion of long-term debt	375	401	0.77	—
Current portion of lease obligations	1,695	2,007	3.41	—
Long-term debt (excluding current portion)	554	504	0.81	March 2025 to December 2028
Lease obligations (excluding current portion)	5,359	6,037	2.75	March 2025 to July 2037
Total	8,182	8,950	—	—

(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 long-term debt and 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
Long-term debt	198	125	125	54
Lease obligations	1,805	1,236	880	678

[Schedule of asset retirement obligations]

Not applicable

(2) [Other]

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

(Cumulative)		First quarter	Second quarter	Third quarter	Current consolidated fiscal year
Net sales	(millions of yen)	68,478	132,896	203,252	275,596
Net income before income taxes	(millions of yen)	6,314	10,585	16,580	17,116
Net income attributable to owners of the parent	(millions of yen)	4,464	7,094	11,541	13,513
Net income per share	(yen)	98.41	156.15	254.10	297.75

(Period)		First quarter	Second quarter	Third quarter	Fourth quarter
Net income per share	(yen)	98.41	57.79	97.96	43.56