



*Play fashion!*

## MISSION

# Play fashion!

Fashion that inspires you

Fashion that creates a vibrant community

Fashion for living your best life

VISION ————— Joyful options galore!

PHILOSOPHY ————— Be a person needed,  
Be a company needed.

VALUES ————— We always act with our customers in mind.  
Taking on new challenges enables us to grow and evolve.  
We value diversity and progressing as a team.  
Contributing to society by helping others.  
Making everyday life an adventure.

CULTURE ————— The answer is to keep looking for answers.

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### Editorial Policy

This report aims to report our business model and value creation story in an easy-to-understand manner. We systematically introduce financial information, such as business performance and management strategies, as well as non-financial information such as Environmental, Social, and Governance (ESG) as a foundation to support company growth.

### Reporting Period

Fiscal year ended February 2023  
(March 2022-February 2023)

### Publication Date

October, 2023

### Referenced Guidelines

*International Integrated Reporting Framework*, IFRS Foundation, *Guidance for Integrated Corporate Disclosure and Company-Investor Dialogue for Collaborative Value Creation*, Ministry of Economy, Trade and Industry

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## History of Aداستريا

## Our Business Model Transformation Journey

Adastria was founded as a men's clothing retailer. Since then, we have grown through four business model revisions (Change 01-04). Behind these revisions was our corporate culture of not being afraid of change and continuing to challenge ourselves in search of answers that meet the needs of our customers at any given time. We will continue improving our corporate value through flexible management and working toward our mission of *Play fashion!*

Established Fukudaya Clothes Store Inc.



## CHANGE 02

## Introduced chain store system

Opened jeans and casual fashion store POINT

1953

1973

## CHANGE 01

Transitioned from men's business wear to men's casual wear



1982

1997

## CHANGE 03

## Transition to OEM/ODM production

Started rolling out LOWRYS FARM store brand



Consolidated Net Sales

2000

2005

2010

## CHANGE 04

Converted to vertically integrated specialty store retailer of private label apparel (SPA)



Internalized company in-house product planning and production functions

2015

2020-

2023 2024

2026



niko and ... SHANGHAI



OMO model store Dot ST store

Sales for  
FYE 02/2023  
¥242.5 Billion

70<sup>th</sup>  
Sales Forecast for  
FYE 02/2024  
¥260 Billion

Sales Target for  
FYE 02/2026  
¥280 Billion

## 1950-1999

- 1953 10 Established Fukudaya Clothes Store Inc. in Mito, Ibaraki Prefecture. Began retail sales of men's clothing.
- 1973 03 Opened men's casual clothing store VEGA.
- 1982 09 Opened jeans and casual fashion store POINT. Transformed POINT into chain stores in '84.
- 1992 03 Started developing LOWRYS FARM. Moved into retail sales of ladies' casual wear.
- 1993 03 Changed company name to POINT INC.
- 1997 Started rolling out LOWRYS FARM store brand.

## 2000-2009

- 2000 12 Registered company's stock in Japan Securities Dealers Association.
- 2002 12 Listed company's stock on the second section of Tokyo Stock Exchange (TSE).
- 2003 03 Opened the first store in Taiwan and began developing overseas business operations.
- 2004 02 Listed company's stock on the first section of Tokyo Stock Exchange (TSE).
- 2007 10 Started e-commerce business on our own corporate website.
- 2008 03 Opened the first store in Hong Kong.

## 2010-

- 2010 10 Opened the first store in mainland China.
- 2012 10 Started membership-based point service on our own e-commerce business corporate website.
- 2013 09 Moved to a holding company structure, changing name to Adastria Holdings Co., Ltd. as the holding company. Merged Trinity Arts Inc. and others.
- 2014 11 Completely revamped our own e-commerce site and started official web store service Dot ST.

- 2015 03 Merged Adastria Holdings Co., Ltd., POINT INC., and Trinity Arts Inc. Dissolved the holding company structure.
- 2015 06 Changed company name to Adastria Co., Ltd.
- 2015 09 Transferred control of product planning and production functions from subsidiaries.
- 2017 02 Incorporated ALICIA Co., Ltd. as a group company.
- 2017 03 Founded ELEMENT RULE Co., Ltd.
- 2017 04 Founded Adastria USA, Inc.

- 2017 10 Founded ADASTRIA eat Creations Co., Ltd.
- 2018 08 Changed company name to BUZZWIT Co., Ltd. from ALICIA Co., Ltd.
- 2019 12 Registered customers of official web store Dot ST exceeded 10 million.
- 2020 11 Founded ADOORLINK Co., Ltd.
- 2022 02 zetton Inc. joined the Corporate Group.
- 2022 04 Moved to the Prime Market following the TSE market classification review.
- 2022 05 Established Gate Win Co., Ltd.
- 2023 04 Opened the first store in Thailand.

# ABOUT US

## Message From the Chairman

# MESSAGE FROM THE CHAIRMAN



Continuing to Invest  
Systems to Fulfill Our  
Mission of Enriching  
the World

## Message From the Chairman

# MESSAGE FROM THE CHAIRMAN

### Thank You for 70 Years of Support

Adastria celebrated our 70th anniversary in 2023.

We are sincerely grateful to all customers, suppliers, and employees with whom we have had the opportunity to work.

The lesson of our founder, which has been a great support over the years, is to always *keep your promises*. Our founder had the unfortunate experience of closing the business once during the recession following the end of the war, disrupting the lives of customers, suppliers, employees, and their families. We will always keep our promises to our stakeholders. This tenet of the previous generation lives on in me and in Adastria.

### The Strength of Our Company Lies in the Sense of Ownership Among Our Employees; Investing More in Human Resources

One of Adastria's strengths is the sense of ownership with which employees approach their work. We overcame the COVID-19 pandemic, and we are making good progress within our medium-term management plan because every employee faced the challenges and asked, "What can I do now?"

Even through the difficulties of the pandemic, I was happy to see new ideas from within the company and employees taking independent action. We engage in a number of different initiatives to provide a place for employees to take on new challenges. We reward efforts as a company and increase incentives, including expanding STAFF BOARD and establishing our own health insurance program.

To trigger further change, we focus on programs to support career development for experienced employees, the advancement of women, and the retention of both international and technological talent. We received hundreds of applications for the mid-career positions we opened in

order to meet more people. We believe it is the responsibility of management to attract a diverse workforce and create workplaces for individuals to demonstrate their talents.

### Greater Leadership Depth and Structures That Respond to Change

Our new president took office two years ago, and we find ourselves making good progress in our medium-term management plan. In addition to a well-balanced Board of Directors, the executive officers and general managers approach their work from a management perspective, capable of making decisions that reflect the subtleties of the company's circumstances. I also feel that we are building depth in leadership.

I share an awareness with Adastria management that we seek to evolve beyond the framework of a traditional apparel company. The idea of clothing as daily wear in Japan has only been around for 50 years or so. There is no guarantee that clothing will be in such high demand in the future as it is today. I encourage Adastria management to focus on drawing out the strengths of each staff member to allow our organization to change flexibly with changes in society. If employees enjoy their work, new ideas will bubble to the top.

### Investments to Build Systems Supporting Group Transformation

In the 1970s, the company transitioned from a men's clothing store to a casual store. At the time, we wondered about the value of our existence. And as we studied the structure and expertise of American chain stores with our employees, we realized the mission of the retail industry was to enrich the lives of consumers. Since then, we have always worked

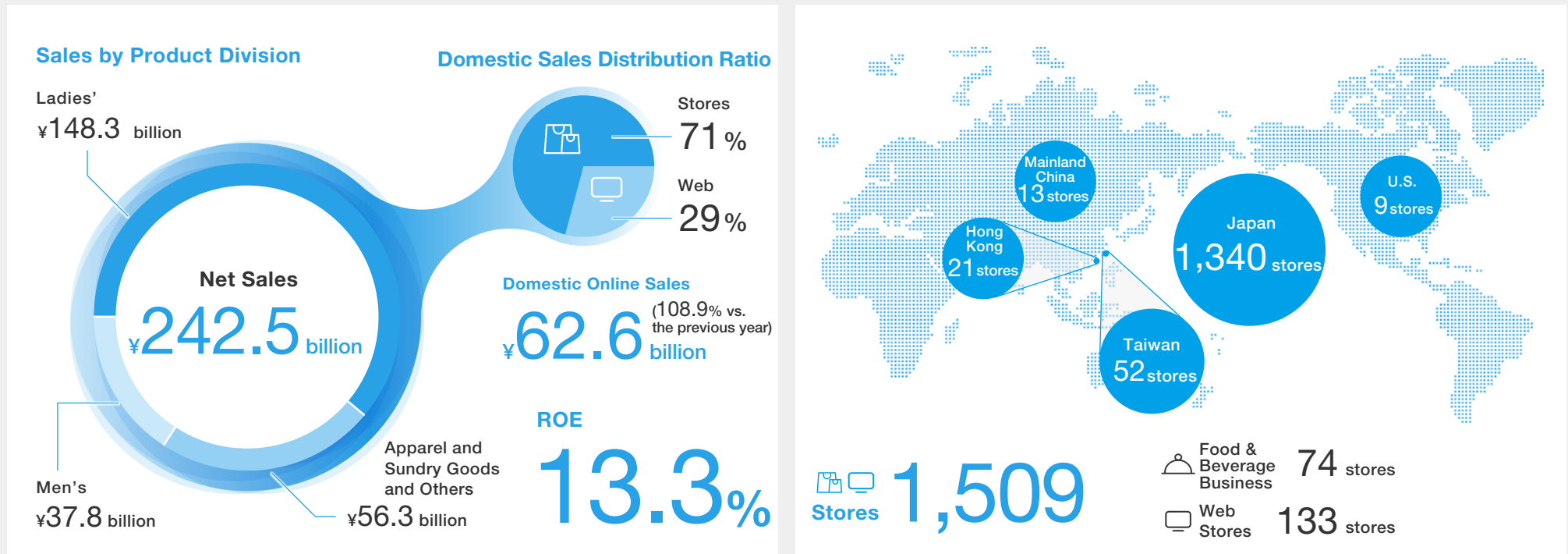


together with our employees to consider the purpose of our company, and the answer remains the same: Even more than making profits, our value, first and foremost, is in creating happy and satisfied customers. Since our transformation to a vertically integrated SPA (specialty store retailer of private label apparel) system, we have been committed to manufacturing and delivering products that satisfy our customers beyond the purchase price. And to support the daily abundance of our customers, we must ensure the enrichment and happiness of our own employees. With this single-minded focus, we invest actively in digital technologies and systems to increase productivity.

The continued investment through the COVID-19 pandemic has helped to establish a foundation for growth, and the achievement of our medium-term management plan is now in sight. However, continued investment in a framework to support business model reform will be necessary to increase corporate value over the long term. We are committed to achieving results that exceed the goals of our medium-term management plan, looking even further into the future to raise the expectations of the capital markets in the potential of Adastria.

## Adastria Group in Figures

The Adastria Group manufactures and sells apparel and miscellaneous goods in the lifestyle and fashion fields. The Group has more than 30 brands and has opened approximately 1,500 stores in Japan and overseas, including real and web stores.



**Number of Employees**

**12,417**

Regular Employees: **6,356**  
Term Employees: **6,061**

**Number of Brands**

**31**

\*Brands with ¥100 million or more in annual sales

GLOBAL WORK   niko and ...   LOWRYS FARM   studio CLIP   LEPSIM  
 JEANASIS   BAYFLOW   LAKOLE   HARE   RAGEBLUE   Heather  
 PAGEBOY   repipi armario   apart by lowrys   mysty woman  
 Elura   ÅLAND   BARNYARDSTORM   BABYLONE   Chaos   Curenology  
 aprèsjour   kutir   sedacle   PAIR MANON   velvet   and more...

**Number of Members**

**Approx. 16 million**  
(as of May 2023)

## Multi-Brand

Customers' tastes and lifestyles are particular and not uniform in the field of fashion, making it difficult to cover all customers with just one brand. We have adopted a multi-brand strategy with which we are aiming to gain strong support from a wide range of customers through multiple brands that are strongly favored by customers with specific tastes. We share resources for material development, production and logistics, and accumulate know-how as a multi-brand platform.

### Overview of Major Brands



#### GLOBAL WORK

**Target** Men and women in their 20s to 40s, kids from 2 to 15

**Location** Shopping centers

**Category** Men's, women's, kids', sports fashions, sundries, food and beverage



LOWRYS  
FARM

**Target** Women in their 20s to 30s

**Location** Fashion malls, shopping centers, road-side stores

**Category** Women's, kids', and men's fashions



#### niko and ...

**Target** Men and women aged 25 to 35

**Location** Shopping centers, fashion malls, and street-facing stores

**Category** Men's and women's fashions, interior items, cosmetics, sundries, outdoors, sports fashion, food and beverage



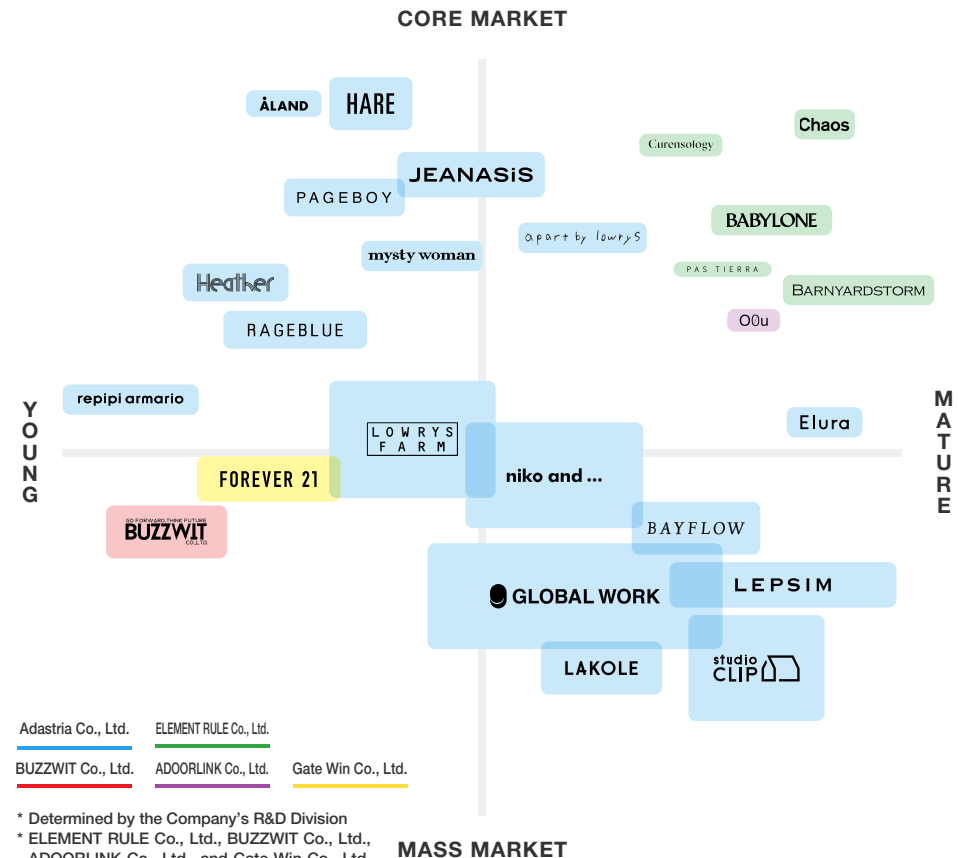
studio  
CLIP

**Target** Women in their 30s to 40s

**Location** Shopping centers, fashion malls, department stores

**Category** Women's fashion, sundries, interiors, food and beverage

### Classification of Major brands by Target Markets and Age



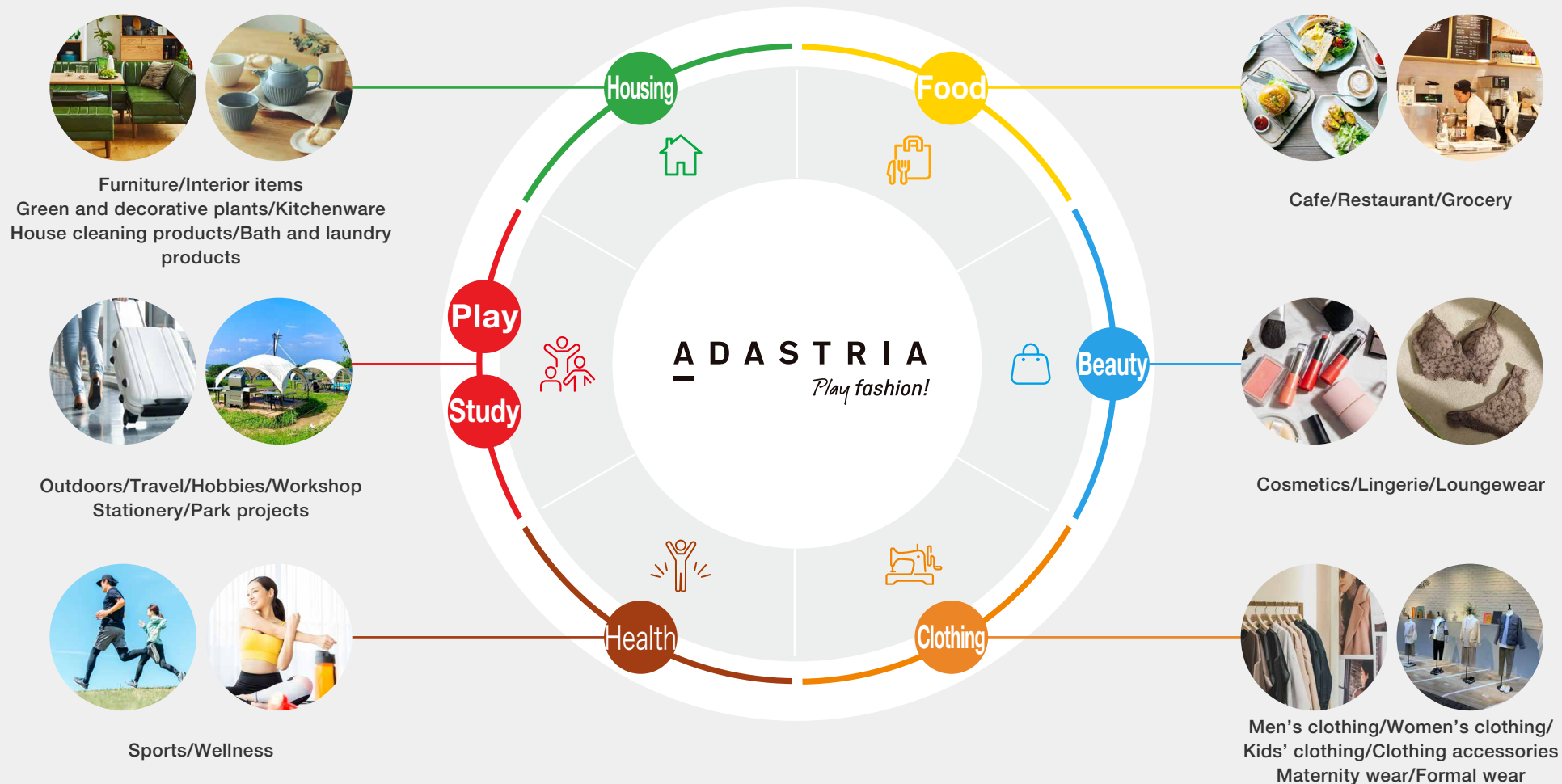
Adastria Co., Ltd. ELEMENT RULE Co., Ltd.  
BUZZWIT Co., Ltd. ADOORLINK Co., Ltd. Gate Win Co., Ltd.

\* Determined by the Company's R&D Division  
\* ELEMENT RULE Co., Ltd., BUZZWIT Co., Ltd., ADOORLINK Co., Ltd., and Gate Win Co., Ltd. are group companies in Japan.



## Multi-Category

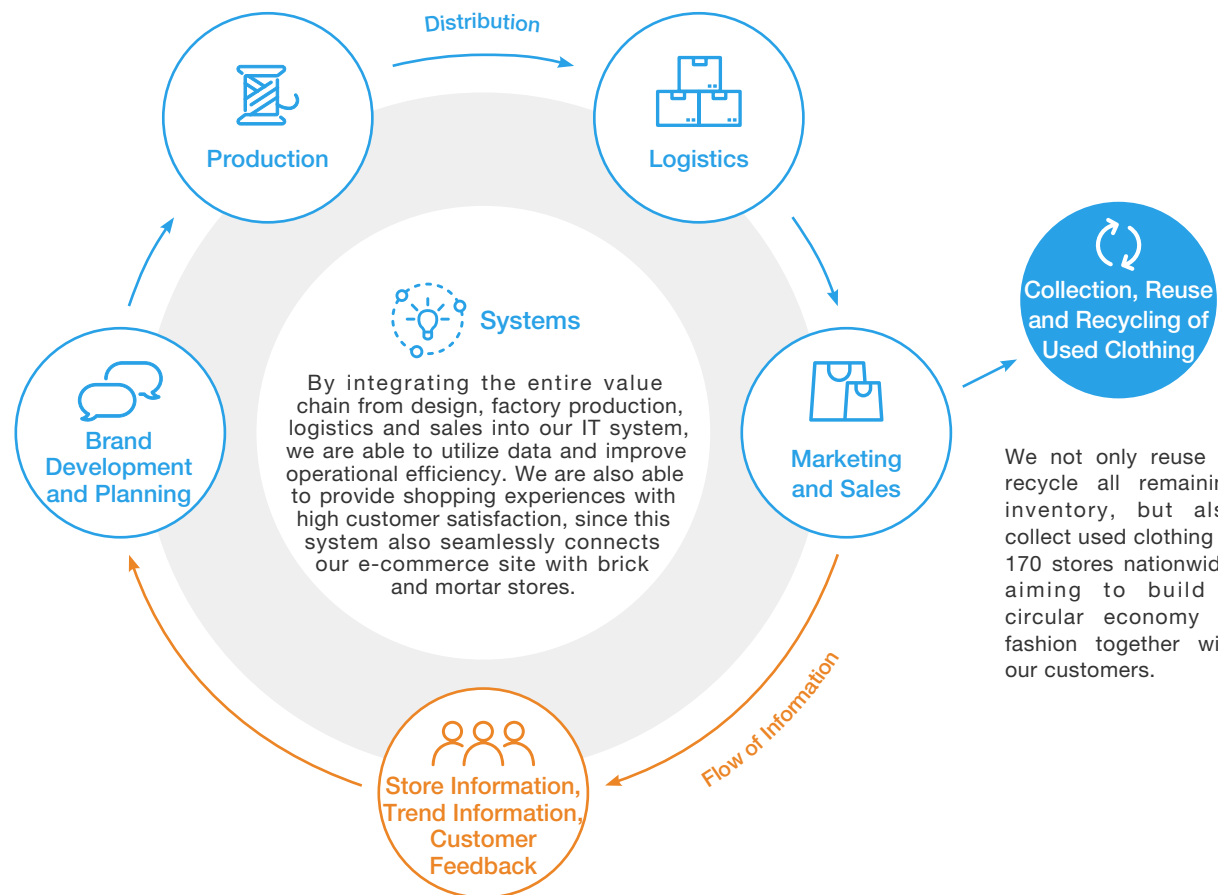
In addition to apparel, we offer fashion items and services for the diverse lifestyles of each and every customer in a variety of categories surrounding daily life. Expanding the product line to include sundries and furniture will lead to more opportunities to open new stores, and increasing store floor space will help increase the allure of our stores. In addition, we are maximizing the lifetime value of our customers by expanding the range of moments in their lives where our products can be used.



## Value Chain

One strength we have is our system to carry out everything from brand development to product planning, production, logistics, and sales within the group. We quickly incorporate store information and customer feedback in our product development and services by integrating all the processes in an IT system, while we create differentiated high-quality products.

### Adastria's Value Chain



### Brand Development and Planning

#### Brand development

We develop our own brands based on global fashion trends, customer needs, planning proposals by in-house staff, and collaboration with influencers. In unexplored areas, we utilize licenses of popular domestic and foreign brands to build and maintain an optimal brand portfolio at all times.

#### Brand direction

We create a world outlook commensurate with the brand, cultivate individual elements to embody this outlook, and direct the brand overall to ensure consistency. This activity spans organizing concepts, tone and manner, and manages products, price points, sales channels, promotions, and more.

#### R&D

Trend information is collected from around the world and deployed in a way that suits each brand. We also secure and cultivate designer and creator talent and optimize their placement across our brand portfolio.

#### Merchandising

In order to provide products at the right time, at the right price, and in the right quantity, we develop hypotheses based on trend information and customer feedback obtained at stores, and formulate and execute seasonal product and sales plans.

## Value Chain



### Production

#### Design

Based on customer needs and fashion moods, we incorporate the brand's world outlook into product design. In addition to our dedicated in-house designers, we also utilize the knowledge of outside designers according to the direction the brand wants to express.

#### Material procurement

We have established a global network of material manufacturers and source the right materials at the right time, in the right quantity and at the right price for the brand. Cost advantages are achieved by using high-quality, high-performance materials across brands.

#### Material development

To make our products stand out and achieve a high level of balance between price and quality, our Materials Development Department develops original materials in collaboration with outside material manufacturers. We have developed a number of materials that are not only fashionable and functional, but also offer superior sustainability aspects in reducing environmental impact. These materials are also sold to outside parties.

#### Patterning

We accurately grasp the intent of product planning and incorporate the design into a pattern. In addition to securing and training highly skilled pattern makers, we are also actively using technologies such as 3D CAD design, working to improve productivity and reduce environmental impact by reducing sample production.

#### Production control

Based on long-standing partnerships, we work closely with external factories to ensure optimal production of a wide variety of multi-brand products. We are also actively cultivating new production partner factories in order to diversify production sites for the management of costs and risks.

#### Quality control

We provide high-quality and safe products through investigations to confirm that materials, production processes, and products conform with our quality standards. We monitor not only finished products but the entire procurement and production process as early as the product planning stages, and our CSR audit team also conducts checks regarding ethical standards.



### Logistics

#### Transportation

We have an in-house logistics unit that serves as the hub for transporting all products manufactured across mainland China, thereby reducing costs and environmental impact by improving container loading rates and optimizing logistics throughout Asia.

#### Logistics for domestic stores

Our logistics subsidiary within the group delivers products to stores in Japan daily from our seven in-house distribution centers across the country, adjusting to sales volume of each store. Our meticulous delivery system minimizes losses of opportunity and inventory.

#### E-commerce logistics

We have established an optimized shipping system for a wide variety of multi-brand products at our in-house distribution centers. With the introduction of state-of-the-art material handling equipment, including unmanned transport vehicles, we have the capacity to ship up to 34,000 items per day, and are supporting common efforts to reduce delivery costs while enhancing customer convenience, such as in-store pickup.

#### Product management

More than 20,000 different products are properly managed and stored annually, and speedy supply of products ensures timely delivery from container arrival to stores. We manage our products in meticulous detail based on their particular qualities, for example by storage and delivery of sundries at dedicated centers due to expanding business in that area.



### Marketing and Sales

#### Brick-and-mortar stores

We operate approximately 1,500 brick-and-mortar stores in Japan and overseas, maintain an optimal store network at all times by flexibly opening and closing stores depending on market conditions. By owning a large number of brands, we can support a range of commercial facility types, and by opening multiple stores in the same facility, we can operate more efficiently and increase customer contact points. In addition, customers can experience our brands and products firsthand in brick-and-mortar stores, which results in high customer loyalty.

#### Sales staff

Our sales staff provide a purchasing experience with a high level of satisfaction by demonstrating premium customer service and proposal skills both online and offline. More than 30% of our e-commerce customers shop by referring to outfit coordination photos posted by our store staff, and our stores account for over half of new registrations for our *Dot ST* e-commerce and points system.

#### Store design

In our store design, we provide customers with new experience value while faithfully expressing the brand's world outlook.

#### Visual merchandising

We express brand and product characteristics and create fresh storefronts while firmly conveying the appeal of the product to customers.

#### Public relations

Messaging is planned and carried out over traditional and social media to convey the brand's world outlook and appeal to as many people as possible. In addition, we devise POPs and content that fully convey the appeal of our products in stores and over e-commerce.

#### Official *Dot ST* online store

With over 16 million registered customers, *Dot ST* is the third largest apparel e-commerce site in Japan. Its immensely popular STAFF BOARD, where store staff post outfit coordination, attracts about 1 million site visitors per day. We are expanding the categories we handle by selling not only our own products but also those of other companies.

#### Customer service

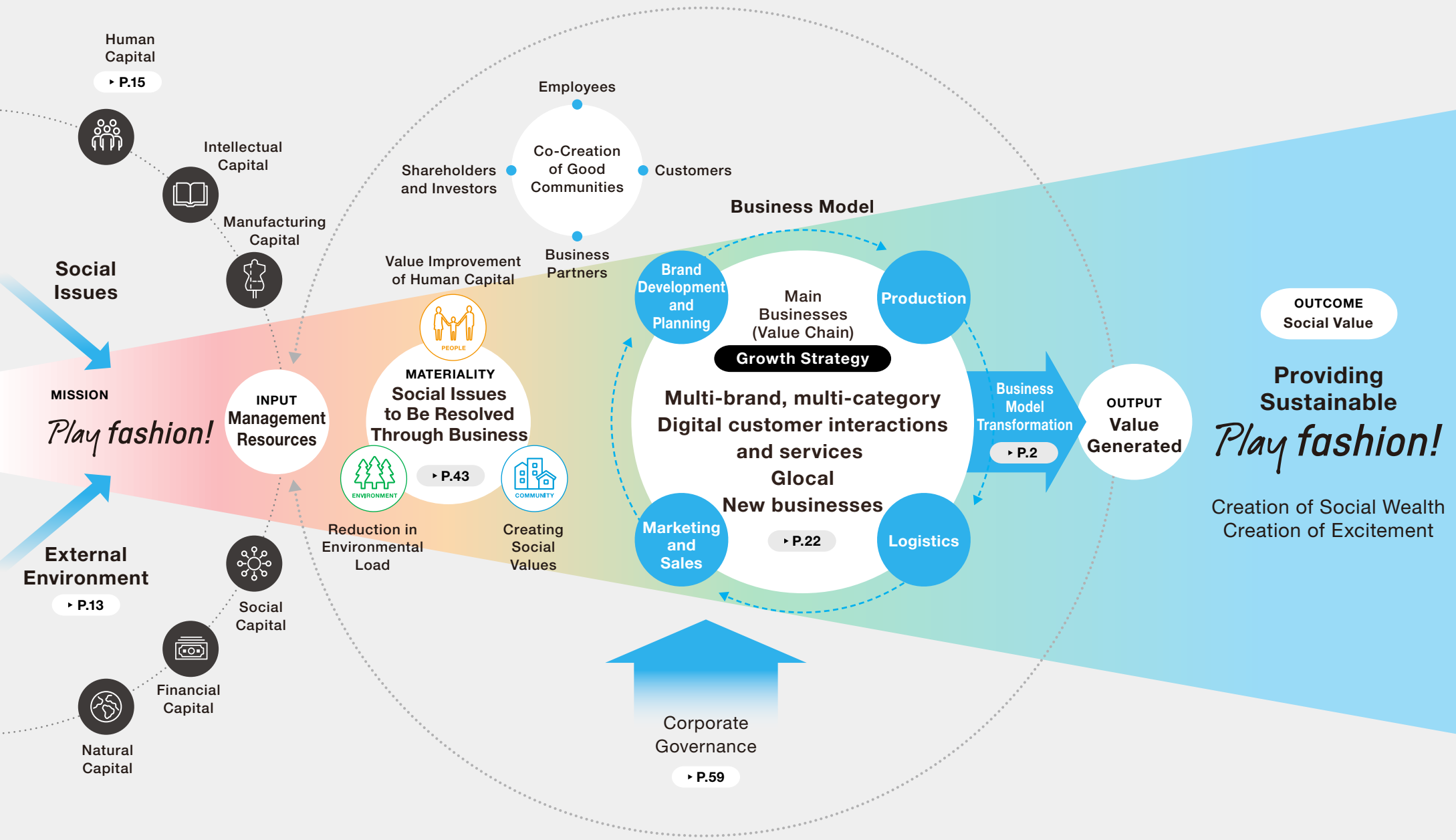
We listen attentively to customer feedback, providing this to each brand to help us create better products. In addition, the introduction of chatbots has made it possible to corresponding with customers 24 hours a day, 365 days a year, increasing customer satisfaction.



**Store Information, Trend Information, Customer Feedback**

# Value Creation Process

# VALUE CREATION PROCESS



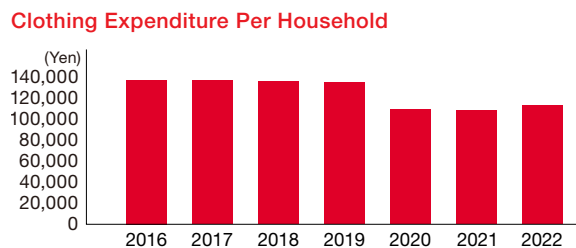
# GROWTH STRATEGY

Adastria Growth Strategy

## The Adastria Market Environment

### A Recovering Domestic Apparel Market

Clothing expenditures per household in Japan have been gradually declining over the long term, mainly due to declining unit prices of single articles of clothing. Around 2016, the decline slowed and has remained mostly flat since then. The global apparel market declined sharply in 2020 due to the spread of COVID-19. In Japan, clothing expenditures per household remain at 80% of the pre-COVID-19 level in 2022, with no significant growth between January to March of 2023. While the domestic market is still recovering, Adastria achieved record-high sales in the fiscal year ended February 28, 2023, surpassing those before COVID-19. This growth was not solely dependent on the market environment.

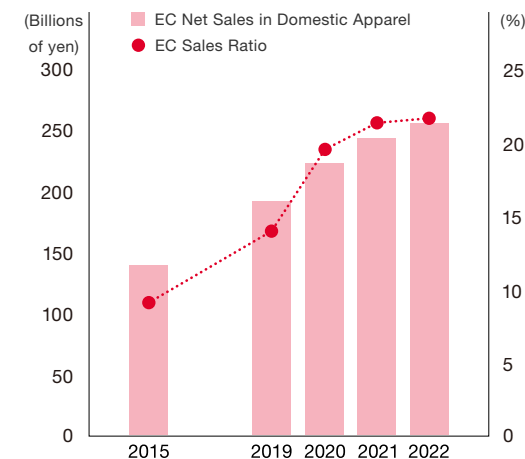


Source: Survey of Household Economy (Statistics Bureau, Ministry of Internal Affairs and Communications)

### Expanding Apparel EC Market

The apparel EC market in Japan grew significantly during the COVID-19 pandemic. While the growth of the EC sales ratio slowed in 2022, the market size continues to grow. This is due to improvements in the operating environment of psychical stores compared to the previous year and indicates changes in consumers' purchasing behavior.

#### Domestic Apparel EC Net Sales

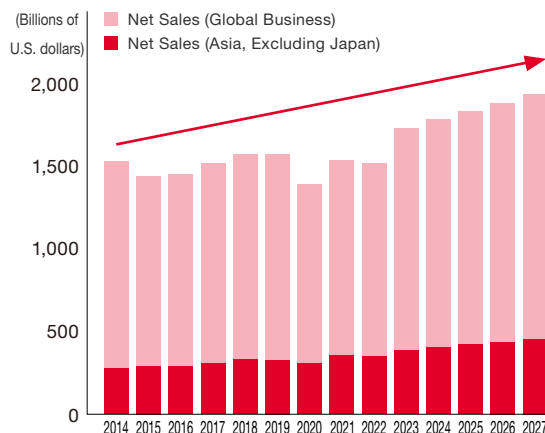


Source: E-Commerce Market Survey, Ministry of Economy, Trade and Industry

### Overseas Markets Will Continue to Grow in the Future

The global apparel market has recovered rapidly and is estimated to have exceeded pre-COVID-19 levels by 2023, even with the market decline after the pandemic. Continued growth is expected in the future, particularly in the key market of Asia where growth rates are high and the market size has a growing presence.

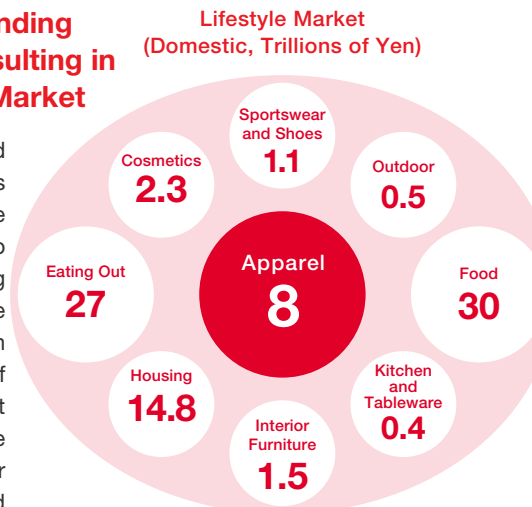
#### Global Apparel Market Growth Forecast



Source: Revenue of the apparel market worldwide from 2014 to 2027, Statista

### Fading Barriers Surrounding Peripheral Markets Resulting in Transition to Lifestyle Market

Barriers between apparel and peripheral markets are fading as lifestyles change. This change brings new possibility to domestic markets, expanding the lifestyle market where customers enjoy fashion in every lifestyle area outside of clothing. Adastria believes that demand for fashionable products is expanding for miscellaneous goods and furniture as well as for food, beverage, and sports.



Based on our research from various surveys

## Medium-Term Management Plan

In April 2022, we formulated a medium-term management plan to respond to changes in the external environment and continue to grow by expanding customers and the value we provide. We will continue to increase sales while improving our operating margin. To do so, we will curb rising SG&A costs, especially those in division management, by streamlining our internalized production and logistics structures.



## Human Capital Initiatives to Execute Strategy

Adastria also takes initiative in areas of human capital to execute our growth strategy.

		Strategic Issues Related to Human Capital	Examples of Initiatives
Growth Strategy I	Growth Strategy II	<b>Securing human resources with digital skills</b> <b>Expanding of global foundation</b>	STAFF BOARD and the development of SNS personnel ▶ P.29
Growth Strategy III	Growth Strategy IV		Employment of Digital Transformation Human Resources ▶ P.30
			Investments in mechanization to address labor shortages ▶ P.30
Growth Strategy I	Growth Strategy II	<b>Expanding of global foundation</b>	Reinforcement of collaborations in global business ▶ P.34
Growth Strategy III	Growth Strategy IV		
Growth Strategy I	Growth Strategy II	<b>Leveraging the talents of veteran staff</b>	Expanding BtoB ▶ P.35
Growth Strategy III	Growth Strategy IV		Career expansion support ▶ P.50
Sustainability		<b>Increasing women in management positions</b> <b>Supporting career continuity</b>	Promotion of career advancement for women ▶ P.50
			Establishment of our own health insurance and Health and Productivity Management ▶ P.51



Message From the President

# MESSAGE FROM THE PRESIDENT



## Continuing to Take on Challenges and Embracing Change to Move to a New Stage

Representative Director and President

Osamu Kimura

## Message From the President

# MESSAGE FROM THE PRESIDENT

## Continue to Take on Challenges for Growth, While Enjoying the Changing Stages in *Co-Creation of Good Communities.*

### Year One of Our Medium-Term Management Plan; Better-Than-Expected Brand Portfolio Performance

Last year was the first of our medium-term management plan which ends in February 2026, and we generated record-high consolidated net sales. As president, I have an increasing number of opportunities to talk with the capital market. I feel that the concern investors had about our lofty targets when we first announced our plan has changed to a sense of anticipation as we move toward a new stage of growth.

Looking back at the four growth strategies described in the medium-term management plan in turn, we see that under Growth Strategy I (Multi-Brand, Multi-Category), our brand portfolio functioned quite well, with the brands categorized under Stand-Alone Brands, Growing Brands, and Profit-Oriented Brands succeeding in their respective roles. Our major strength is in several stand-alone brands with sales of over ¥20 billion, led by GLOBAL WORK, with sales of ¥50 billion. We are confident



this strength resulted in stable business operations and increased the likelihood that we will achieve our plans.

Even Growth Brands such as LAKOLE, which has opened new shops aggressively, have had a hand in driving sales expansion. It took us about three years to get LAKOLE off the ground, but it has become an example of how our other strength—our ability to correct course—was put to good use. We are good at launching a brand, analyzing how to make it more customer-friendly in the field, and continuing to make improvements based on numerical feedback. This pattern allows us to establish business models and invest aggressively, leading to the growth we see today.

### Investments During the COVID-19 Pandemic Are Paying Off; Putting a Foundation for Growth in Place

Looking at Growth Strategy II (Digital Customer Interactions and Services), we see that, although the growth rate of the e-commerce sector has slowed somewhat due to the recovery of brick-and-mortar stores, we never stopped investing during the pandemic, and we are ready now for continued growth. To achieve our target of ¥80 billion in e-commerce sales, we improved efficiencies further at ECDC (Ibaraki West Logistics Center). The improvements will allow us to cope with the expected labor shortage in the future. We also opened our own e-commerce site, *Dot ST*, and added merchandise from

## Message From the President

# MESSAGE FROM THE PRESIDENT



other companies.

We enhanced the scale of STAFF BOARD, where individual store staff members share their style coordinates and lifestyles.

STAFF BOARD is one of *Dot ST*'s greatest strengths, and the program motivates individual staff members by recognizing their efforts and providing them with appropriate incentives.

In terms of Growth Strategy III (Glocal), our business plan for mainland China has been delayed by one year due to COVID-19. However, even under difficult circumstances, we opened new stores in Chongqing and Chengdu, and we believe we will keep pace with the future economic recovery, transitioning to renewed growth. In our overseas businesses as a whole, Taiwan and Hong Kong have driven profits. Our

multi-brand strategy is working well in Taiwan, while rent and other factors have improved in Hong Kong under the COVID-19 pandemic. At the same time, our wholesale business is performing well in the U.S., which contributed significantly to sales growth.

### Seeking New Revenue Models Through Synergies With Other Companies

Growth Strategy IV (New Businesses) is still in the seed stage. However, we expect to see buds growing by the final year of the current medium-term management plan. One initiative is the launch of a full-scale licensing business. We have extensive experience in creating and nurturing original brands from scratch. But even so, creating large-scale brands is no easy matter. We relaunched FOREVER21 in Japan after a year of preparation, including research and contracts. We believe that by localizing in detail for Japanese customers, we can take full advantage of the high name recognition of that brand. This is just the first phase, and we intend to expand the number of brands further as we acquire more expertise.

Food is another pillar of lifestyle. Our food subsidiary, zetton, continues to evolve in partnership with Adastria, and some exciting projects have emerged. These projects include the Yamashita Park Rest House, which made use of the Park-

PFI system (publicly solicited installation and management). Adastria is beginning to see growth in BtoB business as well. Here, we are producing real estate projects and providing brands to GMS. A variety of companies across all industries have expressed their expectations of interesting developments in working with Adastria. We feel that we are gaining credibility as a company by accumulating experience in manufacturing and brand building.

### Aspiring to Co-Create Good Communities With Our Partners

In the past, the fashion industry was driven by sales growth as companies competed to be the best. Times have changed, and the next generation is beginning to embrace the idea of sharing resources and creating new value by connecting with companies and people outside of their own organizations. By collaborating with companies and brands, both parties gain potential new customer contacts and awareness. The opening of *Dot ST* to products from other companies is another way of planting the seeds for this kind of Good Community cocreation.

We began collaborating with Yamato Transport for logistics and delivery last year to reduce CO<sub>2</sub> emissions and address the shortage of human resources for drivers. We hope to work with external partners, regardless of industry, who can do what we cannot, who have expertise outside our own, and with whom we share the aspiration to co-create value.

## Message From the President

# MESSAGE FROM THE PRESIDENT

### Employees Who Learn From Mistakes and From Other Cultures Are the Ones Who Innovate

Amplifying the value of human capital is another important factor in new value creation. To increase opportunities for growth, Adastria provides ways proactively for employees to advance their careers. One example is a system that entrusts employees with the management of subsidiaries to gain experience. We also encourage employees to launch in-brand products under each brand. Regardless of the size of the company, the responsibility for using money as a company manager is important. One soon realizes that there are many people working for the company outside one's area of responsibility, and the opportunity offers a broader perspective and a higher viewpoint. If one should happen to fall short in the challenge, they gain an appreciation of the pain of others, gaining credibility as a manager. I have my own history of numerous challenges and failures. I want employees to challenge themselves without hesitation, knowing that even Kimura failed at half of everything he tried. I believe it is the job of the president to create an atmosphere in which it is easy to try and fail.

Through active mid-career recruitment, we incorporate the knowledge of people who have gained experience in fields different from those of Adastria. After all, Adastria is a company created originally by people of varied backgrounds coming together. I believe that external and internal talent

learn from each other and innovate in a way that will help the company move to the next stage. One challenge in terms of human resources is the advancement of women. We believe it is essential to utilize the power of women for future growth, and we set a goal of increasing the ratio of women in senior management to 30% and the ratio of women in management to 45% by 2025. However, the number of women in executive positions has not increased sufficiently. To achieve our goals, we pursue efforts to have the opinions of women reach management directly. These efforts include inviting women to participating in meetings where management members hold discussions.

### The Current Medium-Term Management Plan Is a Milestone Toward Continuing Business Transformation

Looking at recent store activity, we feel that customers are enjoying fashion in connection with momentum to leave the house. However, we see a number of risks surrounding the market. The cost of manufacturing is rising, and we need to rethink our approach to sales discounts, promoting higher-value-added products instead. Geopolitical instability is also rising. We must diversify risk by avoiding the concentration of production sites and store development in any single region.

But even during difficult times, we have continued to invest in systems, logistics, and human resources. We never allowed



ourselves time to stand still, and this attitude is now our strength in the wake of the COVID-19 pandemic. Our current medium-term management plan is just a milestone. And while we are confident we will achieve our goals, we must continue to transform our company to ensure long-term growth.

We changed our business model four times since our inception, and we will continue to invest in the year ahead for a fifth change. Adastria management discusses the next step in value creation constantly, always looking beyond the current medium-term management plan. We also believe in the need to communicate carefully the direction in which we are headed so that stakeholders entrust us with management of the company. We at Adastria will continue to challenge ourselves for long-term growth, embracing the change to a stage of co-creating good communities.

## Director Message

## DIRECTOR MESSAGE



## Enhancing Product and Group Value to Achieve Medium- and Long-Term Growth

Managing Director, Finance and Risk Management In-Charge

Masayuki Kindo

### Ongoing Investments Support Medium-Term Management Plan Progress

Sales and profits for the fiscal year ended February 2023 exceeded expectations, and we made solid progress in our medium-term management plan. Even throughout the nearly three years of the COVID-19 pandemic, we continued to invest aggressively in growth businesses, DX, and the mechanization of distribution centers in anticipation of the post-COVID-19 era. Our efforts in these areas have paid off. Cost of sales presented a challenge due to the weak yen and high resource prices, but we pursued a balance between product value and price without making compromises and enjoyed the support of our customers. A low point in the year was the system outage in the fourth quarter due to unauthorized system access. While we detected and responded to the problem quickly, we

suffered a negative impact on operating income of approximately ¥1.4 billion. Fortunately, many customers returned to use the site after reopening, but we will continue to strengthen security to regain customer trust.

### Delivering Valuable Products by Reducing Costs and Improving Quality

We are shifting our product manufacturing base from mainland China to ASEAN to control costs and deliver valuable products to customers at reasonable prices. We continue to assess

country risk and scout areas to diversify production appropriately and reduce manufacturing costs, looking to raise the ratio of production in ASEAN to 30% or more by the fiscal year ending February 2024. Taking advantage of in-house production, we strive to reduce costs in various aspects, including the use of lower-cost materials without sacrificing quality, while also improving logistics loading rates and addressing the 2024 problem. In addition, Adastria continued to improve the added value in products while revisiting prices, boosting sales by increasing purchases per customer.

## Director Message

# DIRECTOR MESSAGE

Revising prices is never an easy decision for management. However, Adastria has always been committed to value-added manufacturing, and we continue to refine our planning and production capabilities. These efforts have paid off, as customers recognize the value of our products, allowing us to control discount rates at the same time we revise prices. We factored a 6% wage increase into costs this fiscal year to retain talented employees, but such investments can only continue when performance is commensurate. Utilities and other costs are also on the rise, but we plan to allocate

investments to areas of need, while introducing greater efficiencies into rent, head office costs, etc.

### Increasing Group Value Through M&A

We pursue M&A for medium- to long-term growth. zetton, consolidated in February 2022, operates stores in the Kanto and Chukyo areas of Japan, but we expect that the partnership with Adastria will lead to nationwide openings, entering new markets in an efficient manner. Open and Natural, which became a consolidated subsidiary in March

2022, will allow Adastria to strengthen our presence in the kids' clothing segment, where we have been thin. And we expect to boost sales through launches of new shops on our *Dot ST* site. We continue to receive many inquiries about M&A while keeping an eye on capital efficiency. Adastria will keep an open mind to collaborations companies that have complementary strengths to increase mutual value.

### Creating Value Over the Medium to Long Term Through Stable Management, Strengthened by Teamwork

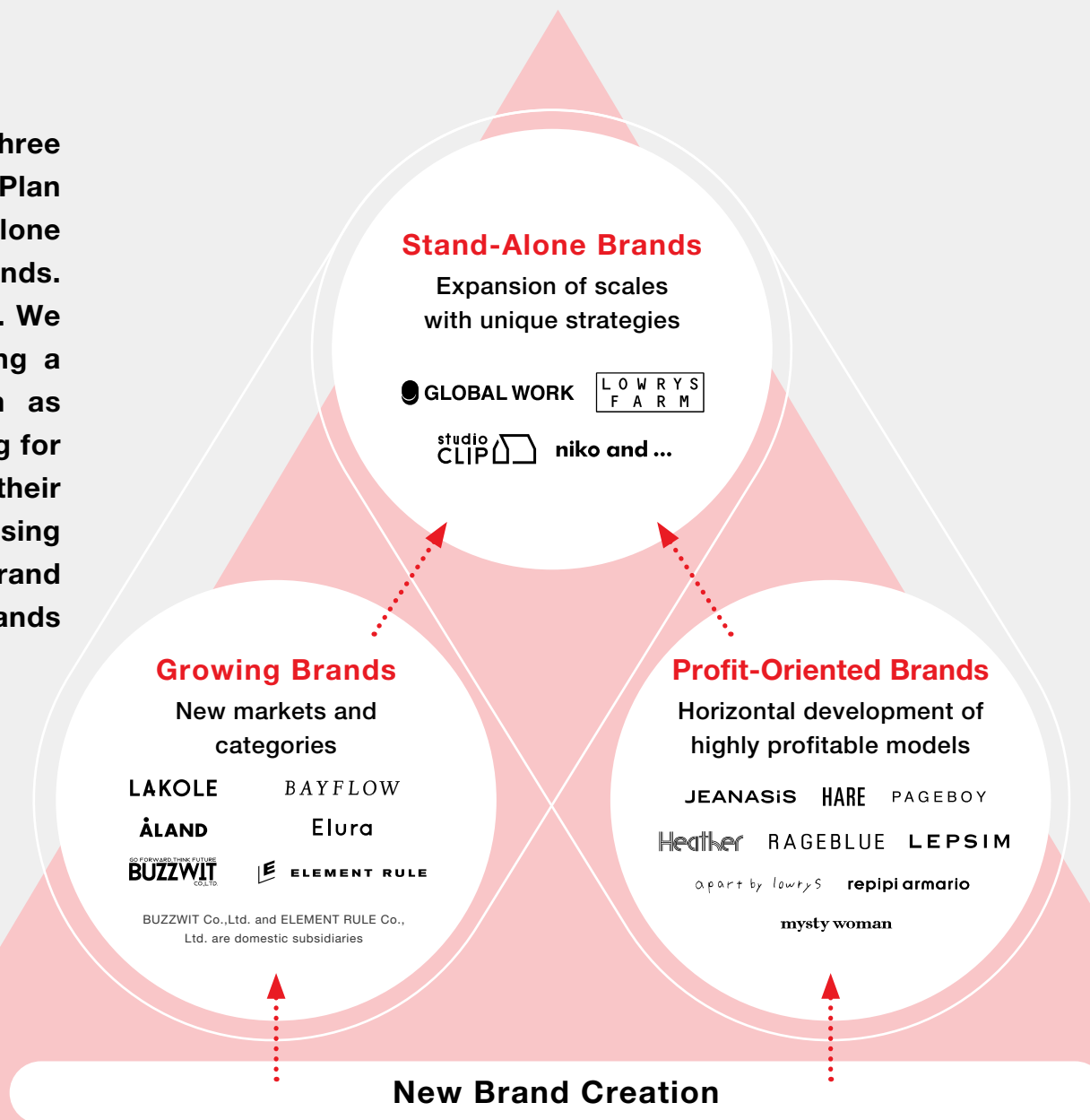
In the wake of difficulties in achieving real communications during the COVID-19 pandemic, we feel an urgency to create opportunities to share information online and through other means. These efforts have increased our team cohesiveness not only in fashion, but also in management, and the organization as a whole has become better versed in the numbers of our business. We established a minimum dividend for the period covered by our medium-term management plan to share with the capital markets the confidence we have as a management team in working together to reduce volatility in performance and overcome difficult times. For us to continue to grow, we must invest in DX, overseas operations, M&A, etc., in addition to opening new shops. We intend to create value over the medium to long term by expanding our scale of business, accumulating expertise, and leveraging our team strength to raise the efficiency of our investments.



## Growth Strategy I: Multi-Brand, Multi-Category

### Multi-Brand Platform

We categorize our brands into the following three groups in our Medium-Term Management Plan according to their roles and stages: Stand-Alone Brands, Growing Brands, Profit-Oriented Brands. We formulate strategies tailored to each group. We are constantly cultivating new brands, creating a multi-brand platform that will develop them as profit-oriented and growing brands while aiming for their further success as stand-alone brands as their scale expands. This reduces the risk of passing fashion trends and becoming an out-of-date brand in the fashion business while nurturing brands across our portfolio.



## Growth Strategy I: Multi-Brand, Multi-Category

### Strategy and Progress by Brand

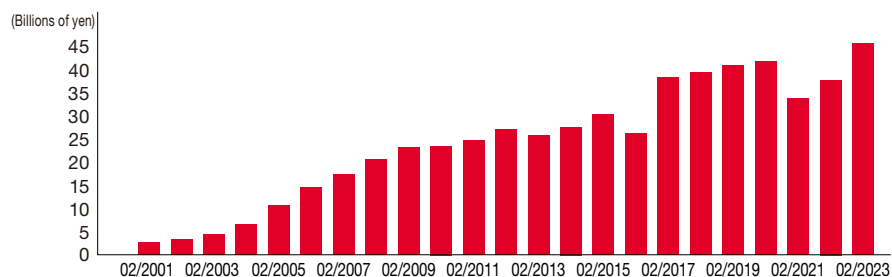
#### Stand-Alone Brands

## GLOBAL WORK

GLOBAL WORK develops multiple mainstay products, differentiated by their materials and functions, that serve as the face of the brand. After product development, GLOBAL WORK further concentrates investments in product promotion, branding the specific products to limit sales fluctuations impacted by trends.



#### Net Sales



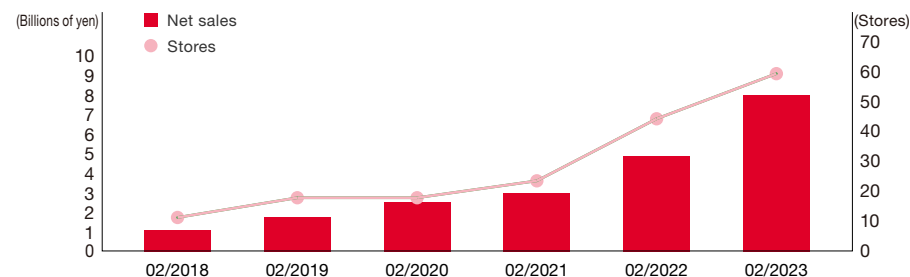
#### Growing Brands

## LAKOLE

LAKOLE is a lifestyle brand that also handles apparel, everyday necessities, and grocery items. Its fashionable and varied miscellaneous goods are popular among both men and women.



#### Net Sales and Stores





## Growth Strategy I: Multi-Brand, Multi-Category

# GROWTH STRATEGY



### A Strong Organization and Employees Who Work for the Customer Are the Source of Growth

Executive Officer, Executive General Manager,  
GLOBAL WORK Division  
Satoru Ota

I joined Adastria in 2016 from another apparel company, and my role in GLOBAL WORK began in 2018. GLOBAL WORK itself is a brand that has been around since 1994. The brand policy was to select main materials and products, focusing in detail on selling larger quantities of a limited selection of outstanding products. When I joined, the brand was at around ¥30 billion in sales, but had reached somewhat of a plateau. When I visited the store in person to see the products that had gradually began selling, I noticed that the products were simply placed on the sales floor without any sales appeal or product explanation. We reasoned that if the product was selling without any particular effort it should sell even better if we could convince customers about the appeal and benefits of the product. So we changed the storefront displays and the name of the product. Sales doubled. Of course, simply changing sales methods is not enough. Our original commitment to manufacturing, materials, and product strength

is what made this success possible. We made the most of our strengths by abandoning the assumption that good products sell because they are good products, returning to the concept of finding the benefits that the product has for the customer.

To this end, we reviewed communications throughout the organization to achieve our sales strategy. When I arrived at GLOBAL WORK, I found very capable personnel in terms of merchandising, brand messaging, store promotions, and management. But I felt there was an unfortunate weakness in cross-department connections. By changing our traditional approach and adopting a method in which everyone works together to create a strategy, we now create compelling products from initial concept to final delivery to the customer. Rather than thinking of roles separately—merchandising is in charge of the product, sales is in charge of the sales floor, etc.—team members think from upstream to downstream, gaining a greater sense of responsibility and initiative. We find

that we receive more feedback about the product from the front lines as well. We designed STAFF BOARD to not only demonstrate fashionable coordinates, but also provide customers with useful information, including photos of clothes worn by store staff members of different heights.

The Japanese apparel market itself is not a growing market. But we can continue to grow by being the provider of choice by customers. Customers these days have a strong desire to shop wisely and not feel like they wasted money. We think that customers appreciate our commitment to making products that are valuable in comparison to price, products that make the customer feel that they have benefited from the purchase. The challenge with women's fashion, in particular, is the high volatility. A product that sold well the previous year may sell only half as well the next year. GLOBAL WORK products, purchased by repeat customers every year, reduce this risk by establishing strong relationships of trust with the consumer. We intend to nurture product lines of the type that can be chosen every year, including *Utsuku Silhouette*, *Sarasara Relax*, and *Melty Knit*.

We also developed a new business model, *Smile Seed Store*. This is a model for neighborhood shopping centers (NSC) that we have begun to expand into new areas and to new customers. Of course, not all new projects will go according to plan. But we hope to make adjustments while keeping a close eye on the market and our customers. We have not yet developed overseas markets to a great extent, and we know these markets offer potential in the future. We will include these markets as we strive to achieve our goal of ¥100 billion in sales for GLOBAL WORK as a whole.

## Growth Strategy I: Multi-Brand, Multi-Category

# GROWTH STRATEGY

It has been six years since LAKOLE was launched as a strategic brand aimed at linking general merchandise and apparel. While it has been a bumpy road, we are currently on track and in the expansion phase. We initially developed apparel that focused on functionality, such as water repellent and stretchable products. However, prices were too high for a product that offered little in terms of fashion. Our general merchandise core values were not defined in terms of design and price, resulting in the immediate revision of our branding six months after the brand launched. That's when I was put in charge of the brand and have since thoroughly focused on the customers' ease of purchase.

It was difficult for us to produce goods from scratch on our own at that time based on the scale LAKOLE, so we attempted selling purchased products at first. However, when we saw these products on the store shelves, we strongly felt that they would not resonate with our customers. I visited various manufacturers after that to find a general merchandise manufacturer willing to take on production. I discussed our vision and plans for LAKOLE, and persuaded them that, although the brand was still small at the moment, we would grow and need their cooperation. The business partners who believed in us and gave us a chance are the ones supporting LAKOLE today. We solidified the brand's iconic smoky colors and typography, and after replacing 80% of the products within six months, we finally created our current business model. This was a difficult time for brand members, but I

## Using Our Conceptual Abilities to Modify and Make LAKOLE an Engine for Group Growth

Executive General Manager, Second Sales Division  
(Growing Brands In-Charge)

Kiyohisa Inose

believe that this display of making quick judgments and our ability to make modifications is unique to Adastria.

We also established a business model for stores approximately 330m<sup>2</sup> in size, and are in the phase of increasing the number of stores. One strength of LAKOLE is that it can accommodate a more diverse range of locations than fashion-centric brands. Nevertheless, I believe that we will see a ceiling on the scale of sales at around ¥25-¥30 billion with our current stores specifications. On my end, I am developing a plan for LAKOLE to become a ¥100 billion brand. As such, I aim to expand categories and provide the value of LAKOLE to various aspects of our customers' lives. The grocery lineup we launched last year is part of this plan. We sold furniture and related item at first, but temporarily withdrew during our rebranding process, prioritizing an affordable price range. I believe that LAKOLE can now offer a

different approach, and although nothing is finalized, I have a vision for our sales floor.

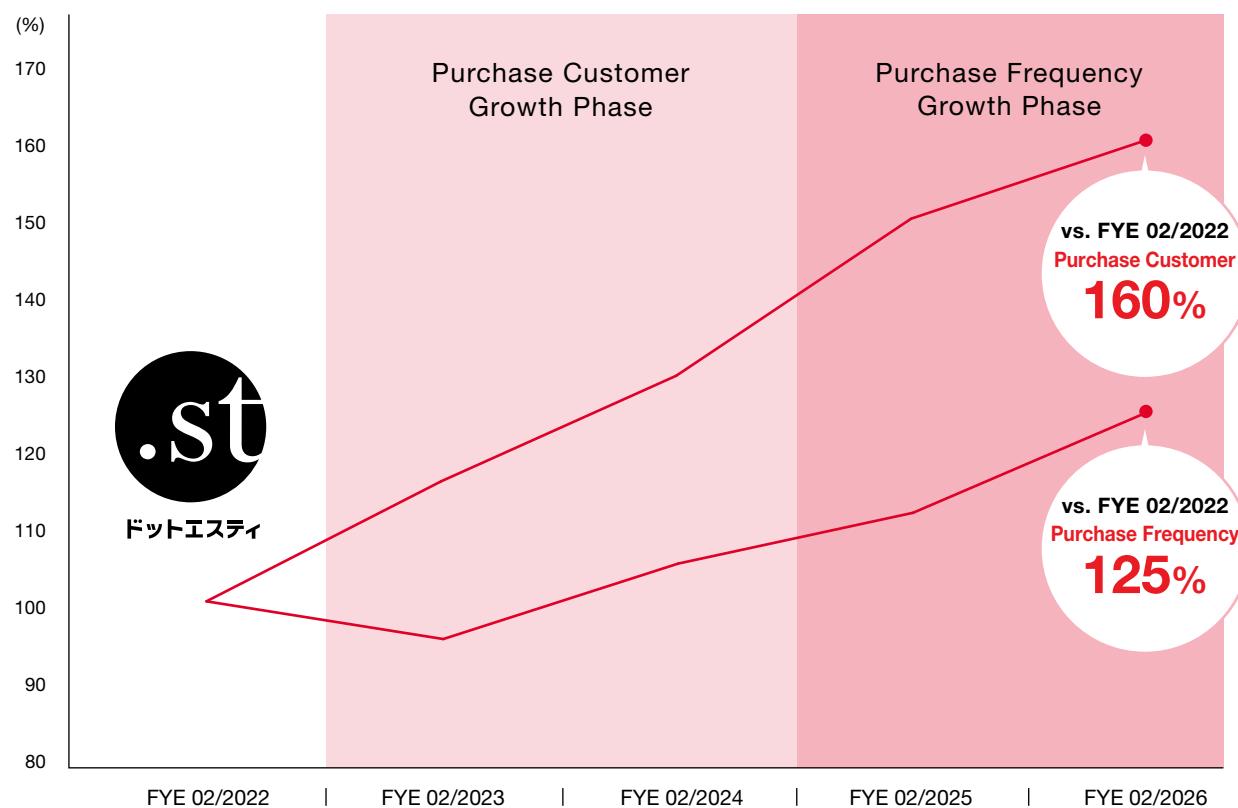
I see great potential for overseas expansion and would like to start as soon as possible. Since LAKOLE is primarily a general merchandise company, expanding our scale is essential to improve profit margins. Investments are currently underway and ahead of schedule. Logistics requires a different kind of scheme than apparel, and I believe we will grow thanks to being a part of Adastria. I personally came to Adastria having only experience at other companies in men's apparel. The mindedness of our company enabled me to take on challenges in fields I had no knowledge of, such as women's apparel and general merchandise brands. It is thanks to this company that I have gained a wide range of experience.

I will continue to dream big and develop LAKOLE into a brand that drives growth in Adastria.



## Growth Strategy II: Digital Customer Interactions and Services

Our own e-commerce site, *Dot ST*, has captured the e-commerce market with more than 16 million members. It is one of the largest privately-owned fashion retailer e-commerce businesses in Japan. *Dot ST* leverages ties with its customers, creating a strong customer base, and pursues further growth through various initiatives. These initiatives include differentiating our business through popular STAFF BOARD content, in which store staff post coordinating fashion items, continuously making functional improvements to the app, and seamlessly integrating e-commerce and physical stores through the opening of OMO stores.



**Expand the scale**  
of our EC business, aiming for  
**¥80 billion**  
in net sales by FYE 02/2026

Increase Number of Customers

×

Increase Number of Purchases

+

Overseas ECs

||

**Make *Dot ST*  
a Major Fashion EC**

## Growth Strategy II: Digital Customer Interactions and Services

# GROWTH STRATEGY



## E-Commerce as a People-Centric Entertainment Community

Executive Officer, Executive General Manager, Marketing Division

Junichi Tanaka

I have been in charge of e-commerce for 10 years, and the role of e-commerce has continued to change in dramatic ways. Today, e-commerce is more than just a place to buy goods. It's more than a channel to sell goods. E-commerce offers us the potential to improve communications and provide services even after the sale of an article of clothing. E-commerce is a marketing tool to understand customers better through the data. Our goal in this context is to transform from e-commerce into an exciting entertainment community. Adastria is unique in that we are open to other companies to sell their products

through our e-commerce site, *Dot ST*. STAFF BOARD is a tool for staff members to communicate to the customer, and will become increasingly a center of our strategy, as we seek to incorporate human resources into media and content.

As one specific initiative, we created a mechanism to support staff members in their communications with customers to make the most of our people, who are, after all, the most important content we have. For example, we provide support for staff involved in STAFF BOARD through a revised incentive program based on social media followers, new data

analysis tools specific to social media, and expanded training. It is important that all three of these pillars are in place and functioning. Even if we raise the reward for participation, we cannot provide training without proper analysis, and we cannot communicate effectively with customers without proper training. Our company has roughly 8 million followers across social media, consisting of more than 5 million followers of our brands and 3 million followers of our staff members. Within three months of launching this policy, the number of staff member followers increased to 840,000.

These direct connections between staff and customers through social networking and other means are about more than increasing e-commerce sales. These connections also increase the number of brand fans and traffic at brick-and-mortar stores. Many customers come to our physical stores after seeing e-commerce and social media sites. These customers do not

## Growth Strategy II: Digital Customer Interactions and Services

# GROWTH STRATEGY

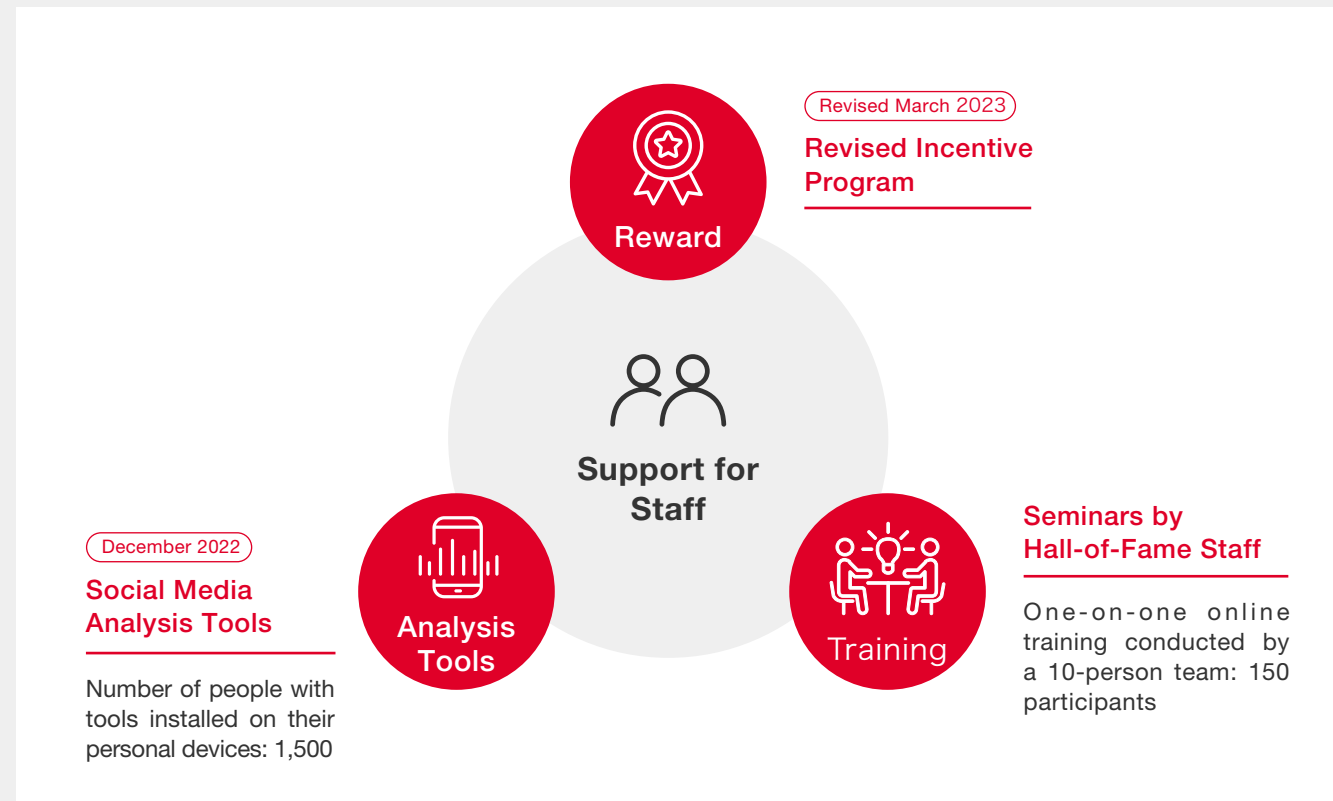
necessarily have to buy products online for our e-commerce program to be successful. Once again, our digital strategy is to increase the number of customer interactions, and e-commerce and social media serve as tools for this purpose. Adastria owns solid points of customer interactions in the form of brick-and-mortar stores, and it is important to extend these points of contact through e-commerce while enhancing the quality of interaction at the same time. We believe that we should optimize this strategy across the company as a whole, not limited to e-commerce or CVR.

So how do we define *Dot ST* if it's not just a place to purchase goods? In my opinion, *Dot ST* is a place for interactions: people-to-people, people-to-products and services, and people-to-brands. And the most important thing is that we offer fun and excitement. At the same time, if staff members participating in STAFF BOARD do not enjoy themselves, they won't create positive content enjoyable for customers. STAFF BOARD members must participate through motivation beyond a job and paycheck. At present, Adastria stores and e-commerce account for about 70% of member sales. This high figure represents the fact that staff and customers enjoy building connections. Having fun is part of the Adastria corporate culture. Many staff members are motivated by customer feedback about how useful staff content is, how

much followers depend on staff opinions, etc. And as a result, business numbers increase. Our challenge in the future will be how to scale without disrupting these strong communities.

In terms of data utilization, we have already seen some successes in product development based on feedback through e-commerce. Examples include the *Utsuku Silhouette Pants*. As a next step, we want to improve the accuracy of personalization in the *Dot ST* app. As the number of brands and merchandise increases, customers become stressed due to information

overload; finding what they want becomes too difficult. On the other hand, helping customers find what they want immediately may sacrifice the pleasure of shopping, of chance encounters. We will try to strike a balance, personalizing the experience in the most enjoyable way possible. When we consider e-commerce as media and community, we see a future of many other functions and services. And we will give shape to these ideas over time, aiming to engage in a digital strategy uniquely Adastria for creating Good Communities.



## Growth Strategy II: Digital Customer Interactions and Services

# GROWTH STRATEGY

### Our EC Strengths

One of the strengths of the Adastria in-house e-commerce site *Dot ST* is its STAFF BOARD content, where store staff post coordination suggestions. More than 4,000 staff members nationwide post photos and videos of their coordinated outfits every day. As members of our in-house e-commerce site often register at our in-person stores, we have built a loyal membership organization through the customer service provided by our staff.



### Conveying Our Passion to Our Customers

Promotion Director,  
PAGEBOY Sales Division

Hinechi



As the promotion director of PAGEBOY, I post information through my personal Instagram, WEAR, Youtube, TikTok, and STAFF BOARD. I feel that communicating through one's own words and emotions on a personal account is more effective in increasing customer engagement and creating deeper connections than posting on an official brand account. I am also involved in internal staff development and urge staff members to post what they really like on their social networking sites. Customers today are more likely to make decisions based on the person posting rather than on

the brand. If a staff member is reluctant to post on SNS as part of their job, it becomes obvious in their posts. I believe that when staff members wear what they like and enjoy themselves in their own way, it attracts customers and appeals to the brand, regardless of the brand's policy. I originally joined PAGEBOY as a part-time employee. Under the kind guidance of senior staff members, I learned the joy of interacting with customers. I began to send out messages through blogs and other means with the sole desire to meet as many customers as possible and convey the appeal of

our brand. We are able to connect with customers all over Japan through the Internet that we would not be able to meet in our actual stores. Even now that many customers can watch our InstaLive, our customer service experience in stores has been a great help. We highly value the feelings and comments of each customer. Adastria is a company that listens to the front-line and gives them the freedom to try what they want to do. I expect that we will continue to develop staff who can have fun while building a community with our customers.

## Growth Strategy II: Digital Customer Interactions and Services

### Progress on Our Strategy to Open In-House EC Platforms

As one measure for EC growth, Adastria is advancing a mall-type business by handling outside merchandise as a way of opening our platform. The participation of leading companies in each category leads to the acquisition of new customers and mutual customer transfers. In addition, popular staff members have begun to sell collaborative products and staff from other companies have begun to contribute to the STAFF BOARD.

サマシカワシ



siroca



YAMAN



靴下屋  
produced by Tabio



Fruit GATHERING  
For Your Fruitful Life



Oriental Traffic



### Foundation for Growth in the Digital Sector

#### Mechanization of Ibaraki West EC Logistics Center

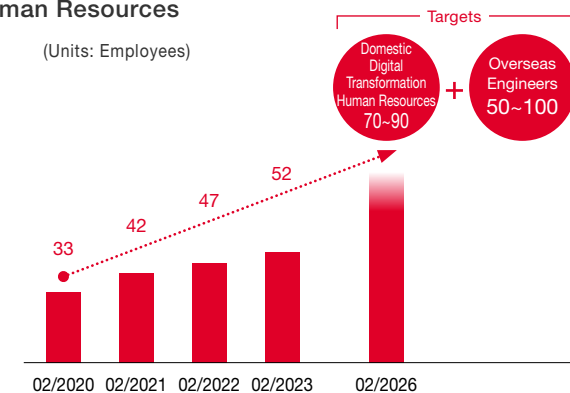
Adastria mechanized the Ibaraki West EC Logistics Center to ensure shipping capacity (up to 34,000 shipments/day) to meet our target of ¥80 billion in EC sales. Optimization of the cargo structure has reduced annual logistics costs by approximately ¥200 million. Floor efficiency also improved floor space for EC from approximately 14,876m<sup>2</sup> to 19,835m<sup>2</sup>. We introduced robots to cope with future labor shortages.



#### Securing Digital Human Resources

Adastria aims to secure 70-90 domestic digital transformation personnel and 50-100 overseas engineers in the fiscal year ending February 2026 to advance EC expansion and business digitalization.

(Units: Employees)



## Director Message

## DIRECTOR MESSAGE

## Resonating With the Characteristics of Each Area to Create Beloved Brands

Managing Director,  
Sales and Overseas Business In-Charge

### Yoshiaki Kitamura

in a proactive stance that has led to growth. Advancements in remote work have also been a tailwind, and the close cooperation between the Japanese brand divisions and local subsidiaries has accelerated our store of expertise in overseas markets. The U.S. market continues to do well, especially in the wholesale business. Although businesses in the U.S. market grow chiefly through trade shows, we feel our brands are gaining recognition for design sense and product quality. In April 2023, Adastria opened our first *niko and ...* shop in Thailand. ASEAN is a market with a growing population, young consumers, and a growing demand for fashion. And price acceptance is high enough for Japanese apparel. We will continue to identify the needs of customers to ensure our brands will be loved in every region where we do business.

### Overseas Net Profit for a Second Consecutive Year

The macroeconomic environment in Japan recovered throughout the fiscal year ended February 2023, and demand for clothing to wear outside the home breathed fresh life into the apparel industry as a whole. To that point, however, we continued to invest in our overseas operations, despite the fact that many companies had suspended projects due to

COVID-19. As a result, we consider it a great achievement to post profits in our overseas business for a second consecutive year. Our local staff in Taiwan and Hong Kong are doing a great job, and we have systems in place to generate ongoing profits through autonomous operations. In Taiwan, in particular, fashion tastes are close to those of Japan. A multi-brand strategy has proven effective there, and our local subsidiary continues to propose new brand stores



## Director Message

# DIRECTOR MESSAGE

### Continuing to Refine Operations in the Chinese Market

Now operating 13 shops, our market areas in mainland China have expanded to Shanghai, Chengdu, and Chongqing. In Shanghai, we aim to create a flagship store dominant model under which we establish brands at flagships and build revenues through satellite shops. We plan to continue to open more shops in other leading cities in the future. We plan to drive traffic to our e-commerce site by building brand recognition through flagship shops, which attract numerous customers *niko and ...*, which we are expanding currently in mainland China, is a lifestyle brand. We believe this brand will also attract consumer interest in the Chinese market. While the product categories are broad and time-consuming, they fit our strategy of increasing brand awareness in a given area as we can create a brand worldview in a large-format shop. Last year was difficult in Shanghai due to the lockdowns and the continuation of the Zero-COVID policy. At the same time, our satellite shops and shops in Chengdu and Chongqing opened during the pandemic, so we have yet to determine the full extent of their potential. This year will be a period to assess profitability under a normalized economy, as well as optimize shop openings and operations. Mainland China is enormous, with Chengdu being a four-hour flight from Shanghai. Each city has a different climate and preferences, so we must adapt to each region. We intend to create shops and products that

appeal to local customers while strengthening cooperation with external partners through collaborative products with Japanese IP (anime characters, etc.) popular in mainland China.

### Investing in Logistics and Systems to Support Growth

In mainland China, we are not only opening new shops, but also investing in logistics and IT systems. We use the SES Logistics system to manufacture and stockpile products in mainland China for direct shipping to various countries. This system offers greater accuracy in inventory management and reduces missed sales. The online mall market is very important in mainland China. Here, we are working to increase sales channels through a system to manage inventory centrally for posting on online malls. In other areas,

such as Taiwan and Hong Kong, we have built our own online shops and point systems, seeing rapid online sales growth, particularly in Taiwan. While certain areas of business in mainland China have encountered delays compared to our medium-term management plan due to COVID-19, we see our current plan as a waypoint for the overseas business, and we will continue to invest in future growth. Adastria has spent significant time engaging seriously with overseas business. And through our experiences, we have earned proficiencies leading to profitability in certain markets. Our Taiwanese subsidiary will celebrate its 20th anniversary this year. In addition, we believe there is still room to leverage our expertise for growth in new countries. I encourage you to look forward to accelerated growth in Adastria's overseas businesses.



## Growth Strategy III: Glocal

# GROWTH STRATEGY



## Continuing to Take on Challenges and Adapt to the Post-COVID-19 World

Velvet, LLC CEO

**Henry Hirschowitz**

We have a strong set of principles, such as honesty, integrity, loyalty, teamwork, and a commitment to excellence. These are our family values. We strive to create a sense of community and belonging amongst our employees. We have achieved high quality and our wholesale return rate has consistently been below 1.5% for more than 20 years, which is way below industry standard in the USA. In addition, we have a good reputation for sustainability. As we use a lot of

sustainable materials, we minimize waste and maximize workers conditions in the production process. Our brand has stayed ahead of the curve attracting customers looking for new and exciting things.

We have adopted some strategies to recover from the pandemic, such as accelerating digital transformation, embracing remote work and focusing on customer experience. We have diversified our supply chains to reduce

the dependence on any one supplier or region. We are pursuing lower prices with suppliers and contractors in order to reduce expenses. We have invested in an employee well-being program that includes free mental health support, flexible work arrangements when needed, and paid time off. We face a unique challenge now that we are foreign owned. We have not been eligible for as much State and Federal financial assistance as before. This means we need a more aggressive growth strategy.

Post-pandemic consumer behavior, to maintain the increase in online shopping with the end of the pandemics, brands need to be adjusted to adapt to the new normal. Supply Chain disruptions: With shortages and delays, we need to find new ways to manage supply chains and control inventory.

Sustainability pressures: Consumers are becoming more interested in the environment, so we will need better sustainable practices. Labor shortages: We will need to focus more on retaining employees, especially in key departments such as sample sewing, pattern makers, e-commerce, and design.

Economic uncertainty: Increased interest rates will create a need for more conservative approach to seasonal orders. We believe in the products and the niche created across three divisions—wholesale, retail, and online. Despite challenges, we have strong teamwork and partner relationships which will help us overcome them.

## Growth Strategy III: Glocal

Overseas, we aim to achieve growth through strategies tailored to the characteristics of each area.

Region	Strategy	Initiatives for the Current Fiscal Year	
Greater China	<b>Mainland China</b>	In order to align ourselves with the characteristics of this large and highly competitive market, we aim to establish a Flagship Dominant Strategy model, in which we first invest in a large flagship store to establish the brand, and then work with neighboring stores to generate profits in the area. We aim to both expand e-commerce sales and operating areas going forward.	<ul style="list-style-type: none"> <li>• Continue entering first-tier and nearly first-tier cities</li> <li>• Expand e-commerce sales channels</li> </ul>
	<b>Taiwan</b>	Taiwan, like Japan, is a market suited to a multi-brand strategy, and we plan to accelerate store openings by selecting brands that have not yet opened stores in Taiwan and that have yielded favorable responses in market surveys. We have also been upgrading our systems for growth and have begun utilizing STAFF BOARD.	<ul style="list-style-type: none"> <li>• Plan to open 22 new stores</li> </ul>
	<b>Hong Kong</b>	In Hong Kong, we are increasing profitability by effectively managing local staff operations and optimizing the current store network. In addition, we newly launched our own e-commerce site, <i>Dot ST</i> , and started e-commerce development. In cooperation with a logistics subsidiary established in mainland China, we are building an inventory-free e-commerce system that delivers goods from mainland China without keeping inventory in Hong Kong.	<ul style="list-style-type: none"> <li>• Continue to scrap and build</li> <li>• Expand number of in-house e-commerce brands</li> </ul>
<b>U.S.</b>	American company Velvet, LLC., acquired by Adastia, has been performing well. Velvet's engagement has boosted our product appeal, and our sharing of e-commerce expertise and enhancing of web marketing has increased the e-commerce rate.	<ul style="list-style-type: none"> <li>• Sustain growth in wholesale business and acquire large customers</li> <li>• Expand direct management business</li> </ul>	
<b>Southeast Asia</b>	In Southeast Asia, we are preparing to open stores first in Thailand and then in the Philippines. Additionally, since there is not yet an oligopoly in the clothing e-commerce market, we are hurrying to establish e-commerce with the intention of establishing a mall presence.	<ul style="list-style-type: none"> <li>• Open first <i>niko and ...</i> store in April in Thailand</li> <li>• Prepare to open stores in the Philippines</li> </ul>	

## Growth Strategy IV: New Businesses

### Expanding BtoB

At Adastria, we are leveraging the strengths of our value chain, including planning, production, and store development in our BtoB business, which we are proactively expanding. We have established a new Corporate Sales Department under the direct supervision of directors to create new businesses in collaboration with each department, using this as a new career path for highly experienced employees.

#### Residential IP Licensing Business

Within the housing business, we have launched licensing sales of new detached houses produced by our brand *niko and ...*, in cooperation with Lib Service Corporation.



#### Rebranding GMS Clothing Departments

In collaboration with Izumi Co., Ltd., an operator of general merchandise stores (GMS), we have taken turnkey responsibility for space production, brand development, and product wholesaling, creating the new SHUCA brand for clothing spaces in GMS stores.



## Growth Strategy IV: New Businesses

# GROWTH STRATEGY

The R&D Division, which I oversee, is responsible for the *fashionability* of Adastria's fashion business. The division consists of two organizations: Creator's Room and Adastria Lifestyle Creation (ALC). The Creator's Room is staffed by designers and brand directors who plan, design, and supervise according to the requirements of each brand.

More than 100 designers, including employees and contract workers, are on staff at any given time. Adastria's strength is that the large number of brands allows us to place designers within the company optimally. Different designers have different sensibilities, which may not always be compatible with a brand. Or, if a designer is reassigned after a few years, they can stay inside the company and continue to develop their career. In the past, Adastria did not have in-house designers. When we established our own production system, we decided to bring design and direction in-house. This has been our organizational structure for about eight years.

ALC provides design production and direction related to household and novelty goods for outside companies upon request. ALC also coordinates brand collaborations with outside companies, serving as a bridge to departments across our company. In this way, we remain true to the brand image while creating new and interesting ways to connect brands and external partners. The concept behind ALC is to provide Adastria design and manufacturing capabilities to outside companies, working together to solve business issues. At first glance, fashion and business may seem to have little in common. But we believe many issues can be

## Maximizing the Power of Fashion to Create New Businesses

Executive Officer,  
Executive General Manager, R&D Division  
**Chiaki Kobayashi**



solved through the power of fashion. Adastria's strengths in this business are our expertise in making products and services attractive to customers and our ability to make and promote any product—from rubber erasers to suits. We receive numerous inquiries, including requests for corporate uniforms and novelty items. A recent example is *niko and ... EDIT HOUSE*, a detached house produced by *niko and...*. The project was covered widely in the media. We take on the challenge of creating new businesses by leveraging brand IP with Adastria's manufacturing capabilities, capable of producing everything from furniture to sundries.

The R&D Division also plays the role of laboratory, collecting fashion trend information from around the world

and communicating to each brand. We create proposals on how to make the best use of original materials developed by production departments in the design of excellent apparel. We are also responsible for IP management to encourage the use of textiles throughout the company. The R&D Division also plays a role in giving advice on brand direction from a brand portfolio-wide perspective. To grow Adastria's brand portfolio in the future, we must expand the scale of each brand, striving to produce several ¥50 billion brands. The significance of the R&D Division is that we offer a variety of options in terms of human resources, partner companies, and business models.

## Growth Strategy IV: New Businesses

# GROWTH STRATEGY



### Pioneering the Possibilities of BtoB by Leveraging the Strengths of Experienced Employees

General Manager, Corporate Sales Department

Hisashi Matsui

I began my career working in the old Fukudaya stores, so I have a great deal of experience in apparel. I have served as store manager, area manager, and part of the launch team of the LOWRY'S FARM brand. Eventually, I was put in charge of the branch system, which provides field support in each area, and now I develop BtoB businesses in the Corporate Sales department. The Corporate Sales Department has two missions. One is to create BtoB business models, a new type of business under our medium-term management plan. We offer Adastria's capabilities to external parties, which becomes a new source of revenue. The second mission is to create new career advancement stages by leveraging the

talents of veteran staff who have extensive experience in apparel. As part of our *Next Career Project*, we create systems that allow staff to continue to contribute their abilities at Adastria throughout their lives.

We launch these businesses from scratch, so our first order of business is to approach companies and build relationships. Then, we look for areas in which Adastria can offer our strengths, such as employee uniforms or interior design production. The companies we approached so far have shown interest in our project, and we believe Adastria will be able to create something of great excitement. One of the projects brought to us was a multi-brand display area

inside Izumi, a general merchandiser (GMS). Many GMS companies struggle to attract grocery shoppers to the apparel departments, usually located on the upper floors. This trend is particularly true for customers in their 30s and 40s who are relatively young and tend to not purchase clothing at these facilities. Due to the large number of SKUs and the division of labor between merchandising and sales, GMS find it challenging to build expertise in apparel product development and sales methods. We believe that Adastria, with our brand management expertise and a value chain cultivated through multiple brands and SPA\*, is the best partner to solve GMS issues.

Adastria has always had the strong desire to elevate the fashion market as a whole, rather than simply seeking profits for ourselves. Our current medium-term management plan includes the idea of being a *company that co-creates good companies*. Our BtoB initiative embodies this idea as we strive to make customers happy in markets and regions we have not addressed historically. Many in the Corporate Sales Department have extensive experience in apparel sales and merchandising, but are experiencing BtoB for the first time. Once they experience how our expertise is useful to and appreciated by our clients, these professionals gain an incredible sense of reward and motivation for the next challenge. Our clients have many uncovered needs for value-added fashion solutions. We desire to continue working with a variety of companies, expanding the circle of *Play fashion!*

\*SPA: Specialty store retailer of private label apparel



# ESG

Adastria ESG

## ESG Dialogue

# Pursuing Sustainability Management Through Exciting Initiatives

Outside Director **Hiromi Horie**

HIROMI HORIE



Director **Taiki Fukuda**

TAIKI FUKUDA

ability to make course corrections. I am always amazed at the speed with which the company tries new ideas, makes decisions, and corrects course as they learn.

## What is your assessment of the activities carried out in fiscal 2022?

**Fukuda:** Fiscal year ended February 2022 was a year of significant progress in our sustainability efforts. On the environmental front, in particular, we calculated CO<sub>2</sub> emissions throughout the entire supply chain included Scope 3 in our domestic fashion business, supporting our goal of carbon neutrality by 2050. We also believe our company took a major step forward in addressing environmental issues by endorsing the TCFD and disclosing information based on TCFD recommendations.

**Horie:** Society demands sustainability, and sustainability is a topic increasingly covered by the media. As long as Adastria continues to do business, the company will need to face this issue. Defining materialities was an enormous step for

Adastria, as was assessing the current situation, setting specific goals, and establishing clear steps toward dealing with the materialities. I also think announcing their commitment to these goals to society reflected well on the company. When the larger companies show a positive attitude toward sustainability, the fashion industry and society as a whole move in a positive direction.

**Fukuda:** Yes, that's right. The fashion industry is facing an increasing number of environmental challenges. As a leading company, we continue to engage in sustainable management, disclosing what we have accomplished and what we have not yet achieved.

**Horie:** Yes, Adastria is honest to what they have not achieved. The company admits failures in management meetings and is quick to make decisions. One of Adastria's strengths is its

## What specific actions has the company taken to achieve sustainability goals?

**Fukuda:** In March 2023, we established the Sustainability Committee to strengthen governance and expand the group-wide sustainability implementation structure. Every two weeks, top management from all related divisions, including sales, production, logistics, and administration, report on progress toward sustainability targets and discuss solutions. This committee, which serves as an advisory body to the Board of Directors, has put us in a position to pursue ESG policies with vigor.

**Horie:** Establishing a committee that supports management in engaging in business with an awareness of ESG policies should be a plus for ESG management at Adastria.

**Fukuda:** 2023 will be a phase of implementing steps toward our goal. For example, our goal to switch at least half of all





**Horie:** As expressed in the corporate philosophy, Adastria has valued people even before the term human capital became commonplace. No matter how admirable the plans and goals of a company may be, it is the people who are responsible for the success of those plans and goals. From my experience, I believe everything else is meaningless unless we care for and motivate the people who do the actual work.

**Fukuda:** Ms. Horie also boosts the morale of those in attendance at board meetings. She adds opinions from a fresh perspective, which makes the discussion livelier and creates a naturally positive atmosphere.

**Horie:** I feel that the freedom to speak up and the acceptance of diverse opinions is what makes Adastria unique. A culture that respects one's presence and opinions provides motivation and encourages organizational diversity, which leads to growth.

**Fukuda:** I agree that the environment encourages and accepts diverse opinions. One issue, however, is that our sustainability materiality of women in management positions has remained unchanged. We continue to dialogue with top management in each department to create an environment in which women play an even more active role.

### What is unique to Adastria's sustainability management?

**Fukuda:** We want to continue pursuing sustainability management through exciting initiatives. We value sensibilities that reflect cool, fun, interesting, and uplifting. At the same time, we want to create an environment of carbon neutrality, sustainable production, and employees being themselves. That's the path I hope to see us walk.

**Horie:** Many may feel that environmental issues, SDGs, and ESG policies are important, but not immediately relevant to themselves. Implementing sustainability management at Adastria consistently should lead to a deeper understanding of sustainability in society as a whole.

products to environmentally and socially conscious raw materials and processing by 2030 is an issue directly related to business value. The key to achieving this goal will be sustainable materials, which the Production Division is developing in-house, and the use of these materials across products of multiple brands. These materials will help us offer high-value-added products at affordable prices, enhancing profitability and contributing to CO<sub>2</sub> reductions at the same time. As of February 2023, about 15% of our products have been awarded the Sustainable Mark, so we are still about 35% short of the target. The Sustainability Committee constantly tracks and discusses the numbers to close this gap.

### What are your thoughts on human capital management?

**Fukuda:** The Adastria corporate philosophy is *Be a Person Needed, Be a Company Needed*. We strive to create spaces where all stakeholders can be fulfilled and happy, served by our approximately 5,000 employees who work energetically along their own career paths. In 2022, we were selected as a *Nadeshiko Brand FY2021* for the first time, and last year, we were recognized as a *Certified Health and Productivity Management Organization*. We are seeing the results of our efforts over the past few years.

**Fukuda:** Perhaps our strength is our ability to practice sustainability that involves all of our stakeholders.

**Horie:** Our *Rebag Project* encourages customers to enjoy using their own bags as a fashion statement and work together to reduce the number of shopping bags in use. This is one example of an activity that relies on the involvement of customers. Any disagreements between a company's public statements and efforts on the ground are called out immediately in this era of social media. Another Adastria strength is that the company takes concrete action to prove that it means what it says.

**Fukuda:** By working on sustainability in exciting ways, we make our customers happy and raise awareness of sustainability in society. This is the type of cycle we aspire to create.

**Horie:** Yes, that's right. The mission *Play fashion!* is exciting in all aspects. I hope that the company keeps the *Play fashion!* spirit as it pursues sustainability management.

**Fukuda:** The *Play fashion! spirit*. That's good! The Latin phrase, *per aspera adastra* (overcome difficulties and attain glory), is the origin of our company name. And we will continue to produce results by bringing Adastria's youthfulness, ability to break through, and willingness to make course corrections to bear.



## Approach to Sustainability

### Sustainability Policy

# Taking the Excitement of Fashion Into the Future

**Fashion has the power to make every day a positive one. We strive to ensure that fashion will excite us all for years to come. Let's have fun and begin where we can, for the sake of the environment, humankind, and our communities. Having fun is the best way to keep moving forward.**



### Sustainability Committee

The Adastria Group Sustainability Policy calls for Taking the Excitement of Fashion Into the Future. In accordance with this policy, we consider sustainability initiatives to be an important management issue. Through our business activities, we will take on the challenge of solving global issues and help bring about a sustainable society and economic growth. As part of these efforts, the Adastria Group established a new Sustainability Committee on March 1, 2023, aiming to further strengthen our pursuit of strategies in non-financial areas within the Board of Directors. The committee will faithfully respond to the trust and expectations of stakeholders by focusing on identifying materialities related to the medium-term management plan and fundamental business policies, as well as on appropriately disclosing information. The Sustainability Committee sets sustainability policies, medium- to long-

term goals, as well as manages progress on identified materialities. Additionally, the committee reports to and advises the Board of Directors and the Executive Committee, strengthening the group implementation systems and enhancing corporate value.



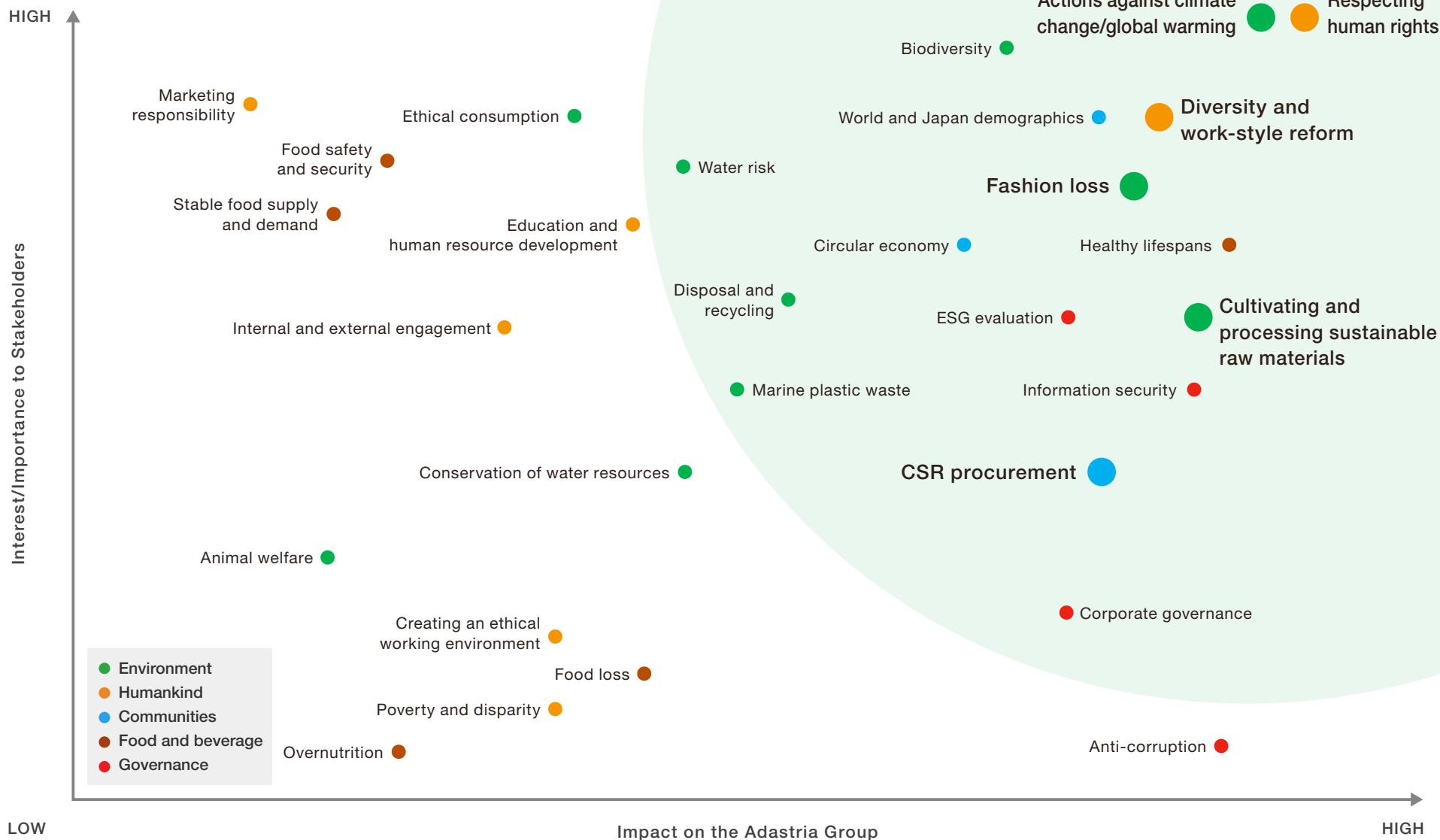
### Endorsement of the United Nations Global Compact (UNGC)

We endorse the United Nations Global Compact (UNGC), the world's largest sustainability initiative, in which the United Nations and private companies and organizations work together to build a healthy global society. We will act in compliance with UNGC's 10 principles in the four areas of human rights, labor, environment, and anti-corruption, working to resolve social issues through our business activities.



# ESG Materialities

## Mapping for Co-Creating Good Community






## Materialities and Targets

Society faces many challenges, such as climate change and demographic change, that we must face in order to continue our business. We have analyzed these issues in terms of both their importance to society and their relevance to our business, and established materialities (important issues). Based on these materialities, we have revised the Group policies and targets for key themes as follows.

### Materialities and Initiative Progress

#### ▶ Materialities (Important Issues) Formulation Process

Materialities	Vision	Group Policy	Target	Progress Level	Major Progress/Achievements
 <b>Reduce the environmental impact of our business and make the world of fashion sustainable</b> Protect the Environment	Engage in manufacturing that leads to the future	Switch to sustainable raw materials and processing	Switch to sustainable raw materials and processing for at least half of all products by 2030	★★	<ul style="list-style-type: none"> <li>Promoted our original sustainability mark, reaching 111% use versus the previous year</li> <li>Encouraged the development of proprietary sustainable materials in in-house production departments (seven types as of February 28, 2023)</li> </ul>
	Balance environmental considerations with sales activities	Reduce and absorb CO <sub>2</sub> emissions	Achieve carbon neutrality by 2050	★★★★	<ul style="list-style-type: none"> <li>Identified Scope 1, 2, and 3 emissions on a consolidated Group basis</li> <li>Disclosed framework in line with TCFD recommendations, financial impact assessment</li> </ul>
	Create a world without fashion loss	Zero clothing incineration	Eliminate incineration of clothing inventory	★★★★	<ul style="list-style-type: none"> <li>Maintaining zero incineration of leftover clothing inventory</li> <li>Permanent collection activities at stores expanded to approximately 170 stores, with 32 tons collected</li> </ul>
 <b>Create an environment where customers, employees, and others look forward to each new day</b> Encourage People to Shine	A society in which people enjoy fashion in their own way	Suggest fashion for the enjoyment of each individual	—		
	Be an organization that is healthy mentally and physically, encouraging employees in their individuality and ability	Create diverse and rewarding work environments	Ensure 30% of senior management positions are filled by women by 2025, and raise the ratio of women in management positions to 45% or more	★★	<ul style="list-style-type: none"> <li>Ratio of female senior managers: 17.7%</li> <li>Ratio of female managers: 33.8%</li> <li>Female leadership candidates participated in management meetings</li> </ul>
	Foster employee well-being	Foster employee well-being	Become a White 500 Certified Health & Productivity Management Outstanding Company	★★★★	<ul style="list-style-type: none"> <li>Issued the Health Management Declaration for internal and external stakeholders</li> <li>Become a Certified Health &amp; Productivity Management Outstanding Company</li> </ul>
 <b>Create new value in collaboration with communities</b> Grow Together with Communities	Revitalize the communities surrounding our stores	Connect with communities through fashion	—		
	Foster sustainable development in production areas	Fair and ethical procurement	Advance partnership certifications for production plants by 2023	★★	<ul style="list-style-type: none"> <li>30 partnership certified factories</li> </ul>

## Initiatives for Materialities



Protect the Environment

### Engage in Manufacturing That Leads to the Future

To engage in manufacturing that leads to the future is an essential concept for us when devising products. We are committed to pursuing sustainability in our manufacturing, paying particular attention to the materials and processing methods of our products. Our Group Sourcing Policy and Guidelines state the necessity of reducing environmental impact and preventing pollution. We are committed to balancing sustainable business growth and reduction of environmental impact over the medium to long term by taking a bird's eye view of the entire supply chain.

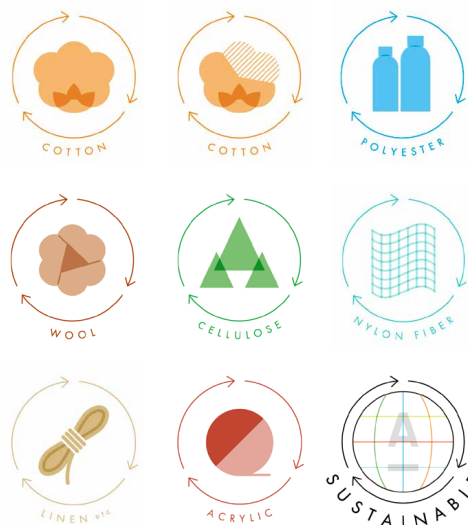
#### Introduction of Materials With Low Environmental Impact

We have established our own sustainability definition and criteria for key materials we handle. For frequently used materials, products that meet these criteria are sold with an original mark on the product tag. As of fiscal year ended February 2022, we have reached 15.1% of products bearing this mark overall. We will continue to actively introduce materials and processes with less environmental impact with the aim of switching to environmentally and socially conscious raw materials and processing for more than half of all products by 2030.



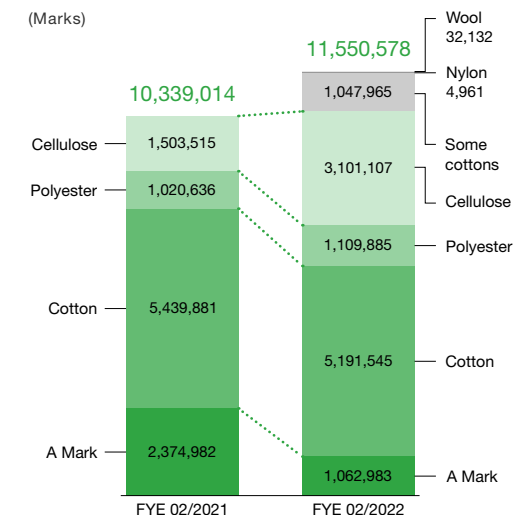
▶ Other Adastria-developed materials

#### Material Sustainable Marks



#### Sustainable Marks Granted

\*Target: All products by domestic Group companies



## VOICE Adastria's Unique Strengths and Future in Materials Development

The launch of the Materials Development Department in April 2021 created two benefits. The first benefit is that it lubricates processes within the company, shortening the distance between production, marketing, branding, and sales departments and strengthening their cooperation. This has enabled us to directly absorb market needs and develop products in a timely and speedy manner. This second benefit comes from its qualities as a group of specialized professionals. Our

colleagues in the Material Development Department have a wealth of specialized knowledge. This collection of experts in their respective fields has allowed us to understand what needs to be changed and what needs to be done to release products that embody the fashion required today while maintaining the individuality of each brand, and to implement improvements. We believe that cost and sustainability will be essential elements in the selection of materials for our business

in the future. Given this belief, we will build a robust supply chain by decentralizing and diversifying raw material production sites and production plants so that we can provide customers with reasonably priced, socially and environmentally friendly products in a stable manner while using high-quality materials, while comprehensively taking factors such as quality, quantity, and price into consideration.



Naoki Nakamura,  
General Manager, Materials Development  
Department, Production Division

## Initiatives for Materialities



ENVIRONMENT  
Protect  
the Environment

### Balance Environmental Considerations With Sales Activities

We believe that understanding the risks and opportunities that could affect our business activities, such as the occurrence of extreme weather events attributed to climate change or the disruption of supply chains due to natural disasters, and implementing countermeasures accordingly will enhance the resilience of our management base. At the same time, we will promote sustainable management that balances business growth and environmental considerations by recognizing the impact of climate change on our business and appropriately disclosing information to our stakeholders.

#### Achieve Carbon Neutrality by 2050

We support the goals of the Paris Agreement and aim to achieve carbon neutrality by 2050. Global warming is not only a global issue, but also one of the most important risks to our business, given that it threatens soaring raw material prices and supply chain disruptions caused by large-scale natural disasters. In addition to taking actions

such as introducing LED lighting and installing solar power generation systems, we will incorporate greenhouse gas emission reduction plans and measures into our management plans based on our understanding of emissions throughout our own and other supply chains.

#### Transition Risks

<b>Category</b>	Carbon Pricing System	<b>Timeline</b>	Medium Term
<b>Financial Impact</b>	Increased indirect expenses	<b>Possibility</b>	High
<b>Impact on Business</b>	The rising cost of fossil fuel procurement may cause increased expenses in production, logistics, store operations, etc. If a carbon tax were to be imposed on our current store operation Scope 1 and 2 emissions, the total financial impact of store emissions would be $27.19\text{t-CO}_2 \times \$120/\text{t} = \$3,263,040$ , or a potential cost increase impact of between ¥300 million and ¥400 million.		
<b>2°C</b>	¥300 million to ¥400 million (annual)	<b>4°C</b>	Assumes no carbon tax will be introduced

\*Calculation assumptions: \$120/ t-CO<sub>2</sub> (Estimated from the IEA World Energy Outlook2021) as of 2030

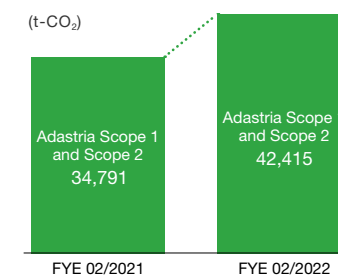
#### Physical Risks

<b>Category</b>	Flooding	<b>Timeline</b>	Short Term
<b>Financial Impact</b>	Decreased sales due to store closures	<b>Possibility</b>	High
<b>Impact on Business</b>	Unavoidable store closures due to flooding and other inundation risks caused by climate change may reduce sales. Three stores in Fukuyama, Tottori, and Hiratsuka experienced shortened operating hours due to heavy rainfall in fiscal year ending February 2021. According to flood hazard maps for the areas, flooding is expected to occur around these stores at between 0.5 and 3 meters. In the case that the areas flood, they will be forced to close for up to a total of 67.6 days, which could have an impact of ¥27 million on sales. The flooding frequency in Japan is expected to quadruple if climate change progresses, which could cause an impact of ¥108 million.		
<b>2°C</b>	¥59 million	<b>4°C</b>	¥108 million

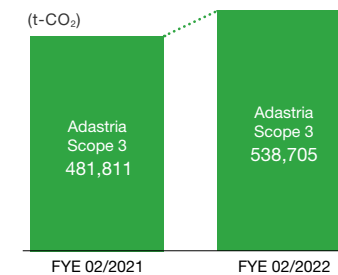
\*Calculation assumptions: We used data from actual stores flooded in FY2021 to estimate values based on hazard maps and the Flood Control Economic Survey Manual, published by the Ministry of Land, Infrastructure, Transport and Tourism.

#### CO<sub>2</sub> Emissions by Scope (t-CO<sub>2</sub>)

##### CO<sub>2</sub> emissions in our own business (Scope 1 and Scope 2)

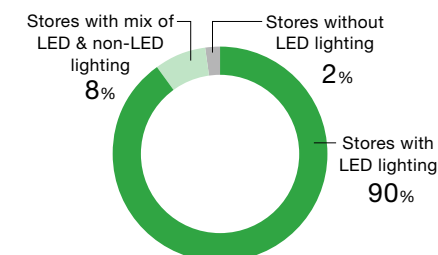


##### CO<sub>2</sub> emissions outside of our own business (Scope 3)



#### Percentage of Stores in Japan With LED Lighting

The use of LED lighting fixtures has reduced CO<sub>2</sub> emissions from lighting fixtures by approximately 57% per year (compared to conventional non-LED lighting fixtures).



## Initiatives for Materialities

### Balance Environmental Considerations and Sales Activities

#### On the Financial Impact of Climate Change

We are working to disclose information in accordance with the framework of the Task Force on Climate-related Financial Disclosures (TCFD).



▶ Visit our website for more details

#### Governance

The officer in charge of sustainability regularly reports to the Board of Directors on the impact of climate change and the status of our efforts. The Board of Directors, chaired by the representative director, deliberates and resolves important matters as the highest management decision-making body of the corporate group. We established a new Sustainability Committee in March 2023, aiming to further strengthen our pursuit of

strategies in non-financial areas within the Board of Directors. The Sustainability Committee sets sustainability policy and medium- to long-term goals, as well as manages progress on identified materialities. Additionally, the committee regularly reports to and advises the Board of Directors and the Executive Committee, strengthening the group implementation systems and enhancing corporate value.

#### Strategy

Sustainable business growth requires medium- to long-term strategies aimed at minimizing the financial impact on future business through preventing, mitigating, appropriately managing, and responding to business risks related to climate change. To this end, we have analyzed the risks and opportunities for our merchandise

sales business, which accounts for approximately 90% of our sales. The analysis extended through the year 2050 and incorporated both the 2°C scenario and the 4°C scenario. Beginning in the fiscal year ended February 2023, we expand target businesses and domains, as well as raise the level of our risk and opportunity analysis.

#### Risk Management

In order to understand and assess the impact of climate change on our business, we regularly conduct scenario analyses and identify climate change risks and opportunities through an internal task force led by the department in charge of sustainability. After reporting the identified significant risks and opportunities to the director in charge of crisis management, the task force and the relevant department work together to implement specific risk countermeasures.

#### Indicators and Targets

The Adastria Group aims to achieve carbon neutrality by the year 2050, and we have established CO<sub>2</sub> emissions in our supply chain as an indicator of our efforts, and are managing progress toward carbon neutrality.

#### Signed a Logistics Partnership Agreement With YAMATO TRANSPORT CO., LTD. for a Sustainable Supply Chain



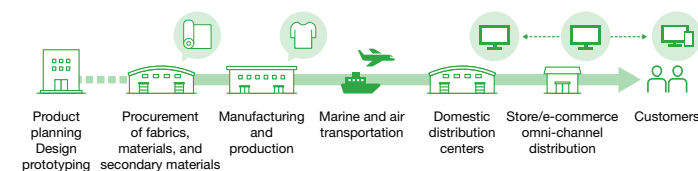
**A D A S T R I A**  
Play fashion!

To address the Japanese logistics industry's 2024 problem, we have declared our commitment to the White Logistics movement in Japan, introduced a truck dispatch management system, improved the efficiency of transportation



Hiroshi Keya, Senior Managing Executive Officer, YAMATO TRANSPORT CO., LTD.

and delivery, and reduced the number of containers used. Our perception is that the world is now entering a phase in which society as a whole, and not just our company, is taking on this kind of initiative. By signing a logistics partnership agreement with YAMATO TRANSPORT CO., LTD., we expect to further improve the efficiency of transportation and delivery, encouraging joint delivery and logistics involving the entire fashion industry. At the same time, we would like to build a sustainable supply chain platform that not only visualizes greenhouse gas emissions by improving delivery efficiency, but also reduces greenhouse gas emissions.



Visualizing and linking information on inventories, transportation, orders, and sales

Production Planning

Transportation Planning

Delivery Planning

## Initiatives for Materialities

### Balance Environmental Considerations and Sales Activities

#### Reducing Environmental Impact at Stores

The REBAG PROJECT is designed to create a shopping style where customer use of their own shopping bags is a foregone conclusion. Since its launch in 2014, the initiative has reduced the number of shopping bags used by about 14 million over nine years. We have also switched to environmentally friendly components used in product delivery, including tags, shoe boxes, and shopping bags for the products we sell. Part of our efforts here include operating BAYFLOW stores in the interest of lower environmental impact by introducing hangers made of FSC materials\* and using sample goods and scrap wood as fixtures.

\*FSC materials: Wood from forests meeting forest management standards and certified by the Forest Stewardship Council (FSC)



#### Developing Laundry Nets to Prevent Marine Plastic Spillage

In recent years, textile waste from clothing and other items has become one of the causes of marine pollution. As an apparel company, we recognize the importance of addressing this issue. One way we are working to resolve this through our businesses is the FIBER HOLD BAG, a laundry net that can reduce textile waste spillage by 80%\*. FIBER HOLD BAG is made of a fabric with a finer mesh (0.05 mm) than normal nets, allowing it to trap minuscule sizes of textile waste and keep it from spilling out. This is a unique product to Adastria that not only helps prevent clothing deterioration from friction but also is more environmentally friendly during laundry.

\*Spillage mitigation effects versus instances where no laundry net is used

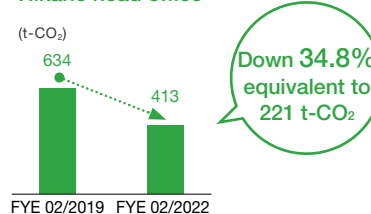


#### Reducing Environmental Impact at the Head Office

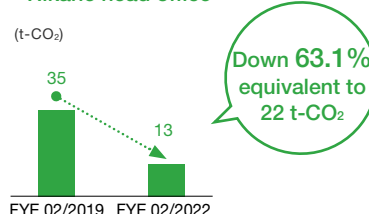
Adastria has been engaged in the Office Optimization Project since 2019. This project, launched before the COVID-19 pandemic, aims to optimize office use and create an optimized, lean office environment. As part of our work-style reforms, we have been encouraging remote work, and our head office has successfully reduced CO<sub>2</sub> emissions from electricity and air

conditioning use by 34.8% (equivalent to 221 t-CO<sub>2</sub>) and copy paper use by 63.1% (equivalent to 22 t-CO<sub>2</sub>) compared to FY2019. In addition, wooden cutlery and paper plates are used in the A Café cafeteria in the head office to raise employees' awareness of sustainability in their daily work.

##### CO<sub>2</sub> emissions from electricity and air conditioning use at the Shibuya Hikarie head office



##### CO<sub>2</sub> emissions from copy paper use at the Shibuya Hikarie head office



## TOPIC Introducing Sustainable Seafood at zetton to Contribute to Biodiversity



Group company zetton inc. operates a restaurant business, handling sustainable seafood at some of its restaurants. A portion of zetton's menu items feature seafood certified as having been harvested using production methods and fisheries that take into consideration marine resources, ecosystems, and the environment so that humans can

continue to eat marine products well into the future. With the cooperation of our suppliers, we obtained MSC\*1/ASC\*2 CoC (chain of custody) certification for our Kasai Rinkai Park restaurant in December 2019, with the aim of offering dishes featuring marine products certified by the MSC and ASC international standards.

\*1 MSC: Marine Stewardship Council. An international body certifying that marine products are caught in sustainable fisheries through third-party assessment

\*2 ASC: Aquaculture Stewardship Council. An international body certifying compliance with responsible aquaculture product requirements



## Initiatives for Materialities



ENVIRONMENT  
Protect  
the Environment

### Create a World Without Fashion Loss

Fashion loss (clothing disposal) is one of the issues that the fashion industry needs to solve, as it leads to increased CO<sub>2</sub> emissions due to excessive consumption and incineration. We have made it our policy to eliminate clothing incineration, and we pursue a variety of projects to prevent burning and disposal. In addition to our goal of using more precise demand forecasting to make products in the correct amount to avoid overproduction, we also strive to find new ways to use and recycle products that are discontinued, thereby realizing a circular economy.

#### Reducing Fashion Loss Through Circular Business

Based on the policy of *right time, right price, right quantity*, we work to reduce fashion loss by improving the balance of supply and demand through precise procurement planning and inventory management. In fiscal year ended February 2022, 59.5% of products that were discontinued were utilized in new businesses, and 40.5% were reused. In addition, for products that are difficult to sell in stores, we have started a project called A GARAGE to resell them to employees, contributing to enhanced employee benefits. In this way, we will accelerate our circular business by seeking new ways of utilizing goods and staying mindful of how we can act without being bound by existing business frameworks.

- 1 Thoroughly implement procurement planning and inventory management under the policy of right time, right price, right quantity
- 2 Improve ordering accuracy by utilizing order data from pre-orders on the official web store *Dot ST*
- 3 Resell end-of-sale products at affordable prices through the ADOORLINK-operated OFF STORE
- 4 Operate FROMSTOCK, an upcycle brand that revives inventory by dyeing it black
- 5 Resell products outside of Japan in collaboration with partners
- 6 Utilize inventory as relief supplies in the event of a disaster

Utilization in subsidiaries  
59.5%

Reuse  
40.5%

#### New Businesses Reutilizing Inventory

##### OFF STORE

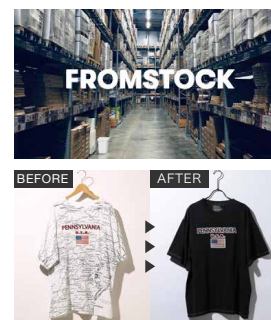
This brand, under the concept of *search, find, and experience*, aims to build an apparel circular economy together with customers. In addition to offering end-of-sale items at affordable prices, the store also offers upcycling workshops and garment alteration services. This is a new kind of customer-participatory business so that everyone can enjoy circular fashion.



Upcycling workshop

##### FROMSTOCK

This upcycling brand creates new value by taking leftover warehouse stock clothing and dyeing it black. The black dyeing process is carried out at Daisen, a leading Japanese dye works featuring environmentally friendly facilities. Products with scratches or stains can be transformed into products with originality by using black-dyeing techniques. Through this upcycling business, we offer customers new value and new ways to enjoy fashion.



Examples of re-dyeing inventory by FROMSTOCK

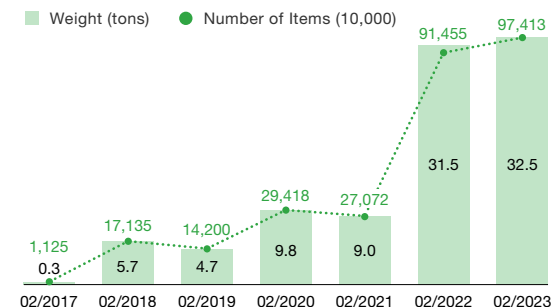
#### Play Cycle! Collections

Since 2017, we have been engaged in our *Play Cycle!* environmental activity to collect customers' unwanted clothing for reuse and recycling. Collected clothing is recycled into raw materials for clothing such as polyester or down by partners, or reused and sold via OFF STORE. In 2022, we increased the number of stores with permanent collection to approximately 170, reaching a cumulative total collection of 93 tons. In addition, we hold eco-events in collaboration with our local partners and lectures on fashion loss at neighboring schools, demonstrating how we treasure our relationship with communities through *Play Cycle!*



School lecture conducted by GLOBAL WORK Toin Branch

#### Play Cycle! Collections



## Initiatives for Materialities



Encourage  
People to Shine

### A Society in Which People Enjoy Fashion in Their Own Way

We provide products and services based on a multi-brand, multi-category approach to meet the needs of our many customers. Not only will we provide well-tailored customer service, but we will also respect differences in age, gender, body shape, and preferences, as well as contribute to the realization of a society where everyone can enjoy their own unique lifestyle through fashion.

#### Being an LGBTQ+ Ally

To deepen understanding of LGBTQ+ and other minorities, we will engage in social awareness activities and expand recognition of genderless fashion. To date, we have revised our internal regulations, including adding language to the definition of spouse to recognize same-sex partners in order to ensure fair application of benefits under our system. As of 2022, we show an original training video to employees at all stores in Japan and fly rainbow flags in stores as part of celebrating Adastria Pride Month, working to promote understanding of minorities. In recognition of these efforts, we were awarded the highest rating of Gold in the PRIDE Index\* for the fourth consecutive year. We will continue to lead the fashion industry as an ally in the LGBTQ+ community.

\* The PRIDE Index is Japan's first index to evaluate efforts to support sexual minorities in the workplace, created by the voluntary organization work with Pride in 2016.



▶ Our diversity training video (Japanese only)

#### Inclusive Fashion Projects

Through the inclusive fashion project *Play fashion!* for ALL which aims to include all people regardless of disability, age, or gender, we are working to help people's individuality to shine through fashion. In fiscal year ended February 2022, under the theme of *greater enjoyment for all, regardless of disability*, influencers with disabilities and care workers were invited to our events. In addition to exchanging opinions on problems and concerns with the aim of applying them to future product development and services, the participants experienced the joys of fashion in collaboration with six brands. We will continue to create fashion that values the perspectives and ideas of people from various walks of life.



## TOPIC Hosting Open Tours to Support and Cultivate the Next Generation

With the aim of nurturing the next generation of leaders in the fashion industry, we offer company programs that provide hands-on experience in product planning and other aspects of the industry. In fiscal year ended February 2022, 13 high school students living in the Kanto region participated in this program. The program consists of two sessions, designed to offer an experience similar to the actual work we do. About 20 of our employees, including designers, pattern

makers and merchandisers, served as advisors, helping the participants to produce clothing based on ideals they devised. Other activities included lectures on our sustainable products, group work on the latest trends, and training through store visits. Participants offered comments like, "I am one step closer to my dream," and "My vision for the future has become clearer."



## Initiatives for Materialities



PEOPLE  
Encourage  
People to Shine

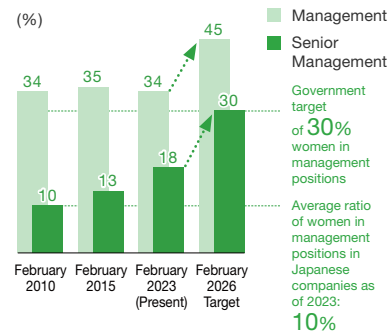
### Be an Organization That is Healthy Mentally and Physically, Encouraging Employees in Their Individuality and Ability

In order to realize our growth strategy and vision for 2025 and continue to be an indispensable company for society, it is essential to have a unique and diverse organization that can collaborate with all stakeholders, create business models that are not bound by conventional frameworks, and create new customer experience value. We believe that the physical and mental health and well-being of all people, including our customers as well as our employees, will support the growth of our organization over the medium to long term. Through strategic health management, we are working to realize the well-being of our employees, creating an environment in which they can demonstrate their individuality and abilities and enjoy greater job satisfaction, enhanced internal systems, and career support.

### Diversifying the Organization Through Supporting Activities for Women

As women account for approximately 75% of our regular employee base, we see career advancement for women as a priority issue in diversity management. Since approximately 80% of our apparel products are designed for women, we believe that providing better products and services that reflect women's dynamic perspectives and diverse opinions is directly linked to high financial performance and customer satisfaction. We have set specific goals and are continuously engaged in initiatives under a cross-department project team including a director in charge of this overall topic. Our goals are to increase the ratio of female managers to 45% or more and the ratio of women in senior management positions (general manager and above) to 30% by 2025. Since the fiscal year ended February 2023, the company has begun holding roundtable discussions between female employees and management, newly engaging women in management meetings previously composed solely of men. These have led to cultivating female candidates for executive positions and more active discussions, as well as a change in management awareness.

#### Change in Percentage of Female Managers



A management meeting

### Building New Career Opportunities With *Carikaku*

In September 2022, we launched a career growth support project called *Carikaku*, which creates career opportunities for employees working in our stores to autonomously explore future career possibilities and take on challenges. This project is the result of feedback from our store employees who want to be more actively involved in certain interest areas while still working at their store, who want to develop careers that make the most of their own personalities and strengths, and who want to take a further step forward in fields related to sales. Five major roles have been established as new career steps, including for regional promotion, where staff plan and carry out regional revitalization events and corporate collaboration rooted in the community, and as an SSC\* certified instructor, who is responsible for improving store customer service skills as a sales specialist. Our employees, who are always attentive to customers' voices and needs, as well as specific regional characteristics, are the driving force behind Adastria's growth. We support our employees to create their own careers and to ensure they remain excited about their jobs throughout their working lives.



\* SSC is an abbreviation for Service Skill Certification. This is Adastria's unique skill certification system for all staff working in stores to improve customer satisfaction and sales abilities, as well as staff motivation and sales staff rank.

### Agus Career, an Employment Transition Support Office Specializing in Apparel

Adastria General Support, our special subsidiary, has launched Agus Career in Hakata, Fukuoka, a new employment transition support office specializing in apparel that utilizes the subsidiary's expertise in the employment of people with disabilities.

For people with disabilities seeking employment, we support them in acquiring the knowledge and skills necessary for jobs related to apparel, and provide attentive guidance along the path to employment by working with them at their own pace.

We support job seekers through hands-on training and mock interviews, as well as support for retention after employment, and do our best to help fulfill their wish to work in apparel-related jobs and reach a way of working that suits their individual conditions.



▶ Agus Career

## Initiatives for Materialities

### Be an Organization That is Healthy Mentally and Physically, Encouraging Employees in Their Individuality and Ability

#### Fostering Employee Well-Being

We aim to contribute to the well-being of society as a whole through our business, promoting health management under the slogan *Play fashion! Play wellness!* Our collaborative healthcare with the Adastria Health Insurance Association enables us to provide insurance and welfare services tailored to the characteristics of the company, specifically its nationwide workforce with a high percentage of young people and women and diverse employment formats, to foster a health-conscious culture and create a safe and secure work environment. In order for each and every one of us to fulfill the philosophy to *Be a Person Needed, Be a Company Needed*, our goal is to ensure that all of us can stay healthy and happy ourselves, both physically and mentally, and work with vigor and continue to provide *Play fashion!* as described in our mission.

#### Earned First Certification as a Health & Productivity Management Outstanding Organization for 2023

In recognition of its promotion of collaborative healthcare with the Adastria Health Insurance Association and its strategic and specific initiatives, Adastria has been recognized as a Certified Health & Productivity Management Outstanding Organization for 2023 (large corporation category) by the Ministry of Economy, Trade and Industry and the Nippon Kenko Kaigi (Japan Health Council), its first such certification. In fiscal year ended February 2022, we issued the Health Management Declaration and set up the Health Management Promotion Office, a department dedicated to promoting health management in the Adastria Group. The Adastria Wellness Committee, a health promotion committee for the benefit of employees, has been studying specific measures and mechanisms, and enhances health promotion, insurance, and welfare projects tailored to our corporate characteristics. The committee will continue to

foster a health-conscious corporate culture in a way unique to Adastria and that encourages employees to enjoy maintaining and improving their own health through health literacy and skills that lead to stronger mental and physical fitness.



Jogging at Mito (where Adastria was founded), an Adastria Wellness Committee activity

#### Major Initiatives, Achievements, and Results After Issuance of the Health Management Declaration

##### Major Initiatives

- Increasing health checkup rate from before in-house health insurance: around 40% to 85.7% (Review of medical facilities for convenience near each store and promoting checkup appointments)
- Enhancing screening options for gynecological cancers
- Recommending for secondary medical checkups by full-time industrial physicians and public health nurses
- Conducting interviews with industrial physicians and public health nurses for persons deemed high-risk or high-stress in medical checkups
- Strengthening collaboration with industrial physicians, public health nurses, and human resources departments
- Revitalizing health committee activity

##### Achievements and Results



Optional gynecological cancer screening rate

All ages	20s	30s and above
66.2%	59.1%	80.1%



Health checkup rate

Around 40% → 85.7%



Stress check rate

86.4%

\*Scope of data: Adastria Group companies in Japan, excluding zetton inc.

## VOICE Health Management that Reflects Employee Characteristics and Feedback

One of the priority tasks of the Health Management Promotion Office is to create a working environment that is friendly to women. Many women struggle with specific health issues and symptoms, including issues surrounding menstruation as well as endometriosis. These can greatly affect their work performance and efficiency, especially in the fashion industry, where

many people stand for long periods during their work. First, in order to create an environment to maximize the potential of our female employees, who account for 70% of our regular employees, we are helping to provide accurate information about gynecological diseases and how to handle health concerns, enhancing gynecological cancer options in health checkups, and recommending

that they undergo gynecological cancer screening. As we tackle issues like encouragement toward achieving a 100% health checkup rate and preventing illnesses and mental health issues, we will support our employees to enjoy fashion and life, contributing to a richer lifestyle for all stakeholders through our business.



Mutsumi Sekigawa,  
General Manager, Health Management  
Promotion Office

## Initiatives for Materialities



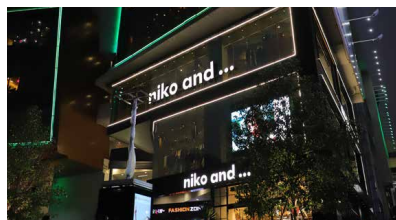
COMMUNITY  
Grow Together  
with Communities

### Revitalize the Communities Surrounding Our Stores

Building good relationships with our communities is an important part of our mission. In accordance with our medium-term management plan, we are expanding our business to various communities, both in Japan and overseas. We will strengthen engagement with locals through fashion while respecting their culture and customs as well as complying with local laws and regulations. With the power of fashion, we will create new value through businesses that give back to the community, including via job creation.

#### Engaging in Community-Rooted Sales Activities

We respect the unique culture of each country and region, and by developing localized products tailored to the lifestyles of our customers, as well as by providing events and services in collaboration with local companies and other organizations, we are engaged in strong community-building while increasing our visibility in the Asian market. Among them, *niko and ...*, which operates 28 stores outside Japan, will open its first store in Thailand's capital of Bangkok in April 2023. This is part of a unique experiment to generate fondness among locals, including the creation of a community space where local creators, companies, university students, and others can freely interact to create new collaborations.



#### Leveraging Fashion to Revitalize Regions

In addition to sponsoring the Ibaraki Robots and the Mito Hollyhock, both professional sports teams based in Mito, Ibaraki Prefecture, we contribute to regional revitalization through ongoing support of Art Tower Mito and the Mito Chamber Orchestra. We were the title sponsor of the *Dot ST B.LEAGUE ALL-STAR GAME2023 IN MITO*, held in January 2023 at the Adastia Mito Arena, part of our hard work to help Mito's sports culture flourish. It is estimated that the sporting event had a total non-financial value of approximately ¥1 billion, including approximately ¥880 million in social value and ¥120 million in economic ripple effects\*.

\*Source: EY Survey B.LEAGUE ALL-STAR GAME 2023 IN MITO calculated to approximately ¥880 million in social value for the city of Mito



#### Initiatives Resolving Social Issues in Shibuya Ward

Since we have our corporate headquarters in Tokyo's Shibuya Ward, in 2018, we concluded a Shibuya Social Action Partner Agreement (S-SAP) with the ward. We entered into this agreement to contribute to more attractive urban development and to the evolution of Shibuya Ward. FOREVER21 incorporates Shibuya Font\* in some of its products, which is official public data from Shibuya Ward created in collaboration between artists with disabilities who live and work in Shibuya as well as students who study in Shibuya. In March 2023, we also sponsored the Buddy Walk Tokyo 2023 for all charity event in the

ward's Yoyogi Park, organized by the NPO SUPLIFE and supported by Shibuya Ward to promote understanding, acceptance, and social equality for people with Down syndrome. For the purpose of realizing a place where all people, regardless of disabilities, can play an active role and of creating opportunities for people to connect with each other, LOWRYS FARM, which collaborates with artists with disabilities, and the *Play fashion! for ALL* project engaged in a collaboration to hold a coloring event on the theme of disability and art, exhibiting clothing with inclusive designs.



FOREVER21 Shibuya Font collaboration T-shirts

\*Shibuya Font is a font and pattern provided as public data, authorized by Shibuya Ward and created as part of the Shibuya Souvenir Development Project, with the cooperation of students at the Kuwasawa Design School and support offices for people with disabilities in Shibuya Ward. <https://www.shibuyafont.jp/>



At the BuddyWalkTokyo 2023 for all

## Initiatives for Materialities



Grow Together  
with Communities

### Foster Sustainable Development in Production areas

We manufacture products in various regions around the world, with a complex and diverse supply chain of raw material procurement, sewing, and transportation processes. We recognize that it is our corporate responsibility to work together to strengthen partnerships with our suppliers, focusing on the sustainable development of production areas and the stable supply of high-quality products, so that we can continue to carry out best business practices alongside our suppliers. In order to continue to provide our customers with even better products and services going forward, we will not only comply with the laws and regulations of each country and region, but also engage in monitoring and procurement activities that enable us to conduct fair and ethical transactions.

#### Group Sourcing Policy and Group Sourcing Guidelines



In partnership with our suppliers, we have established the Group Sourcing Policy, targeting fair and ethical business dealings unique to Adastria, and the Group Sourcing Guidelines, which clearly state our expectations in the areas of human rights, social, environmental, and governance. With these, we have gained the understanding of our suppliers that we expect them to be in compliance with certain areas.

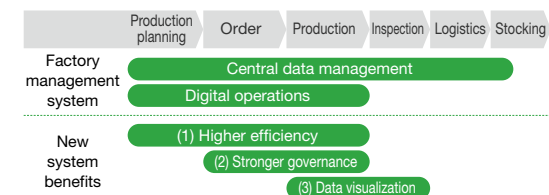
▶ **Group Sourcing Policy**

▶ **Group Sourcing Guidelines**

#### Contributing to Local Human Resource Development Through a Centralized Production Management System

We have implemented a new factory management system to centralize product ordering for our factories and production control data. Until now, progression along each supply chain and the status of each factory were managed separately, but this new system offers digital order and production management operations and centralized management and system integration from production planning to purchase accounting along the value chain. With these upgrades, we can not only improve work efficiency both for internal and external stakeholders, but we can also help prevent human error and strengthen governance. Particularly in working with local staff in China and

ASEAN countries, our main production areas, it would take quite some time to check information before we introduced this system. The new system has also contributed to human resource development, as seen in the improved digital skills among local staff.



#### Factory Monitoring and Partnership Certification

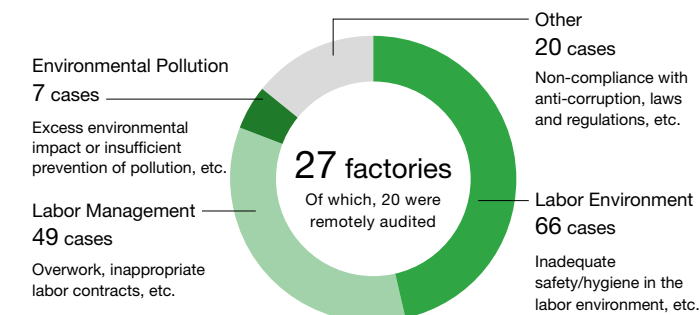
Suppliers are asked to cooperate in compliance surveys based on our sourcing guidelines. Based on the results, our CSR procurement staff conduct factory monitoring to directly check the production environment. If any issues are identified for improvement, we ask the supplier in question to make improvements based on direct and ongoing interactions, leading to stronger engagements. We have a system in place to certify suppliers working with our production departments as partner factories, based on a comprehensive scrutiny of their systems for producing high-quality products, frequency of product defects, and social, environmental, and governance conditions. Going forward, we will continue to expand both the number of partner-certified factories and the number of factories monitored.

#### Factories Monitored\*

	Factories Monitored
FYE 02/2017	9
FYE 02/2018	20
FYE 02/2019	26
FYE 02/2020	40
FYE 02/2021	13
FYE 02/2022	10
FYE 02/2023	27
<b>Total</b>	<b>145</b>

\* Downward trend during the fiscal years ended February 2021 and February 2022 was due to the impact of COVID-19  
\* Includes follow-up monitoring (re-audits)

#### Number and Breakdown of Factory Monitoring Findings (FYE 02/2022)



## ESG Information Data

Category		Results					
		FYE 02/2021	FYE 02/2022	FYE 02/2023			
Environmental	<b>Environmental Data</b>		Adastra Group Consolidated <sup>(2)</sup>				
	1	Stores, offices, and distribution centers electricity consumption	(1,000 kWh)	-	78,066	96,743	
	2	Scope 1 (direct emissions)		-	-	880	
	3	Scope 2 (indirect emissions from energy use)		-	34,791	41,535	
	4 <sup>(1)</sup>	Scope 3 (indirect emissions from the value chain)		-	481,808	538,705	
		Category 1 Purchased goods and services		-	406,528	455,227	
		Category 2 Capital goods		-	23,737	29,981	
		Category 3 Fuel- and energy-related activities not included in Scope 1 and 2		-	5,433	6,993	
		Category 4 Upstream transportation and distribution		-	5,991	5,428	
		Category 5 Waste generated in operations		-	665	1,153	
		Category 6 Business travel		-	450	909	
		Category 7 Employee commuting	(t-CO <sub>2</sub> )	-	3,704	2,200	
		Category 8 Upstream leased assets		-	-	-	
		Category 9 Downstream transportation and distribution		-	645	515	
		Category 10 Processing of sold products		-	-	-	
		Category 11 Use of sold products		-	-	-	
		Category 12 End-of-life treatment of sold products		-	34,655	36,299	
	Category 13 Downstream leased assets		-	-	-		
	Category 14 Franchises		-	-	-		
	Category 15 Investments		-	-	-		
5	Scope 1 + 2 + 3		-	516,600	581,120		
Social	<b>Employee Data</b>		Adastra Group Domestic Consolidated				
	6	Number of employees (domestic group consolidated, including temporary employees)	Female	14,279	13,986	15,078	
			Male	3,150	3,009	3,876	
			Total	17,429	16,995	18,954	
	7	Number of full-time employees by rank*	Number of managers (excluding officers)	Female	183	191	199
				Male	359	373	389
				Total	542	564	588
			Number of senior managers	Female	38	37	40
				Male	175	183	186
				Total	213	220	226
			Number of general managers and equivalent	Female	26	22	23
				Male	73	82	82
				Total	99	104	105
	Number of department managers and equivalent	Female	151	154	159		
		Male	194	190	203		
		Total	345	344	362		
	Number of unit managers and equivalent	Female	281	296	320		
Male		173	170	174			
Total		454	466	494			

(Note) Scope of data: Domestic group consolidated results excluding zetton inc. are used for some results (\*) as the unification of the Group data aggregation system is in progress after the consolidation of zetton inc. as a subsidiary in February 2022.

(1) Emission factors under section 4 were taken from the Ministry of the Environment emission intensity database and IDEAV2.

(2) Environmental data covers the domestic group while zetton inc. includes some overseas activities.

## ESG Information Data

Category				Results			
				FYE 02/2021	FYE 02/2022	FYE 02/2023	
<b>Social</b>	<b>Employee Data</b>			Adastria Group Domestic Consolidated			
	8	Number of new graduate hires	Female	187	100	228	
			Male	15	10	38	
			Total	202	110	266	
	9	Number of mid-career hires	Female	193	245	159	
			Male	66	83	111	
			Total	259	328	270	
	10	Number of new management appointments*	Female	9	9	5	
			Male	22	13	11	
			Total	31	22	16	
	11	Average years of employment of full-time employees	Female	6.1	6.6	7.0	
			Male	8.3	8.8	8.8	
			Total	6.6	7.2	7.5	
	12	Number of full-time employees that left the company	Female	345	383	434	
			Male	93	105	142	
			Total	438	488	576	
	13	Number of foreign employees*		94	82	79	
	14	Employment rate of persons with disabilities (as of June 1, 2023)		(%)	2.38	2.65	2.55
	15	Hours of overtime worked per month	Full-time employee average	(Hours)	4.3	5.6	8.0
			Employee average		2.1	2.6	3.5
	16	Percentage of employees taking annual paid leave	Full-time employee average	(%)	69.3	59.7	60.7
Employee average				64.2	59.4	57.1	
17	Average number of days of annual paid leave taken	Full-time employee average	(Days)	10.9	10.3	10.6	
		Employee average		9.2	7.6	7.5	
18	Maternity leave taken by full-time employees	Number of employees who took the leave	(Employees)	245	200	207	
		Acquisition rate	(%)	99.6	99.0	100.0	
19	Full-time employees taking childcare leave and returning to work after taking childcare leave	Female	Number of employees who took the leave	(Employees)	228	216	210
			Acquisition rate	(%)	100.0	99.5	98.6
			Return rate	(%)	91.0	94.4	95.1
		Male	Number of employees who took the leave	(Employees)	2	5	9
			Acquisition rate	(%)	3.39	7.81	15.30
			Return rate	(%)	100.0	100.0	100.0
20	Average number of days of nursing care leave taken		(Days)	53.5	93.0	31.0	
21	Male employees taking spouse maternity leave*	Number of employees who took the leave	(Employees)	17	11	8	
		Acquisition rate	(%)	28.8	17.2	14.8	

(Note) Scope of data: Domestic group consolidated results excluding zetton inc. are used for some results (\*) as the unification of the Group data aggregation system is in progress after the consolidation of zetton inc. as a subsidiary in February 2022.



## ESG Information Data

Category				Results				
				FYE 02/2021	FYE 02/2022	FYE 02/2023		
Social	<b>Female Employee Data</b>			Adastra Group Domestic Consolidated				
	22	Percentage of female full-time employees		75.1	75.2	72.6		
	23	Percentage of female officers (Adastra non-consolidated)	Percentage of female officers	23.1	23.1	21.4		
			Percentage of female directors	11.1	11.1	10.0		
	24	Percentage of female employees by rank*	Percentage of female managers (excluding officers)	33.8	33.9	33.8		
			Percentage of female senior managers	17.8	16.8	17.7		
			Percentage of female general managers and equivalent	26.3	21.2	21.9		
			Percentage of female department managers and equivalent	43.8	44.8	43.9		
	25	Percentage of female new graduate hires		61.9	63.5	64.8		
	26	Percentage of female mid-career hires		92.6	90.9	85.7		
			74.5	74.7	58.9			
Governance	<b>Governance Data</b>			Adastra Group Domestic Consolidated				
	27	Directors <sup>(1)</sup> (Adastra non-consolidated)	Inside	Female	0	0	0	
				Male	5	5	5	
				Total	5	5	5	
			Outside	Female	1	1	1	
				Male	3	3	4	
				Total	4	4	5	
	28	Number of members of the Audit and Supervisory Board <sup>(2)</sup> (Adastra non-consolidated)	Inside	Female	0	0	0	
					Male	1	1	1
					Total	1	1	1
			Outside	Female	2	2	2	
					Male	1	1	1
					Total	3	3	3
	29	Number of executive officers <sup>(3)</sup> (Adastra non-consolidated)	Female	0	0	0		
				Male	7	9	9	
			Total	7	9	9		
30	Number of reports to the internal reporting desk		(Cases)	115	146	111		
31	Number of comments and suggestions from suppliers' questionnaires*		(Cases)	43	44	54		

(Note) Scope of data: Domestic group consolidated results excluding zetton inc. are used for some results (\*) as the unification of the Group data aggregation system is in progress after the consolidation of zetton inc. as a subsidiary in February 2022.

(1)-(3) Number of officers listed are as of May 25, 2023.

## Outside Director Interview

# Developing a Culture of Taking on Challenges and Emphasizing a Balance Between Freedom and Discipline

Outside Director **Koichi Mizutome**



(Interviewer)

General Manager, Internal Audit Department

**Misato Okada**



### Governance Structure and Board Effectiveness

**Okada:** How would you rate Adastria's governance structure and Board of Director effectiveness?

**Mizutome:** Adastria is helmed by the founding owner, Chairman Fukuda, who is recognized internally and externally as an outstanding leader. In general, owner-led companies are at risk of becoming one-person operations. Chairman Fukuda understands this risk and is conscious of listening to the opinions of outside directors when making decisions. I feel that the governance structure is very well balanced.

**Okada:** As the head of internal audit, I believe governance at subsidiaries and overseas operations could become an issue during expansion. What is your opinion?

**Mizutome:** Many companies have a difficult time in understanding the management situation at subsidiaries and overseas from the head office. Since these are areas we look to for future growth, we don't feel the need to bind ourselves with the

burdensome rules required of large global companies. In the process of rapid growth, I think the company needs to establish and hold a minimum line, while fostering an environment where staff can work in a relaxed manner.

**Okada:** Thank you. Certainly, the Adastria-style of freedom is important. Can you comment on internal controls and risk management systems?

**Mizutome:** There was recently an unauthorized access to internal systems, but Adastria got the system back up and running quickly, filing a detailed report of the incident. At the same time, there is room for improvement in identifying inherent risks and evaluating risk levels, organizing response measures according to the size of the risk, and sharing these factors internally. Management systems need to be hardened for times when the risk is not apparent.

### Board of Directors and Corporate Atmosphere

**Okada:** Director Mizutome, one year has passed since you were appointed to be an Adastria outside director. How do you feel about the atmosphere of the company?

**Mizutome:** Board meetings are very active, and we exchange views in a straightforward manner. While I'm not always on-site with the company, I think the head office where we are talking now has a vibrant atmosphere. The Adastria mission, *Play fashion!*, has become an integral part of the company. It's clear that staff members bring their own ideas to work and enjoy what they do.

**Okada:** What is the role of the Board of Directors?

**Mizutome:** I think the role that the Board of Directors should be different for each company. For the company I run, I'm the only internal director. Our other seven directors are outside directors. The primary function of this type of board is to

monitor the proper execution of business and compliance. On the other hand, Adastria's Board of Directors is composed of half internal directors and half outside directors. Important business operations are discussed at Board meetings. As a result, the Board functions as a decision-making body, with specific opinions contributed from internal and external perspectives.

**Okada:** The Adastria culture is one of taking on new challenges with a sense of speed, and the Board of Directors hears many new business ideas and initiatives. Do you think there are sufficient discussions of these matters at Board meetings?

**Mizutome:** We believe that no decision should be made without a full discussion first. In fact, during my first year as an outside director, there were numerous cases in which we had to make the go or no-go decision. The Board discussed each case and established specific conditions and lines to be followed. These deeper discussions allow for control over the business, and the decision-making process incorporates the knowledge of each director. In certain cases, we may have decided to stop a project, but we consider those cases to be acceptable losses.

### The Board of Directors and Corporate Diversity

**Okada:** What is your view on diversity in the Board of Directors and the rest of the company?

**Mizutome:** The current Adastria Board of Directors is made up of people with diverse experience, including managers and academics. We conduct discussions from multiple perspectives. However, we have further to go in terms of diversity. All internal directors are male, and their ages are similar. I think the opinions we hear from Director Horie, who is a woman, are fresh and instructive. Board discussions will only become more active as the range of genders and ages expands.

**Okada:** What in your experience have you remained conscious of when promoting women to higher positions or management?

**Mizutome:** It takes time to develop internal directors. It might be most effective to bring in more women as outside directors while developing women inside the company for management positions. Or the company could hire specialists from outside who could become internal directors later. These are stop-gap measures, though. At some point, the company must set expectations for talented female employees, appointing them to higher positions, even if it might be difficult at first.

### The Adastria Business Strategy and Potential

**Okada:** Director Mizutome, as someone with extensive experience as a manager, would you offer some suggestions regarding the Adastria business strategy?

**Mizutome:** *Play fashion!* is a mission that offers a high degree of freedom, even covering the general lifestyle domain. Let's say that Adastria successfully grows its business while taking advantage of that freedom and identifies where the company can add more value than other companies. In that case, I think staff will work with confidence and a sense of security. Outsiders will be able to sense this confidence and security as well. Adastria needs to bring the long-term picture into focus gradually, and management must communicate this picture to



staff and the capital markets. The domestic market will contract inevitably. The responsibility of the Board of Directors is to craft a strategy to push the envelope as a company, intending to grow 10 or 20 times the current size in the long run, including growth in overseas markets. The first step for a company to grow in overseas markets is to create a single winning strategy. For *niko and ...* to become a business that thrives overseas, the company must be prepared to develop the brand into a global brand and involve outstanding local talent overseas.

**Okada:** What is your message to stakeholders about the long-term potential of Adastria?

**Mizutome:** The Adastria appeal lies in its balance of freedom and discipline. I see great potential in company staff who pursue what they love and take on challenges, as well as the environment that encourages these staff to achieve their dreams. Adastria fulfills its responsibilities as a large corporation while continuing to take on challenges and maintain a somewhat mischievous attitude. I encourage all stakeholders to value the uniqueness of Adastria.



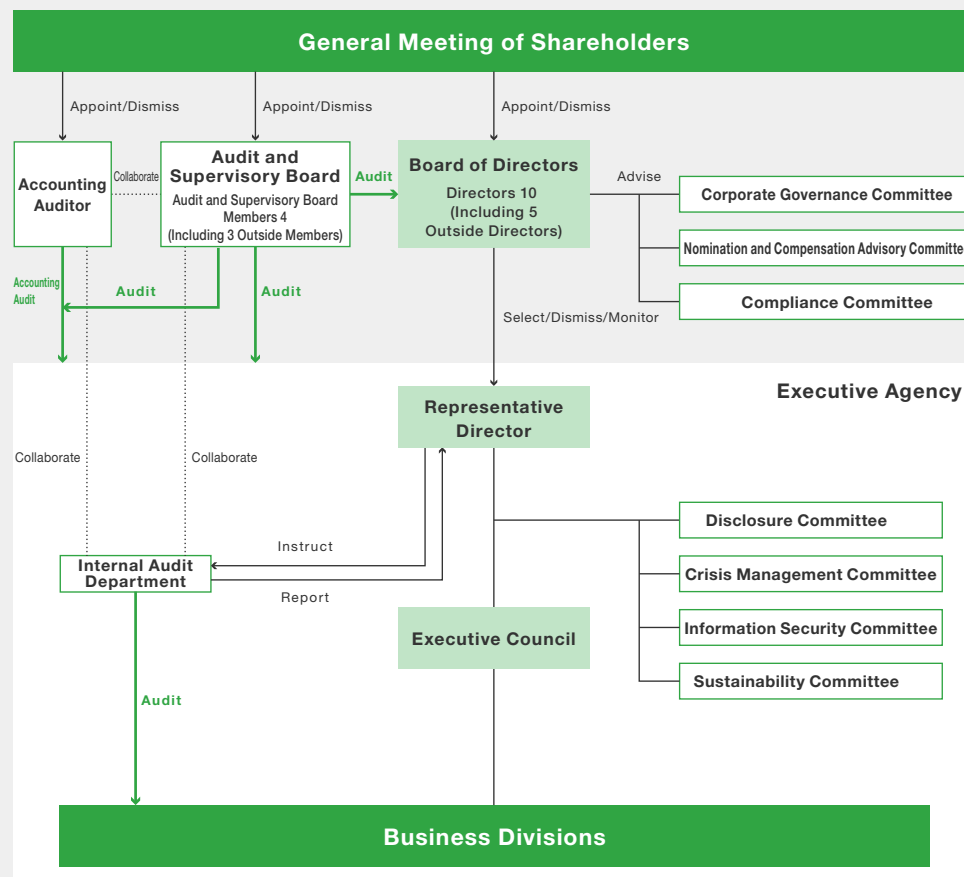
## Corporate Governance

### Basic Philosophy

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

### Overview of Corporate Governance System

The company established a Board of Directors and an Audit and Supervisory Board, therefore classifying as a company with an Audit and Supervisory Board.



### Major Organizations and Their Roles

#### Board of Directors

The Board of Directors consists of ten directors, including five outside directors. The board, chaired by the representative director, deliberates and resolves important matters as the highest management decision-making body of the Group. The four members of the Audit and Supervisory Board, including three outside members, attend Board of Directors meetings from an independent standpoint, having established a system to audit the status of director performance in the duties of care and loyalty related to the execution of their duties.

#### Audit and Supervisory Board

The Audit and Supervisory Board consists of four members, one of whom is a full-time member and three of whom are outside members. The members of the Audit and Supervisory Board attend Board of Directors meetings, Corporate Governance Committee meetings, Executive Council meetings, and other important meetings, as well as inspect important approval documents. In doing so, they gain an understanding of the state of management in a timely manner and to conduct audits of the legality of the execution of business by directors. In addition, members of the Audit and Supervisory Board offer proposals as necessary from an independent standpoint and based on their wealth of experience and insight.

#### Corporate Governance Committee

The Corporate Governance Committee acts as an advisory body to the Board of Directors and deliberates on various matters related to the Group corporate governance and the establishment of internal control systems. The committee submits or reports results to the Board of Directors, with the aim of achieving appropriate and transparent corporate governance.

#### Nomination and Compensation Advisory Committee

The Nomination and Compensation Advisory Committee acts as an advisory body to the Board of Directors and aims to improve the fairness, appropriateness, and transparency in the selection and dismissal of directors, representative directors, and executive directors, as well as in the policies and procedures for fostering successors of representative directors and the remuneration of directors. The committee deliberates on these matters and reports the results to the Board of Directors.

#### Compliance Committee

The Compliance Committee acts as an advisory body to the Board of Directors and aims to deliberate, draft, and pursue important policies to ensure compliance, which is a Group policy. The committee deliberates on various compliance-related topics and submits or reports the results of its deliberations to the Board of Directors.

#### Executive Council

The Executive Council aims to make decisions on important matters other than those to be resolved by the Board of Directors and to share information on business execution in a timely manner. The council deliberates and decides on matters delegated by the Board of Directors, important matters related to management, and matters related to the execution of important business operations.

## Corporate Governance

### Changes in Corporate Governance

	2001-2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	
Systems and Policies		<ul style="list-style-type: none"> <li>2008 Established the Management Advisory Committee</li> <li>2013 Transitioned to a holding company structure</li> </ul>		<ul style="list-style-type: none"> <li>2015 Dissolved the holding company structure</li> <li>2015 Launched Corporate Governance Code application</li> </ul>	<ul style="list-style-type: none"> <li>2016 Formulated the Corporate Governance Guidelines</li> </ul>								
Directors		<ul style="list-style-type: none"> <li>2006 Reduced term of office for directors from two years to one</li> <li>2007 Appointed one outside director</li> </ul>	<ul style="list-style-type: none"> <li>2013 Increased outside directors to three members</li> </ul>		<ul style="list-style-type: none"> <li>2016 Increased outside directors to four members</li> <li>2016 Appointed a female director</li> </ul>						<ul style="list-style-type: none"> <li>2022 Increased outside directors to five members</li> </ul>		
Members of the Audit and Supervisory Board	<ul style="list-style-type: none"> <li>2001 Appointed three outside members of the Audit and Supervisory Board</li> <li>2003 Appointed four outside members of the Audit and Supervisory Board</li> <li>2004 Appointed three outside members of the Audit and Supervisory Board</li> </ul>						<ul style="list-style-type: none"> <li>2018 Appointed a female member of the Audit and Supervisory Board</li> </ul>						
Nomination		<ul style="list-style-type: none"> <li>2005 Established the Nomination and Compensation Committee (currently Nomination and Compensation Advisory Committee)</li> </ul>						<ul style="list-style-type: none"> <li>2019 Began formulation of succession planning</li> </ul>	<ul style="list-style-type: none"> <li>2020 Established policies and procedures for succession planning and the selection and dismissal of representative directors</li> </ul>				
Compensation		<ul style="list-style-type: none"> <li>2005 Established the Nomination and Compensation Committee (currently Nomination and Compensation Advisory Committee)</li> </ul>			<ul style="list-style-type: none"> <li>2016 Introduced performance-linked stock compensation</li> </ul>								
Board of Director Effectiveness Evaluation						<ul style="list-style-type: none"> <li>2017 Launched analysis and evaluation</li> </ul>					<ul style="list-style-type: none"> <li>2020 Outsourced operations to external organizations</li> </ul>		

## Corporate Governance

### Board of Directors Diversity

#### Our Approach to Board Diversity

The company appointed five internal directors, five outside directors, one internal member of the Audit and Supervisory Board (full-time), and three outside members of the Audit and Supervisory Board. Of the 14 directors and members of the Audit and Supervisory Board, one director and two members of the Audit and Supervisory Board are female.

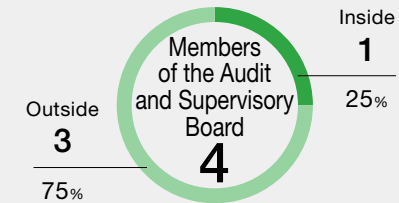
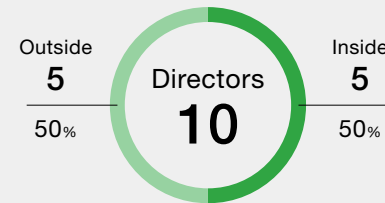
The company believes that we have appointed a diverse pool of directors with differing backgrounds of expertise and experience. Members include persons who are familiar with and have a deep understanding of our businesses, persons who have international experience, such as extensive experience in global companies and overseas operations, and persons who have a wealth of insight as corporate managers. Directors range from their 30s to 70s.

We appointed individuals who have sufficient knowledge of finance, accounting, and legal affairs, including two members of the Audit and Supervisory board with experience in financial institutions, one certified public accountant, and one attorney.

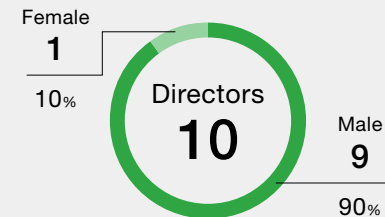
Accordingly, we believe that the Board of Directors as a whole is balanced and appropriately diverse. We will continue to strive to ensure and improve diversity, including diversity in terms of gender and internationality.

### Composition of Directors and Members of the Audit and Supervisory Board (As of May 25, 2023)

#### Ratio of Internal and Outside Directors



#### Gender Ratio



### Skills Matrix for Directors and Members of the Audit and Supervisory Board

		Knowledge, Experience, Skills, etc., Possessed by Directors and Members of the Audit and Supervisory Board							
		Corporate Management	Sales Marketing	Product SCM	Global Business	IT and Digital Transformation	Legal Affairs Risk Management	Finance and Accounting Banking	ESG
Directors	Inside	Michio Fukuda	●		●				●
		Osamu Kimura	●	●	●				
		Masayuki Kindo	●					●	●
		Yoshiaki Kitamura	●	●	●	●			
		Taiki Fukuda	●			●			●
	Outside	Satoshi Akutsu		●	●	●			●
		Hiromi Horie		●	●	●			●
		Koichi Mizutome	●	●	●	●			
		Tatsuhiro Matsuoka		●	●		●		
		Kazuo Nishiyama	●		●		●		●
Members of the Audit and Supervisory Board	Inside	Tsuyoshi Matsuda			●		●	●	
		Kazuhiko Ebihara			●		●	●	
	Outside	Yoshiko Hayama					●	●	●
		Kyoko Mogi				●		●	

\* The list above indicates the areas in which we expect company directors and members of the Audit and Supervisory Board to offer particular expertise. This list is not exhaustive of all expertise possessed by company directors and members of the Audit and Supervisory Board.

\* Matters related to personnel and human resources are included in corporate management.

\* SCM refers to supply chain management.

## Corporate Governance

### Board of Director Effectiveness Evaluation

The company conducts a self-assessment of the effectiveness of the Board of Directors to identify current issues and improve the function of the Board. This self-assessment is conducted by means of anonymous questionnaires for all directors and members of the Audit and Supervisory Board. After receiving responses from all participants, the Board of Directors analyzes and evaluates the results.

Since fiscal year ended February 2020, the company has outsourced the review of the questionnaire questions and the tabulation and analysis of results to an external organization. This method ensures objectivity and transparency of evaluation results and allows the company to utilize information from other companies and knowledge from outside sources.

### Effectiveness Assessment Process

1

Conduct self-assessment through anonymous questionnaires (web-based)

Target

All directors and members of the Audit and Supervisory Board

Questions Topics

(1) Board of Directors composition and operation  
 (2) Management strategies and business strategies  
 (3) Corporate ethics and management of risks and crisis  
 (4) Performance monitoring and management evaluation  
 (5) Dialogue with stakeholders

2

Compile and analyze survey results through external organizations

3

Discuss analysis results of the Corporate Governance Committee and Board of Directors

4

Implement improvement measures for identified issues

### Fiscal Year Ending February 2023 Evaluation Results

Our Board of Directors consists of an appropriately balanced and diverse membership and fosters a culture of vigorous discussion among members, including independent outside directors. As such, we were evaluated to have ensured sufficient effectiveness in decision-making and supervision of business execution by the Board of Directors. Among the issues addressed in the previous fiscal year, our score improved for our system establishment that encourages dialogue with shareholders and the sharing of opinions.

### For Issues and Countermeasures

In the fiscal year ending February 2023, we have newly identified issues related to diversity as well as officer nomination and compensation. In response, we will continue to improve the effectiveness of the board in the fiscal year ending February 2024, with particular consideration given to these issues.

### Appointment of Directors and Members of the Audit and Supervisory Board

#### Appointment Policy for Directors and Members of the Audit and Supervisory Board

- The company shall appoint a diverse pool of directors with differing backgrounds of expertise and experience, including persons who are familiar with and have deep knowledge of company businesses, persons who have international experience, such as extensive experience in global companies and overseas operations, and persons who have a wealth of insight as corporate managers.
- By appointing a multiple number of outside directors, the company strengthens its supervisory function and accomplishes management transparency by incorporating the viewpoints of people outside the company who are independent of management.
- The company shall appoint outside directors who have no material interest in the Group and who are capable of maintaining their independence.
- The company shall appoint members of the Audit and Supervisory Board who are qualified, independent, and capable of fulfilling their terms of office.

#### Nomination Procedure for Directors and Members of the Audit and Supervisory Board

- The representative director shall submit a list of candidates for director. The Nomination and Compensation Advisory Committee shall deliberate on the list, after which the Board of Directors shall make decisions on candidates.
- The Board of Directors shall make decisions on candidates for members of the Audit and Supervisory Board after the representative director submits a list of candidates and the Audit and Supervisory Board gives its approval.

## Corporate Governance

### Officer Compensation

#### Basic Policy

The company Board of Directors follows the following policies when determining director compensation.

- Compensation packages shall be linked to short-, medium-, and long-term business performance and shall be commensurate with the creation of corporate value.
- Compensation packages shall be designed to secure outstanding management personnel and contribute to sustainable development.
- Compensation levels shall be appropriate in light of other companies in the same industry, other companies of the same size in other industries, and economic and social conditions.

#### Officer Compensation System Overview

	Compensation Type	Details	Subject of Payment		Payment Method	Evaluation Indicators
			Directors (Excluding Outside Directors)	Outside Directors and Members of the Audit and Supervisory Board		
Basic Compensation	Monetary compensation	Fixed compensation based on role and responsibilities	●	●	• Fixed amount paid monthly	-
Bonus (Performance-Linked Compensation)		Performance-linked compensation that is primarily linked to short-term performance and serves as an incentive for corporate value creation	●	-	• Payment amounts are determined within 0 to 200% of the base amount depending on position and performance level • Lump-sum payment in certain months each year	• Net sales • Year-on-year net sales • Operating profit
Performance-Linked Stock Compensation*	Stock compensation	Performance-linked compensation that is linked to short-, medium-, and long-term business performance and serves as an incentive for corporate value creation	●	-	• The number of stock points to be delivered is determined within 0 to 200% of the base number of stocks depending on position and performance level • Points are calculated on the last day of February of the fiscal year subject to evaluation and awarded at a certain time in the same year • In principle, shares equivalent to a certain percentage of accumulated points are delivered when a director retires. Shares equivalent to any remaining points are converted into cash within the trust and the conversion price is paid.	• Year-on-year net sales • Level of achievement of target operating profit margin • Company TSR and Tokyo Stock Price Index • (TOPIX) growth rate results

\* Contents were partially revised at the 73rd Ordinary General Meeting of Shareholders on May 25, 2023.

#### Officer Compensation (Fiscal Year Ended February 2023)

Officer Classification	Number of Eligible Officers	Total Amount of Compensation	Total Amount of Compensation by Type		
			Basic Compensation	Bonus	Performance-Linked Stock Compensation
Directors (Excluding Outside Directors)	5	¥429 million	¥222 million	¥95 million	¥175 million
Members of the Audit and Supervisory Board (Excluding Outside Members)	1	¥21 million	¥21 million	-	-
Outside Officers	11	¥83 million	¥83 million	-	-

\* Figures reflect amount paid based on the system before the revision.

#### Procedures for Determining Compensation

The procedures for determining director compensation are as follows.

- Compensation for directors shall be determined by the Board of Directors after deliberation by the voluntary Nomination and Compensation Advisory Committee. Such compensation shall be determined within the scope approved at a general meeting of shareholders.
- Compensation for members of the Audit and Supervisory Board shall be determined upon consultation with Audit and Supervisory Board in accordance with the division of duties and other factors and shall be determined by within a scope approved at a general meeting of shareholders.



## Corporate Governance

### Directors (As of May 25, 2023)



**Michio Fukuda**  
Representative Director and Chairman

#### Biography

May 1971 Joined Fukudaya Clothing Store Co. (currently, Adastia Co., Ltd.) Director, Fukudaya Clothes Store Inc.  
Jun. 1982 Senior Managing Director, Fukudaya Clothes Store Inc.  
Apr. 1991 Representative Director and President, Bears Factory Limited (currently, Adastia Logistics Co., Ltd.)  
Mar. 1993 Representative Director and President, POINT INC. (currently, Adastia Co., Ltd.)  
Dec. 2002 Representative Director and Chairman, POINT TW INC. (currently, Adastia Taiwan Co., Ltd.)  
May 2004 Representative Director and Chairman, POINT INC. (currently, Adastia Co., Ltd.)  
May 2010 Representative Director, Chairman and President, POINT INC.  
Sep. 2013 Representative Director and Chairman, Adastia Holdings Co., Ltd. (currently, Adastia Co., Ltd.)  
May 2015 Representative Director and Chairman, Chief Executive Officer (CEO), Adastia Holdings Co., Ltd.  
May 2018 Representative Director, Chairman and President, Adastia Co., Ltd.  
Apr. 2021 Director and Chairman, BUZZWIT Co., Ltd. Director and Chairman, ELEMENT RULE Co., Ltd. (to present)  
May 2021 Representative Director and Chairman, Adastia Co. Ltd. (to present)

#### Reason for Appointment

Since he assumed the position of Representative Director of the company in 1993, Michio Fukuda has demonstrated leadership in promoting the growth and expansion of the company's business. We shall utilize his rich experience accumulated thus far, and thereby receive his contribution to improving the corporate value of the Company.

#### Attendance at Board of Directors Meetings (Fiscal Year Ended February 2023)

14/15



**Osamu Kimura**  
Representative Director and President

#### Biography

Sep. 2011 Representative Director and President, TRINITY ARTS INC. (currently, Adastia Co., Ltd.)  
Apr. 2013 Director, FRIENDS Co., Ltd.  
Sep. 2013 Director, Adastia Holdings Co., Ltd. (currently, Adastia Co., Ltd.)  
Feb. 2014 Director, N9&PG Co., Ltd. (currently, Adastia Logistics Co., Ltd.)  
May 2015 Director and Senior Executive Officer, Adastia Holdings Co., Ltd. (currently, Adastia Co., Ltd.)  
Jun. 2016 Managing Director, Adastia Co., Ltd.  
Nov. 2016 Director and Vice President, Peoples Inc. Director and Vice President, ALICIA Co., Ltd. (currently, BUZZWIT Co., Ltd.)  
Director and Vice President, ELEMENT RULE Co., Ltd. (to present)  
Oct. 2017 Representative Director and President, ADASTRIA eat Creations Co., Ltd.  
Mar. 2018 Director and Vice President, Adastia Co., Ltd.  
May 2019 Director, NATURAL NINE TRADING (SHANGHAI) LTD. (to present)  
Feb. 2020 Director, BUZZWIT Co., Ltd.  
May 2021 Director and President, Adastia Co., Ltd.  
May 2022 Director, zetton Inc. (to present)  
Representative Director and President, Adastia Co., Ltd. (to present)

#### Reason for Appointment

In addition to having gained extensive experience and many achievements in the field of sales and store development, Osamu Kimura was appointed Director and President of the Company in May 2021 and Representative Director and President in May 2022. We shall utilize his abundant experience and varied achievements accumulated thus far, and thereby receive his contribution to improving the corporate value of the company.

#### Attendance at Board of Directors Meetings (Fiscal Year Ended February 2023)

15/15



**Masayuki Kindo**  
Managing Director

#### Biography

Apr. 1991 Joined The Sanwa Bank, Limited (currently, MUFG Bank, Ltd.)  
Jul. 2006 Joined POINT INC. (currently, Adastia Co., Ltd.) General Manager of President's Office  
Mar. 2008 Executive Officer, General Manager of President's Office, POINT INC.  
Jun. 2010 Executive Officer, Executive General Manager of New Business Division, POINT INC.  
Mar. 2012 Executive Officer, General Manager of Strategy Promotion Department, POINT INC.  
Nov. 2012 Managing Executive Officer, General Manager of Strategy Promotion Department and Miscellaneous Goods Business Department, POINT INC.  
Sep. 2013 General Manager of Finance Department, Adastia Holdings Co., Ltd. (currently, Adastia Co., Ltd.)  
Mar. 2015 Senior Executive Officer, Executive General Manager of Business Promotion Division, Adastia Holdings Co., Ltd.  
Mar. 2016 Senior Executive Officer, Chief of Sales Headquarters, Adastia Co., Ltd.  
Mar. 2018 Senior Executive Officer, Chief of Sales Headquarters and Executive General Manager Overseas Assistance Division, Adastia Co., Ltd. Director, Adastia Asia Co., Ltd. (to present) Director, POINT(Shanghai) Co., Ltd. (currently, niko and ... (Shanghai) Co., Ltd.) (to present) Representative Director and President, POINT TW INC. (currently, Adastia Taiwan Co., Ltd. (to present) Representative Director and President, POINT TW INC. (currently, Adastia Taiwan Co., Ltd. (to present) Director of Adastia Korea Co., Ltd.  
May 2018 Director, Adastia Co., Ltd.  
Aug. 2019 Director, Adastia (Shanghai) Co., Ltd. (to present)  
May 2021 Managing Director, Adastia Co., Ltd. (to present)  
Jan. 2023 Director, Adastia (Thailand) Co., Ltd. (to present)  
Mar. 2023 Chairman of the Board of Directors, BUZZWIT Co., Ltd. (to present)

#### Reason for Appointment

In addition to having gained knowledge in finance and accounting based on his experience in a financial institution, Masayuki Kindo has extensive experience and many achievements in the company's corporate strategy, finance, and sales. We shall utilize his abundant experience and varied achievements accumulated thus far and thereby receive his contribution to improving the corporate value of the company.

#### Attendance at Board of Directors Meetings (Fiscal Year Ended February 2023)

15/15



**Yoshiaki Kitamura**  
Managing Director

#### Biography

Apr. 1999 Joined FIVE FOXES Co., LTD.  
Feb. 2007 Joined DPOP INC. (currently, Adastia Co., Ltd.)  
Sep. 2010 General Manager of studio CLIP Department, TRINITY ARTS INC. (currently, Adastia Co., Ltd.)  
Mar. 2012 General Manager of niko and ... Department, TRINITY ARTS INC.  
Mar. 2013 Executive Officer, Executive General Manager of Sales Division, TRINITY ARTS INC.  
May 2014 Director, General Manager of Sales Division, TRINITY ARTS INC.  
Mar. 2015 Executive Officer, Executive General Manager of Sales Division #2, Adastia Holdings Co., Ltd. (currently, Adastia Co., Ltd.)  
Apr. 2016 Representative Director, Adastia Korea Co., Ltd.  
Mar. 2018 Senior Executive Officer, Chief of Sales Headquarters, Adastia Co., Ltd. Director, Adastia Asia Co., Ltd. (to present) Director, POINT (Shanghai) Co., Ltd. (Currently, niko and ... (Shanghai) Co., Ltd.) (to present) Director, POINT TW INC. (currently, Adastia Taiwan Co., Ltd.) (to present) Director, Adastia (Shanghai) Co., Ltd. (to present)  
May 2021 Managing Director, Adastia Co., Ltd. (to present)  
Feb. 2022 Director, SES GLOBAL LOGISTICS (SHANGHAI) Co., LTD. (to present) Chairman of Management Board, Velvet, LLC (to present)  
Jan. 2023 Director, Adastia (Thailand) Co., Ltd. (to present)

#### Reason for Appointment

Yoshiaki Kitamura has gained extensive experience and many achievements in the field of sales, including driving the growth of our core brands. We shall utilize his abundant experience and varied achievements accumulated thus far and thereby receive his contribution to improving the corporate value of the company.

#### Attendance at Board of Directors Meetings (Fiscal Year Ended February 2023)

15/15



**Taiki Fukuda**  
Director

#### Biography

Mar. 2004 Joined IMS Co., Ltd.  
Apr. 2005 Joined POINT INC. (currently, Adastia Co., Ltd.)  
Mar. 2014 Executive General Manager of International business Division, Adastia Holdings Co., Ltd. (currently, Adastia Co., Ltd.)  
May 2014 Representative Director and President, Adastia Asia Co., Ltd.  
Mar. 2016 Executive General manager of Communication Design Division, Adastia Co., Ltd.  
Mar. 2017 Executive General Manager of Corporate Planning Division, Adastia Co., Ltd.  
May 2017 Director, Executive General Manager of Corporate Planning Division, Adastia Co., Ltd.  
Mar. 2018 Division, Adastia Co., Ltd. (to present) Chairman of Management Board of Velvet, LLC Director, Adastia General Support Co., Ltd. (to present)  
May 2018 Director, Adastia Logistics Co., Ltd.  
Nov. 2021 Representative Director, ADOORLINK Co., Ltd. (to present)  
Feb. 2022 Member of Management Board, Velvet, LLC (to present)

#### Reason for Appointment

In addition to having extensive experience and many achievements in Japan and overseas, Taiki Fukuda has served as the Representative Director and President of an overseas subsidiary of the company in the past. We shall utilize his abundant experience and varied achievements accumulated thus far and thereby receive his contribution to improving the corporate value of the company.

#### Attendance at Board of Directors Meetings (Fiscal Year Ended February 2023)

15/15

## Corporate Governance

### Directors (As of May 25, 2023)



**Satoshi Akutsu**  
Director

#### Biography

May 1998 Ph.D. in Business Administration, University of California, Berkeley  
 Dec. 1998 Assistant Professor, Faculty of Commerce and Management of Hitotsubashi University  
 Apr. 1999 Assistant Professor, Graduate School of International Corporate Strategy of Hitotsubashi University  
 Jun. 2002 Associate Professor, Graduate School of International Corporate Strategy of Hitotsubashi University (The Japanese title for Associate Professor was changed from Jokyoku to Junkyoku in 2007)  
 Mar. 2010 Outside Director, OTSUKA KAGU, LTD. (currently, YAMADA DENKI CO., LTD.)  
 Apr. 2010 Visiting Professor, Collaborative Research Sector of National Institute of Informatics, Research Organization of Information and Systems Professor, Graduate School of International Corporate Strategy (currently, Business Administration) of Hitotsubashi University (to present)  
 Sep. 2013 Outside Director, Adastria Holdings Co., Ltd. (currently, Adastria Asia Co., Ltd.) (to present)  
 Jun. 2017 Outside Director, Nojima Corporation  
 Jun. 2022 Outside Director, Yakult Honsha Co., Ltd.

#### Reason for Appointment

In our opinion, Satoshi Akutsu is suitable for the position noted above due to his record of achievements as a marketing expert, as well as his ability to provide useful advice, etc., regarding our overall marketing business and applications to the management of the company from the perspective of business development strategies.

#### Attendance at Board of Directors Meetings (Fiscal Year Ended February 2023)

15/15



**Hiromi Horie**  
Director

#### Biography

Apr. 1981 Joined Nara Machinery Co., Ltd.  
 May 1988 Joined Levi Strauss Japan KK  
 Dec. 1999 Marketing Senior Manager, Levi Strauss Japan KK  
 Mar. 2005 Executive General Manager of Public Affairs Division, Starbucks Coffee Japan, Ltd.  
 Dec. 2006 Executive General Manager of Marketing Division, Starbucks Coffee Japan, Ltd.  
 Aug. 2010 Marketing Officer, Starbucks Coffee Japan, Ltd.  
 May 2016 Outside Director, Adastria Co., Ltd. (to present)  
 Mar. 2017 Representative Director, Haruka Co., Ltd. (to present)  
 Mar. 2021 Outside Director, Kanro Inc. (to present)

#### Reason for Appointment

In our opinion, Hiromi Horie is suitable for the position noted above due to her record of achievements as the head of public relations and marketing departments of major companies (in the retail and restaurant industries), as well as her ability to apply her experience to the management of the company.

#### Attendance at Board of Directors Meetings (Fiscal Year Ended February 2023)

15/15



**Koichi Mizutome**  
Director

#### Biography

Apr. 1991 Joined Dentsu Inc. (currently, Dentsu Group Inc.)  
 Feb. 1996 Joined Andersen Consulting (currently, Accenture PLC)  
 Apr. 2000 Joined Roland Berger Strategy Consultants (Japan Office)  
 Jan. 2005 Representative Director, Roland Berger Strategy Consultants (Japan Office)  
 Oct. 2009 Managing Director, Enterprise Turnaround Initiative Corporation of Japan (currently, Regional Economy Vitalization Corporation of Japan)  
 Dec. 2010 Director and Executive Vice President, Japan Airlines Co., Ltd.  
 Jun. 2013 Senior Managing Executive Officer, World Co., Ltd.  
 Feb. 2015 Representative Director and President, Akindo Sushiro Co., Ltd.  
 Mar. 2015 Representative Director, President and CEO, Sushiro Global Holdings Co., Ltd. (currently, FOOD & LIFE COMPANIES LTD.) (to present)  
 Oct. 2015 Representative Director, Sushiro Creative Dining Ltd. (currently, FOOD & LIFE INNOVATIONS LTD.) (to present)  
 Oct. 2019 Director and Chairman, Akindo Sushiro Co., Ltd. (to present)  
 Apr. 2021 Director and Chairman, Kyotaru Co., Ltd. (to present)  
 May 2022 Outside Director, Adastria Co., Ltd. (to present) Reason for appointment

#### Reason for Appointment

In our opinion, Koichi Mizutome is suitable for the position noted above due to his experience in corporate reform at global consulting firms, as well as his wealth of experience and insight cultivated as a manager at major companies (retail businesses), which we believe will be beneficial in the management of the company.

#### Attendance at Board of Directors Meetings (Fiscal Year Ended February 2023)

10/11



**Tatsuhiro Matsuoka**  
Director

#### Biography

Apr. 1998 Joined Nippon Advanced Technology Co., Ltd. (currently, Mitsubishi Electric Software Corporation)  
 Apr. 2001 Joined Arthur Andersen, LLP. (currently, PwC Consulting LLC)  
 Aug. 2002 Transferred to KPMG Consulting Co., Ltd. (currently, PwC Consulting LLC)  
 Oct. 2008 Joined SIGMAXYZ Inc. (currently, SIGMAXYZ Holdings Inc.)  
 Nov. 2014 Information, Communications and media industry Managing Director, SIGMAXYZ Inc.  
 Apr. 2015 Digital Force Managing Director, SIGMAXYZ Inc.  
 Apr. 2017 Research Adviser, Artificial Intelligence Research Center, National Institute of Advanced Industrial Science and Technology (AIST) (to present)  
 Apr. 2019 Senior Executive Officer, Head of Digital Sherpa and Chief Information Security Officer (CISO), SIGMAXYZ Inc.  
 Apr. 2020 Senior Executive Officer, Head of Industry Sherpa and Chief Information Security Officer (CISO), SIGMAXYZ Inc.  
 Oct. 2021 Senior Executive Officer, SIGMAXYZ Inc.  
 May 2022 Outside Director, Adastria Co., Ltd. (to present)  
 Oct. 2022 Managing Executive Officer, Rise, Rise Consulting Group, Inc. (to present)

#### Reason for Appointment

In our opinion, Tatsuhiro Matsuoka is suitable for the position noted above due to his record of achievements as general manager of services and information security divisions at major companies (IT consulting), in the IT and digital fields, which we believe will be beneficial in the management of the company.

#### Attendance at Board of Directors Meetings (Fiscal Year Ended February 2023)

11/11



**Kazuo Nishiyama**  
Director

#### Biography

Jul. 2003 Joined Sony Corporation (currently, Sony Group Corporation)  
 Apr. 2007 General Manager, Business Strategy Office, Chemical and Energy Department, Sony Corporation  
 Apr. 2012 General Manager, Corporate Planning and Promotion Department, Sony Corporation  
 Feb. 2014 Head of SRE Business Preparation Office, Sony Corporation  
 Apr. 2014 President and Chief Executive Officer (Representative Director), Sony Real Estate Corporation (currently, SRE Holdings Corporation) (to present)  
 Oct. 2018 President and Chief Executive Officer (Representative Director), SRE AI Partners Corporation (to present) (currently Representative Director and President CEO) (to present)  
 May 2022 Outside Director, Adastria Co., Ltd. (to present)

#### Reason for Appointment

In our opinion, Kazuo Nishiyama is suitable for the position noted above due to his experience and insight cultivated as a manager at major companies (IT, real estate), which we believe will be beneficial in the management of the company.

#### Attendance at Board of Directors Meetings (Fiscal Year Ended February 2023)

11/11

\* Directors Koichi Mizutome, Tatsuhiro Matsuoka, and Kazuyoshi Nishiyama were elected at the 72nd Ordinary General Meeting of Shareholders held on May 26, 2022; therefore, the number of meetings of the Board of Directors after their election was 11.

## Corporate Governance

### Auditors (As of May 25, 2023)



**Tsuyoshi Matsuda**  
Standing Statutory Auditor

#### Biography

Apr. 1976 Joined Mitsubishi Bank, Limited (currently, MUFG Bank, Ltd.)  
Jan. 2006 Joined POINT INC. (currently, Adastria Co., Ltd.) Adviser, POINT INC.  
Mar. 2006 Executive Officer, Executive General Manager of Administration Division and General Manager Accounting Department, POINT INC.  
May 2008 Director, Executive Officer, Executive General Manager of Administration Division, POINT INC.  
May 2010 Director, Managing Executive Officer, Executive General Manager of Administration Division, POINT INC.  
Jun. 2013 Corporate Auditor, NATURAL NINE HOLDINGS CO., LTD. (currently, Adastria Logistics Co., Ltd.)  
Mar. 2015 Adviser to the Chairman's Office, Adastria Holdings Co., Ltd. (currently, Adastria Co., Ltd.)  
May 2016 Standing Statutory Auditor, Adastria Co., Ltd. (to present)

#### Reason for Appointment

In our opinion, Tsuyoshi Matsuda is suitable for the position noted above due to that he possesses a wealth of experience and specialized knowledge having worked as General Manager of Accounting Department of the company, as well as Director and Managing Executive Officer in charge of Accounting and Finance Departments.

#### Attendance at Board of Directors Meetings (Fiscal Year Ended February 2023)

15/15

#### Attendance at Audit & Supervisory Board Meetings (Fiscal Year Ended February 2023)

15/15



**Kazuhiko Ebihara**  
Auditor

#### Biography

Jul. 1983 Joined Boston Consulting Group Co., Ltd. (currently, Boston Consulting Group K.K.)  
Jun. 1986 Joined Goldman Sachs & Co. (currently, the Goldman Sachs Group, Inc.)  
Oct. 1988 Joined Goldman Sachs (Japan) Corp. (currently, Goldman Sachs Japan Co. Ltd.)  
Sep. 2002 Joined J.P. Morgan Securities Asia Pte. Ltd.  
Dec. 2006 Director, Synergy Inc.  
Jun. 2007 Part-Time Lecturer, Graduate School of Finance, Accounting and Law, Waseda University  
Dec. 2013 Instructor/Curriculum Coordinator, Japan Vietnam EPA Program (Sponsored by Ministry of Foreign Affairs), ARC Academy (Vietnam)  
May 2016 Outside Auditor, Adastria Co., Ltd. (to present)

#### Reason for Appointment

In our opinion, Kazuhiko Ebihara is suitable for the position noted above due to that he has abundant experience and professional knowledge in companies that conduct investment banking business.

#### Attendance at Board of Directors Meetings (Fiscal Year Ended February 2023)

15/15

#### Attendance at Audit & Supervisory Board Meetings (Fiscal Year Ended February 2023)

15/15



**Yoshiko Hayama**  
Auditor

#### Biography

Apr. 1983 Joined Tohmatsu & Co. (currently, Deloitte Touche Tohmatsu LLC)  
Oct. 1990 Joined Deloitte Touche Tohmatsu (currently Deloitte Touche Tohmatsu LLC)  
Mar. 1994 Registered as a Certified Public Accountant  
Jan. 2007 Joined Ernst & Young ShinNihon (currently, Ernst & Young ShinNihon LLC)  
Jan. 2015 Representative, Yoshiko Hayama Certified Public Accountant Office (to present)  
Jun. 2015 Outside Audit & Supervisory Board Member of COCO'S JAPAN CO., LTD.  
May 2016 Outside Director, SUGI HOLDINGS CO., LTD. (to present)  
Aug. 2016 Research Specialist, Japanese Institute of Certified Public Accountants (to present)  
Jun. 2017 Outside Director, COCO'S JAPAN CO., LTD.  
May 2018 Outside Auditor, Adastria Co., Ltd. (to present)  
Mar. 2020 Outside Director (Audit and Supervisory Committee Member), DYNAC HOLDINGS CORPORATION  
Jun. 2020 Independent Director, Zensho Holdings Co., Ltd. (to present)  
May 2023 Outside Corporate Auditor, Bellsystem24 Holdings, Inc. (to present)

#### Reason for Appointment

In our opinion, Yoshiko Hayama is suitable for the position noted above due to that her professional expertise as a certified public accountant and abundant experience and insight in auditing at audit firms will be beneficial to the management of the company.

#### Attendance at Board of Directors Meetings (Fiscal Year Ended February 2023)

15/15

#### Attendance at Audit & Supervisory Board Meetings (Fiscal Year Ended February 2023)

15/15



**Kyoko Mogi**  
Auditor

#### Biography

Jan. 2011 Registered as a lawyer (Dai-Ichi Tokyo Bar Association)  
Jan. 2011 Joined Tokyo Sanno Law Office  
Sep. 2015 Joined Hayabusa Asuka Law Offices  
May 2018 Joined southgate (to present)  
Feb. 2021 Seconded to Gleiss Lutz (Germany)  
Dec. 2022 Admitted to the State Bar of California  
May 2023 Outside Corporate Auditor, Adastria Co., Ltd. (to present)

#### Reason for Appointment

In our opinion, Wataru Maekawa is suitable for the position noted above due to that her professional expertise and abundant experience and insight in corporate law as an attorney at law will be beneficial to the management of the company.

#### Attendance at Board of Directors Meetings (Fiscal Year Ended February 2023)

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#### Attendance at Audit & Supervisory Board Meetings (Fiscal Year Ended February 2023)

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\* Kyoko Mogi was elected at the 73rd Ordinary General Meeting of Shareholders on May 25, 2023, and therefore did not attend any Board of Directors meetings or Board of Auditors meetings for the fiscal year ended February 28, 2023.

## Corporate Governance

### Compliance

#### Basic Philosophy

Under our corporate philosophy of *Be a Person Needed, Be a Company Needed*, the Adastia Group is committed to fulfilling our social responsibilities by conducting fair, equitable, and transparent business. All employees will conduct themselves with self-discipline and high ethical standards at all times as members of society.

#### Key Internal Initiatives

##### (1) Group Code of Ethics

Adastia established the Group Code of Ethics to address anti-corruption, respect for human rights, and fair and transparent business dealings. This code ensures that our employees, as members of society, behave with self-discipline and high ethical standards at all times.

Every year, we reconfirm this code, requiring employees to read and sign to signal their understanding. The response rate for the fiscal year ending February 2023 was 98.3% in Japan and 100% overseas.

We also conduct compliance training for Group employees in Japan to prevent incidents or improprieties.

##### (2) Harassment Prevention Training

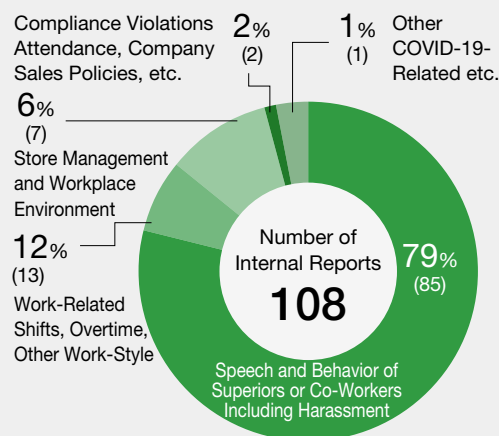
We provide harassment prevention training on an annual basis and clearly state the prohibition of harassment in our work rules and regulations as part of our efforts to prevent harassment. We establish curriculum and train management and non-management personnel to ensure appropriate responses to any incidents of harassment.

##### (3) Anonymous Whistle-Blowing System (Whistle Line)

In the event of acts or indications of acts violating compliance or other violations of propriety, laws, or rules, employees have access to an internal whistle-blowing system to report said acts. Employees may also contact a designated external lawyer, if preferred. This program may be used anonymously by any employee—both in Japan and overseas. The details of reports are kept confidential and we give full consideration to ensure persons making reports are not treated unfairly.

The whistle-blowing system received 108 consultations in the fiscal year ended February 2023. Among these, no cases were deemed to be serious misconduct and each case was handled appropriately.

Number of Internal Reports and Details (FYE 02/2023)



#### Key External Initiatives

##### (1) Compliance With Group Procurement Policy and Group Procurement Guidelines

We established the Group Procurement Policy and the Group Procurement Guidelines to grow together with our suppliers and continue to produce products in good partnership. We pursue CSR procurement with these policies that aim to conduct fair and ethical transactions while fulfilling our social responsibilities. For more details, see *Fostering Sustainable Development in Production Areas* on P53.

##### ► Foster sustainable development in production areas

##### (2) Business Partner Questionnaire

We conduct an annual questionnaire of our business partners in Japan and overseas with whom we have purchasing relationships as one means to maintain positive business relationships with business partners. These questionnaires confirm whether we are engaging in fair business practices by ascertaining compliance with various laws and regulations, including the Subcontract Act, and whether any inappropriate actions have been taken by our employees.

When we receive questionnaire feedback, we promptly investigate, confirm the details, formulate measures to prevent recurrence, and conduct internal training to strengthen compliance.

During the fiscal year ended February 2023, the survey was distributed to 1,672 companies (2,047 persons) and received 1,116 valid responses. We also received 54 comments and suggestions, and we are responding to each case, formulating measures to prevent recurrence, and conducting internal training.

##### (3) Supplier Hotline

We established a Supplier Hotline to ensure fair, equitable, and transparent transactions in our purchasing relationships. Through this mechanism, suppliers may make anonymous inquiries, if necessary, to address cases of abuse (power structure), or violations of laws, contract terms, or ethics by members of the Group. In the event we receive an inquiry from a business partner, we communicate the information with the director in charge. This system assures an appropriate and prompt response.

Business Partner Questionnaire Results (FYE 02/2023)

Details	No. of Companies (No. of Directors in Charge)	No. of Responses	Comments and Suggestions
Product suppliers and production plants (Japan)	919 (1,190)	668	36
Product suppliers and production plants (overseas)	186 (192)	74	1
Sales promotion (advertising and media publications)	117 (145)	77	10
Systems-related	102 (113)	69	1
Repair and maintenance work	54 (63)	47	—
Employee recruitment, temporary staffing	38 (41)	29	—
Other (deliveries, supplies, etc.)	256 (303)	152	6
<b>Total</b>	<b>1,672 (2,047)</b>	<b>1,116</b>	<b>54</b>

## Corporate Governance

### Risk Management

Adastria established departments and committees with jurisdiction over quality, product safety, information security, health and safety, and other risks. We also develop rules and standards to promote awareness of these risks. The company will report to a selected director in charge of crisis management and take action in the event that a risk has, or is expected to have, a significant impact on the survival and credibility of Group companies.

### Risks Management

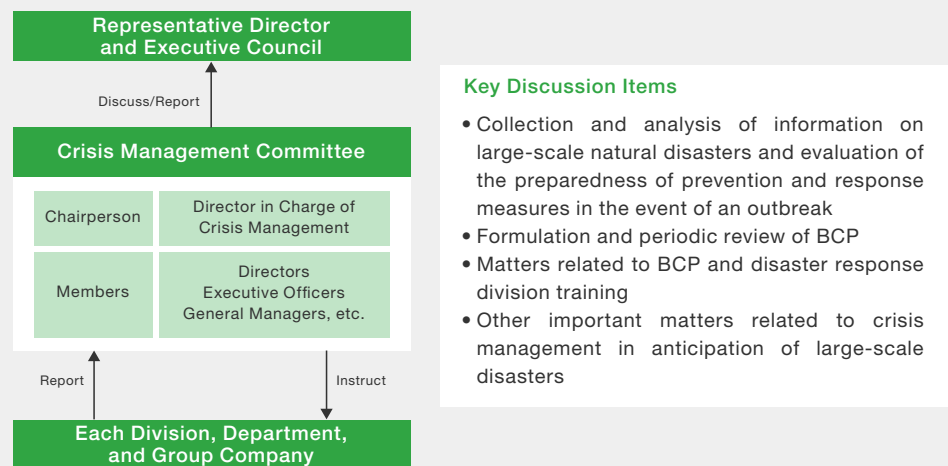
We take the following initiatives to respond to large-scale natural disasters and other risks in the course of our daily business operations.

#### Business Continuity Plan (BCP) and Large-Scale Disaster Preparedness

We established the Crisis Management Committee to ensure effective crisis management by preparing preventive and response measures in advance at each of our Group companies against large-scale natural disasters that have, or are expected to have, a serious impact on the survival of said companies. Such disasters include earthquakes, fires, volcanic eruptions, typhoons, windstorms, floods, infectious diseases, and other disasters.

The Crisis Management Committee is tasked with accurately assessing the impact of potential large-scale disasters and the status of Group facilities and business activities, as well as deliberating on necessary counter-measures.

#### Adastria Group Crisis Management System



#### Responding to Business Execution Risks

Adastria promotes activities to prevent and reduce the occurrence of risks in our daily business operations. We formulate, update, and regularly disseminate the Crisis Management Manual, which outlines appropriate business operations, accident prevention, and emergency responses.

Matters such as fraud, violation of laws and rules, product quality defects, incidents, accidents, and disasters that occur in the course of business operations are reported to the Legal and General Affairs Department. This department is in charge of crisis management reports and follows up on these reports in cooperation with the relevant departments until each case is dealt with. We also go beyond appropriately responding to incidents that occur to take measures to prevent recurrence, as well as disseminate information and conduct educational activities within the Company.

Summaries of individual cases and responses are reported to the Executive Council on a weekly basis, and important cases are reported to the Board of Directors.

#### Philosophy and Systems for Dealing With Anti-Social Forces

Each Group company rejects any relationships with anti-social forces that may threaten social order and safety. The Group rejects any and all business relationships with such forces or groups, and we take a firm stance against and reject any unreasonable demands.

In the event of an unreasonable demand by an anti-social force, the Legal and General Affairs Department, as the department in charge of responding to such demands, shall coordinate with the police, the National Center for Removal of Criminal Organizations, legal counsel, and other outside specialized organizations to provide an appropriate response.

#### Information Security

We commit to being a trustworthy organization to our customers and other stakeholders by appropriately protecting the information assets we hold in the course of our business.

As such, we established and disclosed our Information Security Policy with the aim of integrating compliance with information security into our code of conduct.

We will comply with this policy and the Privacy Policy as we maintain an advanced information security management system. At the same time, we will cooperate with external third-party organizations to further strengthen our security and monitoring systems and provide ongoing peace of mind to our customers and other stakeholders.

We have also established an Information Security Committee to ensure information security and protect information assets. This committee is chaired by a director and deliberates on matters of information security management measures, the assessment of information security status, the development of related rules and systems, and other important matters related to information security. The committee will then submit proposals or reports to the Board of Directors as necessary.

▶ [Information Security Policy](#)

▶ [Privacy Policy](#)

## Corporate Governance

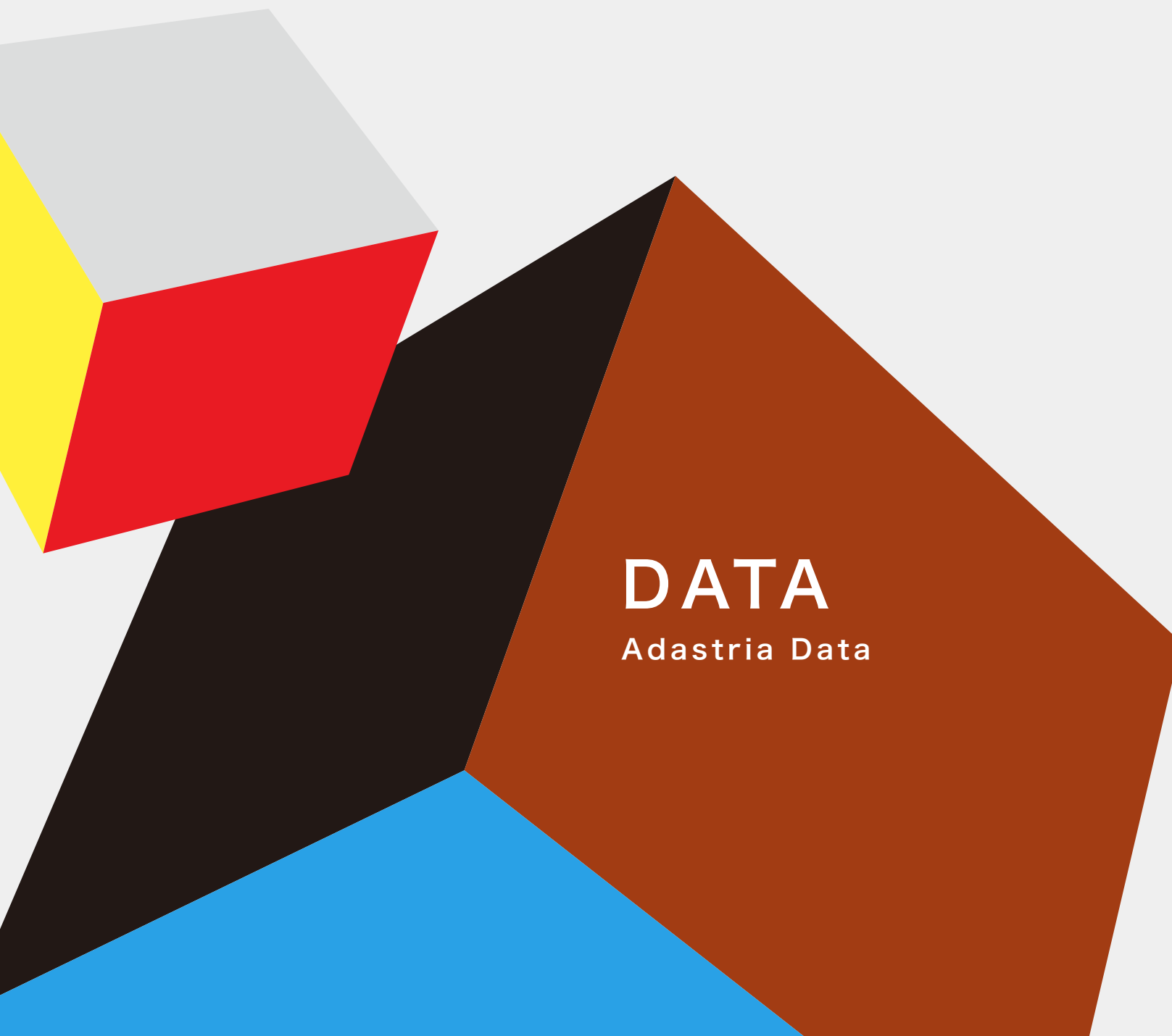
### Business Risks, Other Risks, and Response Measures

	Risks	Response Measures
Risks Related to Business Environment	<b>CASE 01</b> <b>Pandemic</b> <ul style="list-style-type: none"> <li>The spread of COVID-19 or a pandemic caused by a new infectious disease could force the closures of commercial facilities where we operate stores under brands owned by Adastria. Customer traffic could decline, production logistics could stagnate, and business performance could experience a resulting downturn</li> <li>Changes in customer lifestyles and preferences, including the popularization of remote work due to the spread of infectious diseases</li> </ul>	<ul style="list-style-type: none"> <li>Establish systems to promptly provide products to the market that meet consumer preferences</li> <li>Deliver an enjoyable shopping experience to customers through enhanced in-house e-commerce functions and store-web integration</li> </ul>
	<b>CASE 02</b> <b>A Contracting Domestic Market</b> <ul style="list-style-type: none"> <li>A contraction in the domestic apparel market due to declining birthrates, aging population, and future population declines</li> </ul>	<ul style="list-style-type: none"> <li>Diversify countries of operation by developing overseas markets (East Asia and North America); diversify businesses in Japan by developing new brands for mature generations and creating new businesses in the lifestyle field; expand customer base and increase lifetime value for customers</li> </ul>
	<b>CASE 03</b> <b>Geographic and Political Risks</b> <ul style="list-style-type: none"> <li>Failure to develop and monetize businesses overseas due to inability to offer products that meet local customer needs, inability to acquire personnel skilled in business operations, etc.</li> <li>Weakening business performance due to unforeseen changes in laws and regulations, disruptive political economic factors, or social turmoil caused by terrorism, conflict, natural disasters, etc., in the countries where we do business</li> <li>Interruptions in product procurement and sales due to political situations, the economic environment, natural disasters, etc., in the countries (mainland China and other Asian countries) where the products we handle are manufactured</li> </ul>	<ul style="list-style-type: none"> <li>Diversify production sites and develop markets in East Asia regions offering high growth potential</li> <li>Accumulate business operation expertise and recruit employees by strengthening the functions of local subsidiaries and localizing human resources</li> </ul>
	<b>CASE 04</b> <b>Exchange Rate Fluctuations and Cost Increases</b> <ul style="list-style-type: none"> <li>Fluctuations in foreign exchange rates (mainly weakening of the yen), price hikes in cotton and other raw materials used in apparel</li> <li>Soaring commodity import costs due to rising global energy prices</li> <li>Rising cost of goods due to higher labor costs in commodity-producing countries</li> </ul>	<ul style="list-style-type: none"> <li>Make appropriate use of forward exchange contracts</li> <li>Order goods and raw materials in advance based on data analysis</li> <li>Decentralize production to ASEAN countries</li> <li>Take advantage of volume discounts by placing bulk orders across multiple brands</li> <li>Reduce brokerage margins by dealing directly with factories</li> </ul>
	<b>CASE 05</b> <b>Environmental Issues</b> <ul style="list-style-type: none"> <li>Insufficient response to tighter environmental impact regulations and changing consumer preferences</li> <li>Decreased need for clothing due to global warming</li> <li>Rising raw materials prices due to climate change</li> <li>Increased expenses if carbon tax is enforced on fossil fuel procurements</li> </ul>	<ul style="list-style-type: none"> <li>Operate stores and logistics centers to create environmental value, including the procurement of power derived from renewable energy sources</li> <li>Establish sustainability targets</li> <li>Improve sustainability throughout the value chain, including the procurement of environmentally friendly raw materials, reduction of environmental impact in production processes, and reduction of waste inventory via inventory optimization</li> <li>Increase the number of partner-certified factories that meet sustainability goals</li> <li>Change behaviors and raise environmental awareness in the market as a whole through collaborations with other companies in the industry to develop brands that support sustainable fashion</li> </ul>
	<b>CASE 06</b> <b>Natural Disasters and Accidents</b> <ul style="list-style-type: none"> <li>Natural disasters such as earthquakes, tsunamis, typhoons, volcanic eruptions, and other unexpected natural disasters that result in large-scale power outages, flooding, or other damage to stores; prolonged stagnation of production, distribution, and sales activities due to said disasters</li> </ul>	<ul style="list-style-type: none"> <li>Formalize business continuity plans (BCP) to recover quickly from major earthquakes, other disasters, outbreaks of infectious diseases, or other events</li> <li>Analyze the impact on store operations in areas that experienced heavy rain damage in the past and estimate the financial impact of store closures due to flooding</li> </ul>

## Corporate Governance

### Business Risks, Other Risks, and Response Measures

	Risks	Response Measures
Risks Related to Business Operations	<b>CASE 01</b> <b>Risks Related to Store Operations</b> <ul style="list-style-type: none"> <li>Failure to recover security deposits and guarantee money deposited for retail properties due to bankruptcy of developers, etc.</li> <li>Impairment losses due to deterioration in profitability of fixed assets (stores, etc.) or decline in market value of assets held</li> <li>Changes in the commercial environment surrounding fashion buildings where stores are located</li> </ul>	<ul style="list-style-type: none"> <li>Operate a localized store system to optimize our store network, conducting detailed surveys in each region and engaging in ongoing store relocations</li> <li>Achieve an advantageous store location mix by leveraging the Group's economies of scale and brand strength</li> </ul>
	<b>CASE 02</b> <b>Apparel Business Risks</b> <ul style="list-style-type: none"> <li>Failure in product planning, etc., or obsolescence of brand value due to the characteristics of the casual apparel retail market, where competition (foreign and domestic) is fierce, and trends and tastes tend to change quickly and dramatically</li> </ul>	<ul style="list-style-type: none"> <li>Provide products that meet customer needs by collecting information on customer preferences through stores and the Company's e-commerce site; incorporate this information promptly into product development</li> <li>Improve the accuracy of demand forecasting by encouraging pre-order sales on the e-commerce site</li> <li>Improve new brand development speed and accuracy</li> </ul>
	<b>CASE 03</b> <b>Supply Chain Risks</b> <ul style="list-style-type: none"> <li>Stagnation of product supply due to production delays among companies to which the Company consigns product manufacturing, supplier bankruptcy, or interruption of product transportation routes, etc.</li> <li>Damage to our reputation due to employee human rights violations or environmental pollution at outsourced companies</li> <li>Rising logistics costs due to energy price fluctuations and labor shortages</li> </ul>	<ul style="list-style-type: none"> <li>Diversify production sites to ASEAN countries and other regions in addition to mainland China</li> <li>Obtain appropriate insurance coverage in case of supply route breakdowns, exercise information management across the transportation process, secure multiple means of transportation, and select alternative routes</li> <li>Encourage socially and environmentally responsible procurement activities in accordance with the Group's procurement policy</li> <li>Curb logistics costs through in-store pickup and streamlined delivery for e-commerce sales</li> </ul>
	<b>CASE 04</b> <b>Information Systems and Personal Information Risks</b> <ul style="list-style-type: none"> <li>Loss of sales and customer confidence due to serious failures in Group systems caused by information system malfunctions, cyberattacks, or other causes, or a leakage of personal information due to unauthorized access or other causes</li> </ul>	<ul style="list-style-type: none"> <li>Conduct third-party security risk assessments; formulate and implement necessary response plans</li> <li>Install the latest security software and maintain information management rules</li> </ul>
Management Strategy Risks	<b>CASE 01</b> <b>Human Resources Risks</b> <ul style="list-style-type: none"> <li>Deterioration in business, financial condition, and results of operations due to the sudden departure of senior management</li> <li>Restrictions on store operations and higher labor-related costs due to a shrinking workforce in Japan and rising wages worldwide</li> </ul>	<ul style="list-style-type: none"> <li>Establish a Board of Directors that represents a diverse range of directors with different backgrounds, expertise, and experience to ensure an appropriate balance while adopting an executive officer system to separate business management and execution</li> <li>Adopt a performance-linked stock compensation plan for directors and a stock ownership plan for executive officers to recruit and retain capable management personnel</li> <li>Develop management personnel through training for senior management, etc.</li> <li>Develop a personnel system that allows employees to choose diverse careers and work styles that suit their lifestyles; engage in health management</li> <li>Engage in initiatives to achieve employee well-being through the Adastia Wellness Committee, a health promotion committee consisting mainly of employees</li> </ul>
	<b>CASE 02</b> <b>Success or Failure of Major Investments and Acquisitions</b> <ul style="list-style-type: none"> <li>Extended payback period or failure to recover investment due to investments in or acquisition of outside companies for overseas business expansion, the development of new brands, the acquisition of related technologies, etc., toward long-term growth that do not generate expected revenues or synergies, or capital and system investments necessary for growth not functioning as expected</li> </ul>	<ul style="list-style-type: none"> <li>Conduct investments within the scope of financial soundness; formulate a review process for investment decisions; hold discussions at board of director meetings (including outside directors)</li> <li>Establish a third-party PMO for large system investments</li> </ul>
	<b>CASE 03</b> <b>New Business Uncertainties</b> <ul style="list-style-type: none"> <li>Failure to develop business or generate business revenue due to lower-than-expected customer demand, higher-than-expected costs to enter or operate, or increased competition</li> <li>Expenses or losses resulting from the withdrawal or downsizing of new businesses</li> </ul>	<ul style="list-style-type: none"> <li>Accumulate expertise in new areas through collaborations; leverage lifestyle proposal capabilities cultivated in the apparel industry in new businesses</li> </ul>
	<b>CASE 04</b> <b>ESG Compliance Success or Failure</b> <ul style="list-style-type: none"> <li>Risk of losing corporate value in the capital markets and impairment of sustainability due to reputational risk if ESG-related social issues are not identified, specified, and adequately managed within the risk management framework</li> </ul>	<ul style="list-style-type: none"> <li>Establish a Sustainability Committee, formulate a sustainability policy, and set medium- to long-term sustainability targets; manage the progress of materialities; report to/advise the Board of Directors and/or Executive Committee</li> </ul>



# DATA

Adastria Data



## Financial and Non-Financial Highlights

### 10-Year Financial and Non-Financial Highlights

#### Consolidated Financial Data

		February 2014	February 2015	February 2016	February 2017	February 2018	February 2019	February 2020	February 2021	February 2022	February 2023
Net sales	(Million yen)	153,273	184,588	200,038	203,686	222,787	222,664	222,376	183,870	201,582	242,552
Operating profit	(Million yen)	5,762	5,981	16,004	14,916	5,005	7,190	12,885	766	6,564	11,515
Ordinary profit	(Million yen)	6,027	6,452	16,185	15,126	5,428	7,345	12,843	2,981	8,166	12,026
Net income attributable to owners of the parent	(Million yen)	-4,731	503	9,122	11,575	863	3,890	6,363	-693	4,917	7,540
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	(Million yen)	13,861	15,732	24,612	23,028	15,141	15,317	20,357	7,766	13,302	19,964
Net asset value	(Million yen)	44,786	46,233	53,282	56,035	51,030	52,959	57,041	50,701	54,963	60,762
Total assets	(Million yen)	78,841	83,742	90,454	90,389	91,123	91,263	97,924	95,449	97,957	111,392
Cash flow from operating activities	(Million yen)	4,606	12,112	22,054	11,928	10,685	9,904	20,850	11,933	3,504	13,460
Cash flow from investing activities	(Million yen)	-6,831	-10,421	-4,551	-4,323	-7,404	-8,686	-6,645	-7,366	-7,780	-9,963
Cash flow from financing activities	(Million yen)	-9,503	-2,524	-5,683	-6,309	-4,629	-1,890	-6,439	-6,840	-3,251	-4,398
Net asset per share	(Yen)	1,844.17	952.02	1,106.45	1,191.16	1,084.84	1,125.29	1,210.55	1,122.71	1,192.62	1,309.96
Earnings per share (EPS)	(Yen)	-206.42	10.37	188.31	242.49	18.36	82.67	135.08	-14.88	108.72	166.37
Equity ratio	(%)	56.8	55.2	58.9	62.0	56.0	58.0	58.3	53.1	55.1	53.3
Return on equity (ROE)	(%)	-11.3	1.1	18.3	21.2	1.6	7.5	11.6	-1.3	9.4	13.3
Return on assets (ROA)	(%)	-6.7	0.6	10.5	12.8	1.0	4.3	6.7	-0.7	5.1	7.2
Price earnings ratio (PER)	(Times)	—	141.9	15.5	12.0	126.7	23.5	13.0	—	17.1	13.0
Dividend payout ratio	(%)	—	361.5	34.5	30.9	272.3	60.5	37.0	—	50.6	36.1
Total shareholder return (5-year TSR)	(%)	—	—	—	—	—	85.7	79.5	91.8	81.4	104.1
Total shareholder return (1-year TSR)	(%)	71.0	128.3	203.4	101.9	81.7	85.7	92.6	116.3	87.8	131.2

#### Consolidated Non-Financial Data

		February 2014	February 2015	February 2016	February 2017	February 2018	February 2019	February 2020	February 2021	February 2022	February 2023
Number of stores at end of term	(Stores)	1,213	1,356	1,324	1,351	1,501	1,427	1,392	1,400	1,428	1,509
Stores sales floor area (monthly average)	(m <sup>2</sup> )	221,620	251,062	268,704	272,182	302,131	304,529	287,616	296,210	299,676	330,150
Number of full-time employees	(People)	4,546	4,852	4,760	4,914	5,677	5,665	5,715	5,701	5,762	6,356
Average number of temporary employees	(People)	5,334	5,839	5,997	6,163	6,564	6,363	6,167	5,085	5,530	6,061

\*The Company has applied standards such as the Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28, February 16, 2018) since the beginning of the fiscal year ending February 2020. Key management indicators for the fiscal year ending February 2019 are indicators after retroactive application of such accounting standards.

\*The Company has applied standards such as the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) since the beginning of the fiscal year ending February 2023. Key management indicators for the fiscal year ending February 2023 are indicators after the application of these accounting standards.

## Group Companies

### ELEMENT RULE

Name	ELEMENT RULE Co., Ltd.
Head Office Address	19F Shin-Aoyama Bldg. West, 1-1-1 Minami-Aoyama, Minato-ku, Tokyo
Establishment	March 1, 2017
Businesses	Planning, manufacturing and sales of apparel, sundries, etc.

### GO FORWARD, THINK FUTURE BUZZWIT CO., LTD.

Name	BUZZWIT Co., Ltd.
Head Office Address	7F Daiba Frontier Bldg., 2-3-2 Daiba, Minato-ku, Tokyo
Establishment	November 21, 2016
Businesses	Planning, manufacturing and sales of apparel, sundries, etc.

### A DOORLINK

Name	ADOORLINK Co., Ltd.
Head Office Address	5F Miyamasuzaka Place Shibuya, 2-16-5 Shibuya, Shibuya-ku, Tokyo
Establishment	November 2, 2020
Businesses	Planning, manufacturing and sales of apparel, sundries, etc.

### Gate Win

Name	Gate Win Co., Ltd
Head Office Address	Shibuya Hikarie, 2-21-1 Shibuya, Shibuya-ku, Tokyo
Establishment	May 2022
Businesses	License business for domestic casual wear market

### ADASTRIA eat Creations

Name	ADASTRIA eat Creations Co., Ltd.
Head Office Address	19F Shin-Aoyama Bldg. West, 1-1-1 Minami-Aoyama, Minato-ku, Tokyo
Establishment	October 31, 2017
Businesses	Management and development of food service operations

### zetton inc.

Name	zetton inc.
Head Office Address	9F VORT-Shibuya-briller Bldg., 1-20-5 Jinnan, Shibuya-ku, Tokyo
Establishment	October 26, 1995
Businesses	Management, development and consulting of restaurants, etc.

### ADASTRIA Logistics

Name	Adastria Logistics Co., Ltd.
Head Office Address	1-15 (Gate A) Chuo Kogyo Danchi, Ibaraki-machi, Higashiibaraki-gun, Ibaraki
Establishment	June 1988
Businesses	Logistics operations for group companies

### ADASTRIA General Support

Name	Adastria General Support Co., Ltd.
Head Office Address	Shibuya Hikarie, 2-21-1 Shibuya, Shibuya-ku, Tokyo
Establishment	December 19, 2013
Businesses	Comprehensive services for group companies

### Other Group Companies

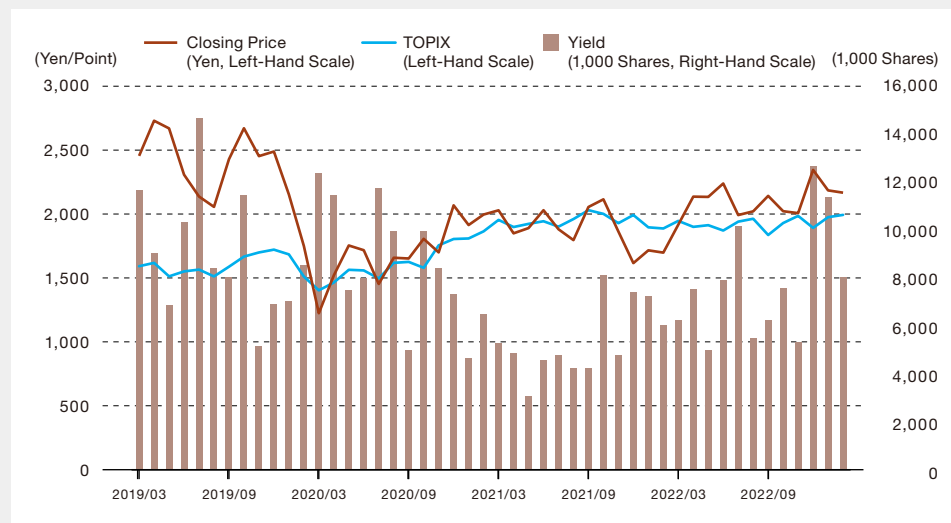
Adastria Asia Co., Ltd.  
Adastria (Shanghai) Co., Ltd.  
niko and ... (Shanghai) Co., Ltd.  
Adastria Taiwan Co., Ltd.  
Adastria (Thailand) Co., Ltd.  
Adastria USA, Inc.  
Velvet, LLC  
ZETTON, INC.  
NATURAL NINE TRADING (SHANGHAI) LTD.  
SES GLOBAL LOGISTICS (SHANGHAI) Co., LTD.

## Corporate Overview and Stock Information

### Corporate Overview

Name	Adastria Co., Ltd.
Head Office Address	27F, Shibuya Hikarie, 2-21-1 Shibuya, Shibuya-ku, Tokyo, Japan
Contact Number	03-5466-2010 (Representative)
Establishment	October 22, 1953
Capital	¥2,660 Million
Businesses	Planning, manufacturing and sales of apparel, sundries, etc.
Primary Banking Partners	MUFG Bank JOYO Bank Mizuho Bank Sumitomo Mitsui Banking Corporation
Number of Employees	6,356 full-time group employees
Number of Stores	Domestic: 1,340 Overseas: 95 Restaurants: 74

### Stock Price and Yield (Monthly)



### Status of Shares (As of February 28, 2023)

Total Number of Shares Authorized to Be Issued	150,000,000 shares
Total Number of Issued Shares	48,800,000 shares (including 3,147,779 treasury shares)
Number of Shareholders	52,917

### Major Shareholders (Top 10)

Shareholders	No. of Shares Owned (Thousands of Shares)	Equity Shares (%)
Fukuzo Co., Ltd.	17,132	37.5
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,998	8.8
Toyoshima Co., Ltd.	2,000	4.4
Custody Bank of Japan, Ltd. (Trust Account)	1,467	3.2
Michio Fukuda	1,059	2.3
J.P. MORGAN SECURITIES PLC FOR AND ON BEHALF OF ITS CLIENTS JPMSP RE CLIENT ASSETS-SETT ACCT	688	1.5
Adastria Employee Shareholding Association	657	1.4
SMBC Nikko Securities Inc.	506	1.1
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	443	1.0
Morgan Stanley MUFG Securities Co., Ltd.	440	1.0

\*Ratios were calculated excluding 3,147,779 shares of treasury stock

### Distribution of Shares by Shareholder

Shareholder	No. of Shareholders	No. of Shares Owned (Thousands of Shares)	Equity Shares (%)
Foreign nationals	269	5,898	12.1
Individuals and others	52,287	15,028	30.8
Financial institutions	15	6,131	12.6
Business firms and other corporations	317	19,627	40.2
Financial services providers	29	2,114	4.3
Total amount	52,917	48,800	100.0

\*Treasury stock is included in the calculation of Individuals and others

### External Evaluations

<p>MSCI (As of April 2023)</p>	<p>FTSE (Since April 2022)</p>	<p>DX Certification (Certified in January 2022)</p>	<p>NADESHIKO BRAND 2021</p>	<p>PRIDE INDEX GOLD AWARD 2022</p>	<p>D&amp;I Award 2022</p>	<p>Monisu Certification</p>	<p>2023 Health &amp; Productivity Management Outstanding Organization (Large Corporate Sector)</p>
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