

This document is a translation of the Notice for 47<sup>th</sup> General Shareholders' Meeting and is provided for your convenience only, without any warranty as to its accuracy or as to the completeness of the information. The Japanese original version of the document is the sole official version.

Securities code: 8170  
Address: 13-4, Arakicho, Shinjuku-ku, Tokyo  
Representative: Nobuo Nemoto, President

April 28, 2016

## **Aderans Co., Ltd.**

### **Convocation Notice for 47th General Shareholders' Meeting**

We are pleased to invite you to our 47th general shareholders' meeting for the fiscal year ended February 29, 2016. Details about the meeting are presented below.

Please bring your voting form with you. If you are unable to attend the meeting, you may exercise your right to vote using one of the two methods described below. Please following the instructions applicable to your preferred method to exercise your right to vote by mail or via the Internet, and then exercise your right to vote accordingly, no later than 6:30 p.m., Wednesday, May 25, 2016.

#### **[Exercise of voting rights by mail]**

Please indicate your decision for or against proposals on the enclosed Exercise of Voting Rights Form and return it so that it is received by the exercise deadline noted above.

#### **[Exercise of voting rights via the Internet]**

Before accessing the Company's designated website for exercising voting rights (<http://www.web54.net>), please read the instructions on how to exercise your voting rights online in the section "Procedures for exercising voting rights via the Internet," described on page 3 of this notice. Please use the code and password for exercising voting rights, which you will find on the enclosed Exercise of Voting Rights Form, and follow the on-screen instructions to enter your votes for or against proposals. Please ensure that you complete this online exercise of voting rights by the exercise deadline noted above.

**Time & date:** 10:00 a.m., Thursday, May 26, 2016

**Location:** Sumitomo Realty & Development Nishi-Shinjuku No. 3 Building, 1st Floor,  
Belle Salle Nishi-Shinjuku Hall  
15-3, Nishi-Shinjuku 4-chome, Shinjuku-ku, Tokyo

**Presentation of:**

1. Business report and consolidated financial statements, as well as auditors' reports on the consolidated financial statements from the independent auditors and Aderans' Audit & Supervisory Board, for the 47th fiscal year, ended February 29, 2016.
2. Financial statements for the 47th fiscal year, ended February 29, 2016.

### **Agenda and referenced items**

#### **Proposals by the Company**

Agenda:

1. Appropriation of retained earnings
2. Partial amendment to Articles of Incorporation
3. Election of seven (7) directors
4. Election of two (2) Audit & Supervisory Board members and one (1) substitute member

#### **Other Matters for Resolution at Convocation**

(1) *Handling of duplicated exercise of voting rights*

If any shareholder exercises his/her voting rights both via the Internet and by mailing in the Exercise of Voting Rights Form, only the vote that arrives via the Internet will be the vote deemed valid. Also, if voting rights are exercised more than once via the Internet, the last vote entered online will be the one deemed valid.

(2) *Exercise of voting rights by proxy*

In regard to the exercise of voting rights by proxy, the Company asks that you call upon another shareholder holding voting rights in the Company to act as proxy in exercising your voting rights. Please be advised that a document verifying power of representation on your behalf must be presented.

END

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\* The opening time: 9:00am

\* Your **Exercise of Voting Rights Form** is enclosed. Please bring it with you to the general shareholders' meeting and present it to reception.

\* If changes are made to **Guide to Voting**, business reports, financial documents or consolidated financial documents, the revised versions will be uploaded to the Company's website, at <http://www.aderans.com/>.

\* No gifts to shareholders will be given on the meeting day.

## **Procedures for exercising voting rights via the Internet**

If you will be exercising your voting rights via the Internet, please acquaint yourself with the following conditions before you exercise your voting rights.

1. To exercise your voting rights via the Internet, you will require the following system environment:
  - (1) Monitor resolution of at least 800 x 600 (SVGA).
  - (2) The following applications must be installed:
    - i. Microsoft ® Internet Explorer 5.01 SP2 or later versions
    - ii. Adobe ® Acrobat ® Reader ® 4.0 or later versions or Adobe ® Reader ® 6.0 or later versions (for on-screen viewing shareholders' meeting reference materials)
2. It is only possible to exercise voting rights via the Internet by accessing a website designated to the Company (<http://www.web54.net>). Please be aware that it is not possible to access the website for exercising voting rights through a mobile phone.
3. If you plan to exercise your voting rights via the Internet, we ask that you do so by 6:30 p.m. Wednesday, May 25, 2016.
4. If you exercise your voting rights twice, that is, via the Internet and also by mailing in your Exercise of Voting Rights Form, the exercise of voting rights via the Internet will be deemed valid.
5. If you exercise your voting rights multiple times via the Internet, the last exercise of voting rights will negate all previous entries in terms of validity.
6. The password is important information verifying the identity of the person who exercises voting rights as the registered shareholder. Please treat the password with due care. If you repeatedly enter the wrong password more than the allowable number of times, you will be locked out and unable to use the website to exercise your voting rights. If you wish to have a new password issued, please follow the on-screen instructions to execute the necessary procedures.
7. The voting code printed on your Exercise of Voting Rights Form is valid only for this particular shareholders' meeting.
8. Using the website to exercise your voting rights may incur the cost of connection fees for Internet service providers and communication fees, such as call charges, and these costs will be borne by the shareholder.

## **Inquiries regarding the exercise of voting rights via the Internet**

1. If you have technical problems regarding the operation of a personal computer or associated devices for voting via the Internet, please contact:  
Securities Agency Web Support, Sumitomo Mitsui Trust Bank, Limited  
Direct line, toll-free in Japan: 0120-652-031 (Business hours: 09:00 to 21:00)
2. For other inquiries, such as registered address or number of shares, please contact:  
Securities Agency Business Center, Sumitomo Mitsui Trust Bank, Limited  
Direct line, toll-free in Japan: 0120-782-031 (Business hours: 09:00 to 17:00, Monday to Friday)

## **Electronic voting platform (for institutional investors)**

Institutional investors may also use the electronic voting platform operated by ICJ Inc. to electronically execute voting rights for this shareholders' meeting.

## **Business Report** **March 1, 2015, to February 29, 2016**

### **1. Group Status**

#### **(1) Operating environment and business results**

The economic environment in Japan during fiscal 2016—Aderans' consolidated business year ended February 29, 2016—was marked by a gradual recovery tone, notably, improvement in corporate earnings and personal income status, against a backdrop of economic policies introduced by the government and monetary easing by the Bank of Japan. Nevertheless, adverse influences, such as the economic slowdown in China and low oil prices, continued to obscure the path ahead.

The Aderans Group endeavored to boost corporate value under these conditions, guided by a management vision emphasizing realization of the “good company” standard through *sampo yoshi* management. This “three-way good” ideal espoused by the merchant class of the Edo Period (1603-1868) has re-emerged recently to convey the importance of pursuing business not only for corporate gain but for the benefit of customers and society as well. It highlights customer satisfaction, employee satisfaction, and corporate responsibility and trust earned from society.

Aderans posted consolidated net sales of ¥79,153 million, up 3.2% from a year ago but recorded an operating loss, at ¥125 million, reversing course from operating income of ¥2,880 million in fiscal 2015. The operating loss is due to the impact of lower sales from the Aderans Business, specifically, the women's segment, and the Fontaine Business, reflecting greater activity in the women's market paralleling an increase in the number of rival companies as well as the entry of companies from other sectors into the wig market with wigs in the low-price range, and also due to higher personnel costs associated with the medical business, which is tapped for growth in the medium to long term, and store development, mainly at general merchandise stores, which pushed up expenses, mainly personnel costs. The Company also showed an ordinary loss, at ¥548 million, a turnaround from ordinary profit of ¥5,997 million in fiscal 2015. The bottom line was written in red, with a net loss of ¥1,860 million, compared with net income of ¥5,075 million in fiscal 2015.

Consolidated EBITDA(\*), a key performance indicator for the Aderans Group, fell 35.8% year-on-year, to ¥4,623 million.

(\* Consolidated EBITDA = Consolidated operating income + Depreciation expenses + Amortization of goodwill)

A summary of business results by each reporting segment is provided below.

#### **The Aderans Business (Custom-made wigs)**

On the men's side of the Aderans Business, measures to boost sales included effective advertising and promotions as well as marketing campaigns to encourage salon visits and approaches to attract and keep customer interest. But these efforts were met with limited success, and the segment recorded a slight year-on-year decrease in sales to men. In the women's market, sales were down year-on-year, as demand derived through direct responses to marketing campaigns and try-on events was squeezed by such developments as an increase in the number of rival companies and the entry of companies from other sectors into the wig market offering wigs in the low-price range. The challenges were further compounded by evolving trends in consumer purchasing behavior.

Consequently, segment sales slipped 5.6%, to ¥28,086 million. Successful efforts to curb operating expenses, such as advertising and promotional costs, could not compensate for the lower sales starting point, leading to a 21.2% drop in operating income, to ¥5,390 million.

#### **Fontaine Business (Ready-made wigs)**

In the Fontaine Business, sales were up at general merchandise stores, reflecting an increase in the number of stores where Fontaine products are sold. However, in a similar situation to that encountered by the Aderans Business, the entry of companies from other sectors into the wig market with low-priced products and more competitors vying for consumer interest eroded sales

potential at department stores and directly operated salons. As a result, the segment turned in sales of ¥8,300 million, down 12.0% year-on-year, while operating income plummeted 94.8%, to ¥90 million, reflecting the lower sales starting point and higher operating expenses, especially personnel costs, which rose along with the opening of new salons as investment for future growth.

### **Bosley Business (Hair transplantation)**

In the Bosley Business, a new call center system went into operation in June 2015, designed to enhance efficiency, but the system was plagued by problems that persisted until December 2015. A TV commercial prompted interest, but the inability to process calls led to a decline in inquiries as well as surgical procedures. As a result, sales on a local currency basis decreased, but sales on a yen basis increased 13.2%, to ¥11,897 million. Operating income tumbled 69.4%, to ¥141 million, owing to higher advertising and promotional activities and rising personnel costs.

### **Overseas Wig Business**

The Overseas Wig Business, which covers operations in the West—Europe and North America—as well as China and Southeast Asia, maintained steady improvement in sales, with solid contributions from HC (USA), Inc., and Aderans Hair Goods, Inc., in the United States, and retail acquisitions and still-brisk demand for medical-use wigs in Europe fueling a 17.9% increase in segment sales, to ¥28,388 million. The segment showed an operating loss of ¥809 million, reflecting amortization and depreciation of goodwill and intangible assets, respectively, a slight improvement over the ¥892 million operating loss recorded in fiscal 2015.

### **Other Operations**

In Other Operations, e-commerce and medical-related businesses, on a growth trend, delivered higher sales, but the beauty supply route was affected by the same sales-squeezing challenges that influenced the Aderans Business and the Fontaine Business. Segment sales—sales to external customers—retreated 15.5% year-on-year, to ¥2,480 million. The operating loss worsened, settling at ¥830 million, compared with ¥317 million in fiscal 2015.

In the end, on a consolidated basis, Aderans posted net sales of ¥79,153 million, up 3.2% year-on-year; an operating loss of ¥125 million, a reversal from operating income at ¥2,880 million in fiscal 2015, after reconciling ¥467 million for intersegment elimination (¥197 million in fiscal 2015), and ¥4,575 million (¥5,144 million in fiscal 2015) for corporate expenses not allocated to any reporting segment against total segment operating income of ¥3,982 million (down 49.1% from fiscal 2015); an ordinary loss of ¥548 million, compared with ordinary income of ¥5,997 million in fiscal 2015, which would have been lower if not for the booking of foreign exchange gains, and a net loss of ¥1,860 million, a turnaround from net income of ¥5,075 million in fiscal 2015.

A summary of business results by each reporting segment is provided below.

(Millions of yen, except where noted)

Reporting Segment	Previous fiscal year (March 1, 2014, to February 28, 2015)	Fiscal year under review (March 1, 2015, to February 29, 2016)	YOY change (%)
	Sales to external clients	Sales to external clients	
Aderans Business	29,759	28,086	94.4
Fontaine Business	9,433	8,300	88.0
Bosley Business	10,510	11,897	113.2
Overseas Wig Business	24,086	28,388	117.9
Other Operations	2,935	2,480	84.5
Total	76,725	79,153	103.2

## **(2) Consolidated capital expenditures**

For the period under review, aggregate capital expenditures amounted to ¥4,032 million, mainly due to relocation expenses for domestic offices and capital spending on salons in the Overseas Wig Business.

## **(3) Status of fund procurement**

In the fiscal period under review, the Company did not procure any funds through the issue of new shares or the issue of corporate bonds.

## **(4) Issues requiring our attention**

Certain issues, particularly persistent economic sluggishness in Europe, a slowdown in China and delayed recovery in the United States, and the underlying instability of forex fluctuations and stock market trends, characterized the operating environment in fiscal 2016. Against this backdrop, Aderans struggled in the domestic market, especially in the women's segment, as the entry of companies from different sectors into the hair business with low-priced products and heightened activity by competitors led to a level of competition fiercer than anything seen before.

Meanwhile, overseas, efforts to enhance surgical techniques used in hair transplantation procedures by Bosley, Inc., in the United States, steps to reinforce the presence of HC (USA) Inc. in the women's market, and the acquisition of small businesses in Europe were steadily rewarded. In fact, domestic sales typically constitute the larger portion of net sales with overseas sales making up the rest, but in fiscal 2016, the situation was reversed, with overseas sales, at 52%, exceeding the 48% contribution from domestic companies.

Given the domestic market environment and circumstances within the Aderans Group, domestic operations will strive to expand respective domains and optimize business portfolios to deal with changes in the market. In existing businesses, domestic operations will further strengthen their ability to attract and keep customers, implement efficient, effective store openings and advertising and promotions, and expand the share of sales from high-quality, high-performance products through diversification of marketing channels to counter the push from established competitors and those just entering the industry.

Looking at overseas operations, in the United States, HC (USA) will fortify its promotional activities in the women's segment and focus on network development in key geographical areas, while Bosley will emphasize greater efficiency in hair transplantation procedures and also direct effort into the development of new businesses and services utilizing its strength in the medical business.

In Europe, Aderans remains committed to the process of M&A to raise corporate value and seeks to secure an overwhelmingly larger share of the market by extending the Group's presence to promising areas not previously covered and by strengthening the custom-made wig business.

In Asia, given the accelerated pace of store openings by Aderans Shanghai, a priority will be to shift to a scrap-and-build profit structure and get into the black within the three years of the current medium-term management plan. Meanwhile, Aderans Taiwan will focus on the operation of a flagship store that functions as a hub for services and products relating to next-generation total hair solutions, while striving to acquire a wider share of the market and eliciting stronger brand recognition primarily through the opening of new salons in department stores and roadside shopping facilities and through try-on events.

With regard to the production network, Aderans will draw on the capabilities of subsidiaries in Thailand, the Philippines and Laos, where a Company-owned factory went into full operation in fiscal 2016, to underpin a higher level of stability in delivery times and higher quality.

Management extends its sincerest apologies for failing to meet shareholders' expectations and having to report such regrettable fiscal 2016 results.

Based on fiscal 2016 business results, management drafted a new medium-term management plan and set three-year targets to achieve change for enduring growth.

Aderans' objectives in laying a foundation that underpins profitability are to achieve slow but sure growth in domestic operations and to vigorously expand global share in overseas

operations through personnel training and development, an enhanced salon network, and profitability at all salons.

Also, to fulfill corporate social responsibility, we will earnestly pursue CSR activities and strive to enhance governance practices and reinforce and enrich the compliance structure to realize enduring corporate growth from a groupwide perspective.

Management asks shareholders to understand the challenges that the Group faces and to support the measures being taken to overcome hurdles and get back on track to growth.

## (5) Changes in performance and assets

(Millions of yen, except where noted)

	44th Fiscal Year	45th Fiscal Year	46th Fiscal Year	47th Fiscal Year (Consolidated fiscal year under review)
Net sales	51,089	67,755	76,725	79,153
Ordinary profit (loss)	3,849	4,481	5,997	(548)
Net income (loss)	3,301	4,281	5,075	(1,860)
Net income (loss) per share [yen]	89.69	116.32	142.43	(53.27)
Total assets	40,904	63,892	72,448	67,487
Net assets	30,219	35,823	37,142	36,309

Note: Net income per share, or net loss per share, is based on the average number of shares outstanding during the fiscal year, excluding treasury shares.

## (6) Significant subsidiaries

Name	Capital	Ratio of Voting Rights (%)	Primary Business
Aderans Thai, Ltd.	170 million baht	100	Manufactures wigs and hairpieces
World Quality Co., Ltd.	15 million baht	100 *	Manufactures wigs and hairpieces
Aderans Philippines, Inc.	300 million pesos	100	Manufactures wigs and hairpieces
Aderans America Holdings, Inc.	US\$98 million	100	Holding company
Hair Club for Men, LLC	---	100 *	Sales of wigs and hairpieces
Bosley, Inc.	US\$18 thousand	100 *	Hair transplantation business
Aderans Europe B.V.	€15 million	100	Holding company

Note: All companies with a \* notation in the Ratio of Voting Rights column are wholly owned through indirect ownership.

The Company has a total of 51 consolidated subsidiaries, including the seven significant subsidiaries listed in the table above. There are two affiliates accounted for under the equity method.

## (7) Major activities

Hair-related businesses as well as business administration of Group companies and activities related to business administration thereof.

**(8) Major offices and production facilities of the Aderans Group****a. The Company**

Name	Category	Address
Aderans Co., Ltd.	Headquarters	13-4, Arakicho, Shinjuku-ku, Tokyo
	Sales shops	428 shops

**b. Subsidiaries**

Name	Category	Address
Aderans Thai., Ltd.	Production facility	Buriram, Thailand
World Quality Co., Ltd.	Production facility	Saraburi, Thailand
Aderans Philippines, Inc.	Production facility	Pampanga, the Philippines
Aderans Lao Co., Ltd.	Production facility	Savannakhet Province, Lao People's Democratic Republic
Hair Club for Men, LLC	Headquarters	Florida, USA
Bosley, Inc.	Headquarters	California, USA

**(9) Number of Employees (consolidated basis)**

Number of employees	Increase (decrease) from last period
6,103	+176

**(10) Major Lenders**

(Millions of yen)

Lenders	Borrowing amount
Aozora Bank Ltd.	2,768



## 2. Stock Information for Aderans Co., Ltd.

(1) **Number of issued shares:** 37,246,388 (Including 2,382,886 shares of treasury stock)

(2) **Number of shareholders:** 9,592

(3) **Major shareholders (Top 10)**

Shareholders	Number of shares (thousand)	Shareholding ratio (%)
Nobuo Nemoto	4,493	12.88
The Bank of New York Mellon SA/NV 10	3,594	10.30
JP Morgan Chase Bank 385632	1,273	3.65
Japan Trustee Services Bank, Ltd. (Trust Account)	1,007	2.89
Mellon Bank NA as Agent for its Client Mellon Omnibus US Pension	925	2.65
The Master Trust Bank of Japan, Ltd. (Trust Account)	896	2.57
CMBL, SA Re, Mutual Fund	830	2.38
State Street Bank and Trust Company 505225	655	1.87
JPMCB USA Resident's Pension JASDEC Lend 385051	650	1.86
JP MORGAN CHASE BANK 380072	492	1.14

Notes:

1. If the number of shares is less than one unit (1,000), it is truncated.
2. The Company holds 2,382,886 shares of treasury stock. These shares are not included in the above data for major shareholders.
3. Shareholding ratios are calculated by number of shares excluding treasury stock (2,382,886 shares).
4. A Large Shareholding Report (Change in Shareholding) was submitted to the Financial Services Agency of Japan by Franklin Templeton Institutional LLC and its joint holders (four companies) on December 8, 2014. However, the Company was unable to confirm the actual number of shares in possession as of fiscal 2015 year-end, so the changes have not been reflected in the table of majority shareholders above.

### (4) Important issues other than those related to stock

Based on a resolution by the Aderans' Board of Directors on October 15, 2015, the Company paid a total of ¥89,271 thousand to repurchase 91,000 shares of treasury stock, on October 16, 2015, through the Off-Auction Own Share Repurchase Trading of the Tokyo Stock Exchange Trading Network System (ToSTNeT-e), in accordance with provisions in Article 156 of the Corporation Law as applied pursuant to the provisions of Article 165, Paragraph 3 of the same law, for the purpose of raising the level of shareholder returns and improving capital efficiency.

## 3. Subscription rights as stock options

(1) **Conditions for subscription rights granted as consideration for the execution of duties assigned to the Company's directors**

### i. Subscription rights held by the Company's directors (excluding outside director)

Issue resolution date	Number of subscription rights	Type and number of shares	Amount of money paid	Exercise price	Number of holders	Exercise period
June 21, 2012	380 units	Common stock, 38,000 shares	No payment of money required	¥97,200 per unit	3	From July 23, 2014, to June 21, 2022
May 23, 2013	874 units	Common stock, 87,400 shares	No payment of money required	¥138,100 per unit	4	From July 5, 2015, to May 23, 2023
May 22, 2014	1,138 units	Common stock, 113,800 shares	No payment of money required	¥157,100 per unit	4	From July 8, 2016, to May 22, 2024
May 28, 2015	1,710 units	Common stock, 171,000 shares	No payment of money required	¥108,800 per unit	4	From July 24, 2017, to May 28, 2025

**ii. Subscription rights held by the Company's outside director**

Issue resolution date	Number of subscription rights	Type and number of shares	Amount of money paid	Exercise price	Number of holders	Exercise period
May 28, 2015	85 units	Common stock, 8,500 shares	No payment of money required	¥108,800 per unit	1	From July 24, 2017, to May 28, 2025

**(2) Conditions for subscription rights granted to employees of the Company as consideration for the execution of duties during fiscal 2016**

Issue resolution date	Number of subscription rights	Type and number of shares	Amount of money paid	Exercise price	Number of holders	Exercise period
May 28, 2015	3,094 units	Common stock, 309,400 shares	No payment of money required	¥108,800 per unit	56	From July 24, 2017, to May 28, 2025

**(3) Important issues other than those related to stock options**

Summary of subscription rights on yen-denominated convertible bonds with subscription rights to shares maturing in 2019, issued in accordance with a resolution passed by the Board of Directors on September 17, 2014

Date of issue	Number of subscription rights	Type and number of shares	Conversion Value	Exercise period of subscription rights	Balance of subscription rights
October 7, 2014	2,000 units	Common stock, 4,688,232 shares	¥2,133	From October 21, 2014, to bank closing time (Luxembourg time) on September 20, 2019	¥10,035 million

#### 4. Board of Directors and Auditors of Aderans Co., Ltd.

##### (1) Names of directors and members of Audit & Supervisory Board

Name	Position	Position at other institutions or major profession
Nobuo Nemoto	CEO, Representative Director, Chairman and President, in charge of General Affairs HQ and Internal Auditing Division	President, Seishin Co., Ltd.
Yoshihiro Tsumura	COO, Representative Director and Senior Managing Director, in charge of Sales HQ, CSR, Corporate Communication IR Department, Corporate Planning Department, Secretarial Office	
Shigeru Ishiko	Director	
Hisatake Kanazawa	Director	
Junichi Mizuo	Director	Professor, Surugadai University, The Faculty of Economics and Management Professor, Surugadai University, Graduate School, Course of Integral Policy Vice President / The Chairman of the Board of Directors, Japan Society of Business Ethics
Masayoshi Sato	Audit & Supervisory Board Member (Standing auditor)	
Kazuhiro Miyakawa	Audit & Supervisory Board Member	Certified public accountant and tax accountant Partner status in Beqone Partners, Inc. Representative Director and President, Beqone Partners
Yoshikazu Suzuki	Audit & Supervisory Board Member	Lawyer Partner status in City-Yuwa

Notes:

- At the 46th General Shareholders' Meeting on May 28, 2015, Junichi Mizuo was elected and appointed as a director.
- Junichi Mizuo is an outside director. There is no significant relationship between the Company and the company at which Mr. Mizuo holds a concurrent position.
- Masayoshi Sato, Kazuhiro Miyakawa, and Yoshikazu Suzuki are outside members of the Audit & Supervisory Board. There is no significant relationship between the Company and the companies at which Mr. Sato, Mr. Miyakawa, and Mr. Suzuki hold concurrent positions.
- Junichi Mizuo, a director and Kazuhiro Miyakawa, a member of Audit & Supervisory Board are recognized as independent officers, according to Rule 436-2 of the Securities Listing Regulations of Tokyo Stock Exchange, Inc.
- Kazuhiro Miyakawa is a certified public accountant and tax accountant, and has a wealth of expertise and experience in finance and accounting.
- Joshua Schechter and Katsuyoshi Tanaka completed their terms of office and retired from their positions as directors at the end of the 46th General Shareholders' Meeting on May 28, 2015.
- The following directors took on new positions and responsibility within the corporate executive structure.

Name	New Positions	Previous Positions	Date
Yoshihiro Tsumura	COO, Representative Director and Senior Managing Director	Director, in charge of Sales HQ	Sep.1, 2015
Shigeru Ishiko	Director	Executive Vice President, Representative Director	Sep.1, 2015
Hisatake Kanazawa	Director	Director, in charge of General Affairs HQ,	Sep.1, 2015

##### (2) Compensation for directors and members of the Audit & Supervisory Board

Seven directors: ¥283 million (including two outside directors: ¥13 million)

Three members of the Audit & Supervisory Board: ¥30 million (including three outside members of the Audit & Supervisory Board: ¥30 million)

### (3) Outside director and members of the Audit & Supervisory Board

#### a. Principal activities during fiscal 2016

	Attendance ratio, at Board of Directors' meetings	Attendance ratio, at Audit & Supervisory Board meetings
Junichi Mizuo, Director	100%	– %
Masayoshi Sato, Audit & Supervisory Board Member	100%	100%
Kazuhiro Miyakawa, Audit & Supervisory Board Member	100%	100%
Yoshikazu Suzuki, Audit & Supervisory Board Member	100%	100%

Note: Junichi Mizuo assumed his position as a director in May 2015, and he attended all Board of Directors' meetings and Audit & Supervisory Board meetings that took place after his appointment.

Name	Principal activities
Junichi Mizuo, Director	At Board of Directors meetings held after his appointment as an outside director, Mr. Mizuo expressed opinions based on specialist experience and views cultivated over many years of study, especially in areas pertaining to CSR and corporate governance.
Masayoshi Sato, Audit & Supervisory Board Member	At Board of Directors and Audit & Supervisory Board meetings in fiscal 2016, Mr. Sato expressed opinions based on experience and views cultivated over many years in the finance business.
Kazuhiro Miyakawa, Audit & Supervisory Board Member	At Board of Directors and Audit & Supervisory Board meetings in fiscal 2016, Mr. Miyakawa expressed opinions based on experience and views cultivated over many years as a certified public accountant.
Yoshikazu Suzuki, Audit & Supervisory Board Member	At Board of Directors and Audit & Supervisory Board meetings held in fiscal 2016, Mr. Suzuki expressed opinions based on experience and views cultivated over many years as a lawyer.

#### b. Summary of limited liability agreements

The outside director and outside members of the Audit & Supervisory Board have concluded agreements with the Company, which limit responsibility for losses to a greater amount of not less than ¥3 million or an amount set forth in Article 423, Paragraph 1 of the Corporation Law, based on Article 427, Paragraph 1 of the same law.

## 5. Independent Auditor

### (1) Name of independent auditor

BDO Sanyu & Co.

### (2) Compensation for independent auditor

	Amounts
a. Compensation during fiscal 2016	¥37 million
b. Total monetary and other financial remuneration for independent auditors of the Company and other consolidated subsidiaries	¥37 million

Note: Auditing contracts between Aderans and its independent auditor do not distinguish between compensation to auditors for audits performed according to the Corporation Law and audits performed according to the Financial Instruments and Exchange Law. Therefore, compensation for audits performed according to the Financial Instruments and Exchange Law is included in (a) above.

### (3) Reason for Audit & Supervisory Board's consent to independent auditor compensation

The Audit & Supervisory Board reviewed the time for auditing in the audit plan for the fiscal year in review, as explained by the independent auditor, the basis for calculation of compensation estimates, results and evaluation of the previous fiscal year's audit, the adequacy of the audit performed by the independent auditor, and a parallel comparison with other companies. After this review, the Board acknowledged the amount of compensation for the independent auditor to be appropriate and agreed to the above amount.

### (4) Policy for determining dismissal or non-reappointment of independent auditor

The Company's Audit & Supervisory Board may, with unanimous approval of its members, dismiss the independent auditor in the event the independent auditor falls under any of the reasons for dismissal stipulated by law, and may also outline a proposal to be put forward at a general shareholders' meeting that calls for the dismissal or non-reappointment of the independent auditor in the event an obvious impediment arises that hampers the independent auditor's ability to continue to perform audits for the Company.

## 6. Ensuring Appropriate Business Execution

### (1) Ensuring that the execution of duties by directors and staff conform to prevailing laws and the Company's Articles of Incorporation

- a. Directors and executive officers will set the standard for corporate ethics within the Group (collectively, the Company, its subsidiaries and other affiliated companies; the same hereafter) through global policy that specifies values and judgment standards to be shared throughout the Group, and will lead each other and employees to respect the law, of course, and strive for higher moral ground.
- b. Directors and executive officers will respect the law and the Articles of Incorporation and will have an obligation from a social perspective to execute their duties faithfully at all times. The Board of Directors will monitor the execution of duties by directors, and the Audit & Supervisory Board, in accordance with its own duties, will audit the execution of duties by directors to verify status.
- c. With the principal objective being to ensure that directors, executive officers and employees of the Group adhere to fair business practices underpinned by sincere respect for laws and various rules and regulations, the Company will establish a compliance/governance committee to define a compliance system for the Group, push it deep into the organizational framework and anchor it firmly in place.

### (2) Storage and management of information related to the execution of directors' duties

- a. Information related to the execution of directors' duties will be stored and managed

appropriately in accordance with laws, the Company's document management rules and other in-house rules.

- b. The Company will properly store and manage minutes from general shareholders' meetings, minutes from Board of Directors' meetings, minutes from Management Committee meetings, internal memos passed around to directors to obtain overall approval of a decision, and other key documents relating to the execution of business activities so that directors and members of the Audit & Supervisory Board can glance through such materials at any time. Members of the Audit & Supervisory Board will peruse these documents and identify important information and will also check on the storage and management status of these materials.

### **(3) Regulations and other systems related to managing risk of loss**

- a. The Company will maintain a system through which the Compliance and Governance Committee collects information relating to questionable actions by directors, executive officers and employees in violation of laws and regulations. The Compliance and Governance Committee will be tasked with looking into the facts (including access to instructions and reports directed at relevant departments), investigating the cause(s), discussing and considering corrective measures, including disciplinary action, and steps to prevent reoccurrence, and then presenting a report and suggestions to the Board of Directors. Through this process, risk will not turn into crisis, thereby preempting risk of loss that would hinder sustainable development of corporate activities.
- b. Directors will provide reports to the Management Committee, which meets regularly, on any risk of loss to the Group that they identify in their respective area of responsibility so that the committee is always able to pursue discussion on risk of loss. The Company will convene an emergency meeting of the Management Committee at the president's behest to ensure an appropriate and expedient response in the event an urgent situation with potential risk of loss arises.
- c. In accordance with in-house management rules for affiliated companies, the Company will decide on a department to oversee activities at Group companies and work with the manager responsible for internal audits there to perform audits and identify any risk of loss to the Group, check on systems designed to mitigate risk of loss at each Group company and determine the status of efforts to contain possible risk of loss.

### **(4) Ensuring efficient execution of directors' duties**

- a. Directors will faithfully undertake the business activities they are assigned, in accordance with laws and the delegation of authority and associated responsibilities spelled out in the Company's rules for directors and other internal regulations, and they will strive for sufficient harmony with relevant departments and efficiently execute their duties.
- b. So that directors can efficiently execute their duties, the Company will mandate regular meetings of the Management Committee where important matters related to the execution of duties that impact the operations of the Company or the Group as a whole are discussed and then brought to the Board of Directors for resolution or reporting.

### **(5) Ensuring fair business practices of the Company and the corporate group comprising the Company (the parent) and its subsidiaries**

- a. The Company will strive to ensure fairness in the execution of business practices by the Group as a whole through its global policy.
- b. As described in its in-house management rules for affiliated companies, the Company will designate an in-house department to oversee activities at each Group company. The designated department will encourage smooth communication with each Group company, lay out a system for reporting matters concerning the execution of duties by directors, executive officers and employees at each Group company, implement internal audits in cooperation with the manager responsible for internal audits at each Group company, and then report to the president on the status at each Group company.
- c. To quickly and accurately pinpoint the risk of loss at Group companies, the Company will

establish a system to monitor risk of loss on a groupwide basis through timely sharing of information, which has been gleaned by the in-house department that oversees activities at each Group company, with the Compliance and Governance Committee.

- d. The Company relies on the Management Committee to discuss important information presented by the in-house department that oversees activities at each Group company and strives to enhance the efficiency of duties executed at Group companies. The committee may, when necessary, invite managers—those of responsibility at affiliated companies—who have knowledge about the information being discussed.

**(6) Ensuring reliability of financial reports**

- a. In accordance with its rules for consolidated financial reporting, the Company will designate the department specified in these rules as an administrative office to work closely with each Group company and relevant departments within the Company and thereby facilitate the effective and accurate auditing of consolidated business activities of the Group.
- b. In accordance with its rules for financial risk management, the Company requires that risk of misstatement be identified, categorized, analyzed, evaluated and suitably addressed, with the results of such efforts reported to the president, to ensure the reliability of financial reports.

**(7) Matters related to employees if asked by members of the Audit & Supervisory Board to assist them in audits, matters related to these employees' neutrality vis-à-vis directors, and matters related to the practicality of instructions to these employees**

- a. The Company will assign employees on a dedicated basis to support members of the Audit & Supervisory Board in their auditing activities when, due to the significance of an audit, members of the Audit & Supervisory Board require assistance and ask the Board of Directors for support staff to expedite the process.
- b. Employees asked by members of the Audit & Supervisory Board to assist in auditing activities will undertake tasks at the direction of members of the Audit & Supervisory Board only.
- c. Members of the Audit & Supervisory Board shall have the right of consent over any personnel decision, including transfers, performance evaluations and disciplinary action, directed toward employees engaged as support staff on auditing activities, and the Company will not implement any change in title or pay level without the agreement of members of the Audit & Supervisory Board.

**(8) System for directors of the Company and its subsidiaries as well as employees to report to members of the Audit & Supervisory Board (and Board itself), system related to other reports to members of the Audit & Supervisory Board, and system to ensure that individuals providing a report to members of the Audit & Supervisory Board will not be treated unfairly for this reason**

- a. Directors, executive officers and employees will report to members of the Audit & Supervisory Board on the status of duties executed at Group companies and other aspects of Group operations, at the request of members of the Audit & Supervisory Board. Members of the Audit & Supervisory Board will attend Board of Directors meetings and any other important meeting of the Company and receive reports or clarification on the status of Group administration from directors. Directors will report to the Audit & Supervisory Board immediately upon the discovery of facts with the potential to cause serious damage to the Company.
- b. The Company will encourage Group company directors, members of audit & supervisory boards, executive officers and employees to report to members of the Audit & Supervisory Board on the status of duties executed at the respective company and other aspects of operations, at any time, at the request of members of the Audit & Supervisory Board.
- c. The Company will establish a hotline—a means for employees of Group companies to provide tips on issues of concern—and ensure widespread awareness of this reporting

structure. The Company will also regularly confirm hotline usage status, and provide regular updates to the Audit & Supervisory Board on the content of tips received and the status of hotline activity. In addition, the Company will review the need for this hotline as necessary, based on usage status.

- d. No one who uses the hotline to report concerns shall be treated unfairly, and the Company will set this out clearly in its rules for internal hotline operation.
- e. The Company will make minutes from general shareholders' meetings, minutes from Board of Directors meetings, minutes from Management Committee meetings, and other key documents relating to the execution of business activities available for viewing by members of the Audit & Supervisory Board.

#### **(9) System to ensure effective execution of other audits by members of the Audit & Supervisory Board**

- a. Directors will engage in opinion exchange with members of the Audit & Supervisory Board through regular meetings and deepen mutual understanding of issues with members of the Audit & Supervisory Board. In addition, members of the Audit & Supervisory Board will maintain close contact with audit-related structures, including the independent auditor and the internal auditing division, and exchange opinions and information.
- b. The Company will encourage Group company directors, members of audit & supervisory boards, executive officers and employees to offer their opinions to members of the Audit & Supervisory Board when asked by members of the Audit & Supervisory Board to do so.
- c. Members of the Audit & Supervisory Board are able to attend Board of Directors meetings and any other important meetings of the Company. In addition, the Company will, when asked by a member of the Audit & Supervisory Board, encourage Group companies to allow members of the Audit & Supervisory Board to attend their own board of directors meetings and any other important meetings there.
- d. The Company will, through the Compliance and Governance Committee, talk about compliance issues with the Audit & Supervisory Board, as necessary, and will, at the request of a member of the Audit & Supervisory Board, look into the facts (including access to instructions and reports directed at relevant departments) and investigate the cause(s) of legal infractions (including scandals) and actions that break internal rules (limited to compliance issues).
- e. Members of the Audit & Supervisory Board will be able to consult with lawyers and other outside experts, as necessary. The Company will set aside a budget to cover costs incurred in the course of an audit, but members of the Audit & Supervisory Board will also be able to submit a claim for emergency and or extraordinary spending and the Company will pay these costs as well.

#### **(10) Basic concept and status of measures to eliminate antisocial forces**

- a. The Company will be resolute in its attitude toward antisocial forces and knows that this stand is beneficial to both corporate organization and its stakeholders. Therefore, the Company will strive to preclude any and all business relationships with antisocial forces that seek financial gain through such means as violence, pressure and fraudulent schemes, and encourages all members of the Group to do the same.
- b. The Company will gather information about antisocial forces from relevant government agencies, regional authorities and business associations.
- c. If an antisocial element approaches the Group with an inappropriate request, the Company will contact external professionals and legal advisers to ensure the safety and well-being of the employees who are addressing or will address the situation and will refuse the unwelcome proposal.

### **7. Overview of Implementation Status of System to Ensure Appropriate Business Practices**

The Board of Directors, which meets regularly, discusses important issues in line with laws and the Articles of Incorporation, makes resolutions, and also hears reports on the status of duties executed in the course of corporate activities and watches for developments in the



execution of duties. In addition, the Board of Directors strives to improve the system to ensure appropriate business practices by reviewing, when necessary, in-house rules and business pursuits.

Members of the Audit & Supervisory Board attend meetings of Board of Directors as well as those of the Management Committee and the Compliance and Governance Committee and other important meetings as well, and monitor the status of duties executed as well as implementation and operation of the risk management system and compliance system. In addition, members of the Audit & Supervisory Board regularly receive reports from the internal auditing division and strive to keep lines of communication to this division open.

The internal auditing division evaluates the effectiveness of efforts to ensure reliability in financial reporting and also seeks to ensure appropriate business practices through internal audits performed as the occasion requires.

END

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Note: If the yen and dollar amounts, number of shares and other figures presented in these materials are less than the unit indicated, they are truncated.

## **Consolidated Balance Sheets**

(As of February 29, 2016)

(Millions of yen)

	<b>Fiscal 2016</b> <b>(As of February 29, 2016)</b>
<b>Assets</b>	
<b>CURRENT ASSETS</b>	<b>27,992</b>
Cash and time deposits	11,979
Notes and accounts receivable—trade	6,321
Commercial goods and finished goods	5,693
Work in process	278
Raw materials and supplies	1,054
Deferred tax assets	598
Others	2,524
Allowance for doubtful accounts	(459)
<b>FIXED ASSETS</b>	<b>39,495</b>
<b>Tangible fixed assets</b>	<b>14,189</b>
Buildings and structures	5,708
Land	3,433
Lease assets	2,348
Others	2,699
<b>Intangible fixed assets</b>	<b>19,188</b>
Goodwill	7,070
Customer-related intangible assets	6,585
Others	5,532
<b>Investments and other fixed assets</b>	<b>6,116</b>
Investment securities	1,397
Long-term loans receivable	400
Deferred tax assets	97
Assets for retirement benefits	3
Guarantee deposits	4,032
Others	633
Allowance for doubtful accounts	(447)
<b>TOTAL ASSETS</b>	<b>67,487</b>

Note: Amounts less than one million yen are omitted.

(Millions of yen)

	<b>Fiscal 2016</b> <b>(As of February 29, 2016)</b>
<b>Liabilities and Net Assets</b>	
<b>CURRENT LIABILITIES</b>	<b>12,018</b>
Notes and accounts payable—trade	1,289
Current portion of long-term loans payable	1,232
Lease obligations	847
Accounts payable	1,999
Accrued corporate and other taxes	115
Deferred tax liabilities	6
Advances received	2,475
Allowance for employees' bonuses	1,122
Allowance for product guarantee	124
Allowance for returned goods	105
Allowance for loss on store closure	1
Asset retirement obligations	9
Others	2,688
<b>FIXED LIABILITIES</b>	<b>19,158</b>
Bonds with stock acquisition rights	10,035
Long-term loans payable	1,536
Lease obligations	1,497
Deferred tax liabilities	2,155
Allowance for employees' severance and retirement benefits	1,397
Asset retirement obligations	1,608
Others	928
<b>TOTAL LIABILITIES</b>	<b>31,177</b>
<b>NET ASSETS</b>	
<b>Shareholders' equity</b>	<b>37,624</b>
<b>Common stock</b>	<b>12,944</b>
<b>Capital surplus</b>	<b>13,157</b>
<b>Earned surplus</b>	<b>15,876</b>
<b>Treasury stock</b>	<b>(4,353)</b>
<b>Other comprehensive income</b>	<b>(1,765)</b>
<b>Unrealized gains (losses) on other marketable securities</b>	<b>14</b>
<b>Foreign currency translation adjustments</b>	<b>(1,496)</b>
<b>Accumulated retirement benefits adjustment</b>	<b>(283)</b>
<b>Stock acquisition rights</b>	<b>448</b>
<b>Minority interests</b>	<b>2</b>
<b>TOTAL NET ASSETS</b>	<b>36,309</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>67,487</b>

Note: Amounts less than one million yen are omitted.

## **Consolidated Statements of Income**

(March 1, 2015, to February 29, 2016)

(Millions of yen)

	<b>Fiscal 2016</b> <b>(Ended February 29, 2016)</b>
<b>Net sales</b>	<b>79,153</b>
<b>Cost of sales</b>	<b>16,642</b>
<b>Gross profit</b>	<b>62,511</b>
<b>Selling, general and administrative expenses</b>	<b>62,636</b>
<b>Operating loss</b>	<b>(125)</b>
<b>Non-operating income</b>	<b>555</b>
Interest received	20
Dividends received	6
Compensation income	134
Insurance fees	123
Rent on real estate	46
Reversal of allowance for doubtful accounts	66
Others	157
<b>Non-operating expenses</b>	<b>978</b>
Interest paid	77
Rent on real estate	13
Foreign exchange losses	733
Others	154
<b>Ordinary loss</b>	<b>(548)</b>
<b>Extraordinary income</b>	<b>0</b>
Gain on sale of fixed assets	0
Gain on sales of investment securities	0
<b>Extraordinary expenses</b>	<b>848</b>
Loss on sale of fixed assets	0
Losses on retirement of fixed assets	49
Impairment loss	201
Losses on business restructuring	528
Losses on store closures	27
Others	40
<b>Loss before income taxes</b>	<b>(1,396)</b>
Corporate, inhabitant and business taxes	1,045
Adjustments to corporate and other taxes	(582)
Total income taxes	463
<b>Loss before minority interests</b>	<b>(1,860)</b>
<b>Net loss</b>	<b>(1,860)</b>

Note: Amounts less than one million yen are omitted.

## **Consolidated Statements of Changes in Shareholders' Equity**

(March 1, 2015, to February 29, 2016)

(Millions of yen)

	Shareholders' Equity				
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity
Balance at beginning of fiscal year	12,944	13,157	17,378	(4,282)	39,198
Cumulative effects of changes in accounting policies	—	—	889	—	889
Balance at beginning of current period after changes in accounting policies	12,944	13,157	18,268	(4,282)	40,087
Changes					
Dividends from surplus	—	—	(524)	—	(524)
Net loss	—	—	(1,860)	—	(1,860)
Purchases of treasury stock	—	—	—	(90)	(90)
Disposal of treasury stock	—	(5)	—	18	13
Transfer to capital surplus from retained earnings	—	5	(5)	—	—
Change in scope of consolidation	—	—	(2)	—	(2)
Net changes in items other than shareholders' equity during fiscal year	—	—	—	—	—
Total changes	—	—	(2,391)	(71)	(2,463)
Balance at end of fiscal year	12,944	13,157	15,876	(4,353)	37,624

(Millions of yen)

	Accumulated other comprehensive income				Stock Acquisition rights	Minority Interests	Total Net Assets
	Unrealized gain (loss) on other securities	Foreign currency translation adjustment	Accumulated retirement benefits adjustment	Total accumulated other comprehensive			
Balance at beginning of fiscal year	43	(2,164)	(206)	(2,327)	270	1	37,142
Cumulative effects of changes in accounting policies	—	—	—	—	—	—	889
Balance at beginning of current period after changes in accounting policies	43	(2,164)	(206)	(2,327)	270	1	38,032
Changes							
Dividends from surplus	—	—	—	—	—	—	(524)
Net loss	—	—	—	—	—	—	(1,860)
Purchases of treasury stock	—	—	—	—	—	—	(90)
Disposal of treasury stock	—	—	—	—	—	—	13
Transfer to capital surplus from retained earnings	—	—	—	—	—	—	—
Change in scope of consolidation	—	—	—	—	—	—	(2)
Net changes in items other than shareholders' equity during fiscal year	(29)	668	(76)	562	177	0	740
Total changes	(29)	668	(76)	562	177	0	(1,722)
Balance at end of fiscal year	14	(1,496)	(283)	(1,765)	448	2	36,309

Note: Amounts less than one million yen are omitted.

# Notes to Consolidated Financial Statements

## Basis for Preparation of Consolidated Financial Statements

### 1. Scope of consolidation

- (1) There are 51 consolidated subsidiaries in the Aderans Group.

Major consolidated subsidiaries are listed below.

Aderans America Holdings, Inc. (overseas subsidiary)

Aderans Thai Ltd. (overseas subsidiary)

Aderans Europe B.V. (overseas subsidiary)

HC (USA) Inc. (overseas subsidiary)

Aderans Lao Co., Ltd., an unconsolidated subsidiary in the previous fiscal year, has been included in the scope of consolidation from the fiscal year under review owing to increased materiality.

- (2) Names of significant unconsolidated subsidiaries

Pal Messe Co. Ltd.

#### Reasons for exclusion from scope of consolidation

Two unconsolidated subsidiaries, including Pal Messe Co., Ltd., are excluded from the scope of consolidation because they are all small in scale, and combined total assets, net sales, net income (loss) (corresponding to equity stakes) and other amounts have no material impact on consolidated financial statements.

### 2. Application of equity method

- (i) There are no companies accounted for by the equity method.

- (ii) Number of affiliates accounted for under the equity method and names of major companies

There are two affiliates accounted for under the equity method.

Names of major companies

Hair Club for Men of Milwaukee Ltd.

Hair Club for Men, Ltd. (an Illinois corporation)

- (iii) Names of significant unconsolidated subsidiaries not accounted for by the equity method

Pal Messe Co., Ltd.

#### Reasons for non-application of the equity method

The company for which the equity method is not applied has minimal impact on such financial components as net income (loss) and retained earnings, and carries no overall significance, either, so it is excluded from the scope of equity method application.

- (iv) Noteworthy issues regarding procedures for application of equity method

For companies that have a settlement date different from the consolidated settlement date, the Company uses the financial statements associated with the business years of those companies.

### 3. Fiscal periods of consolidated subsidiaries

Of the Company's consolidated subsidiaries, consolidated subsidiaries have fiscal periods ending December 31.

Consolidated financial statements for the fiscal period are based on the financial statements prepared by these subsidiaries for their respective fiscal periods, and any material transactions that occur between December 31 and the end of February are reflected accordingly on the consolidated financial statements.

### 4. Accounting Principles and Methods

- (1) Principles and methods of valuation of important assets.

a. Securities

Stocks of subsidiaries

Cost recorded using the moving-average method.

Other securities

Securities quoted on exchanges

Market value method based on market value at fiscal year end.

Appraisal differences are dealt with by means of the direct capital influx method, with cost of securities sold calculated with the moving-average method.

b. Derivatives

Market value method

c. Inventories

Goods and products

With respect to Aderans Co., Ltd., custom-made wigs are accounted for by the unit-cost method (a method that estimates the net sale value for assets with noticeably diminished profitability and drops the book value by this amount), ready-made wigs by the moving-average cost method (a method that estimates the net sale value for assets with noticeably diminished profitability and drops the book value by this amount), and other goods and products by the moving-average cost method (a method that estimates the net sale value for assets with noticeably diminished profitability and drops the book value by this amount).

Overseas consolidated subsidiaries use either the first-in first-out (FIFO) lower of cost or market method or the moving-average lower of cost or market method.

Raw materials and work in process

Overseas consolidated subsidiaries use either the FIFO lower of cost or market method or the moving-average lower of cost or market method.

Supplies

Costs recorded using the moving-average method (a method that estimates the net sale value for assets with noticeably diminished profitability and drops the book value by this amount) is applied to supply materials. However, overseas consolidated subsidiaries use the FIFO lower of cost or market method.

(2) Depreciation of important fixed assets

Tangible fixed assets (excluding lease assets)

These assets are primarily accounted for with the declining-balance method, although buildings (excluding annexes) acquired since April 1, 1998, are accounted for with the straight-line depreciation method. The tangible fixed assets of overseas consolidated subsidiaries are primarily accounted for with the straight-line method.

Estimated useful lives of principal items are as follows:

Buildings and structures: Three to 47 years.

Intangible fixed assets (excluding leased assets)

The straight-line method is applied.

Software for in-house use is accounted for with the straight-line method over their estimated useful life (five years). Customer-related assets are accounted for by the straight-line method over the effective life of said assets (8 years).

Leased assets related to finance lease transactions other than those deemed to transfer ownership:

The lease period shall be the period of asset depreciation and will be determined under a method with zero residual value over the lease period.

Long-term prepaid expenses: Equal depreciation

(3) Standards for important allowances

a. Allowance for doubtful accounts

To prepare against credit losses, the Company makes additions to this allowance on the basis of loan loss ratios for standard loans, and on an individual basis for loans considered unlikely to be repaid in full. For overseas consolidated subsidiaries, the estimated uncollectable amount for individual accounts is added.

b. Allowance for employees' bonuses

An amount is set aside to cover bonuses to employees, in accordance with the estimated amounts payable.

c. Allowance for product warranties

An amount is set aside to cover expenses arising from free warranties on goods and products sold, and the Company adds an appropriate amount based on past experience.

d. Allowance for returned goods

The Company makes provisions in order to account for losses due to returns of sold products. Amounts of the allowance for returned goods are calculated by multiplying the average returned goods ratios of the current period and previous fiscal year by the gross profit margin of the current period, and adding this total to the balance of accounts receivable.

e. Allowance for loss on store closures

To prepare against loss through store closures, the reporting company makes additions to the allowance in accordance with the estimated amounts payable.

(4) Other significant items related to consolidated financial statements

a. Accounting treatment for retirement benefits

- Period attribution method for expected retirement benefits:

In calculating retirement benefit obligations, the straight-line attribution method is used to attribute expected benefits to the period up to the end of the fiscal year under review, that is, February 29, 2016.

- Expense treatment for actuarial difference and prior service costs:

Actuarial difference is a proportional amount determined by the straight-line method over a specific period (3-5 years) not exceeding the average remaining years of service for employees at the time of occurrence in each consolidated fiscal year and is expensed from the fiscal year following the one in which the difference was recognized.

Prior service costs are principally expensed on a straight-line basis over a specific period (5 years) not exceeding the average remaining years of service for employees when such costs are incurred.

**b. Translation of assets and liabilities denominated in foreign currencies into yen**

Assets and liabilities denominated in foreign currencies are converted into yen at the rates of exchange in effect at the end of the consolidated period, with translation differences treated as gains or losses. The assets and liabilities of overseas consolidated subsidiaries are also converted into yen at the rates of exchange in effect at the end of the current fiscal year. Income, losses and expenses are converted into yen using average exchange rates over the period in question, and translation differences are recorded in the net assets section of the balance sheets under foreign currency translation adjustments and minority interests.

**c. Consumption and other taxes**

The Company applies the tax-exclusion accounting method to national and local consumption taxes.

**d. Amortization method for goodwill and amortization period**

Goodwill is amortized equally over a reasonable number of years within 20 years.

## **5. Changes in accounting policy**

[Accounting Standard for Retirement Benefits]

From end of the fiscal year under review, the Company has adopted “Accounting Standard for Retirement Benefits” (Accounting Standards Board of Japan (ASBJ) Statement No. 26, issued on May 17, 2012) and “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, issued on May 17, 2012), with the exception of provisions described in the text of Paragraph 35 of the standard and Paragraph 67 of the guidance. The Company then switched to a method that defines retirement benefit obligations, after deducting pension plan assets, as a liability related to retirement benefits, and booked unrecognized actuarial difference as such a liability. In case that pension plan assets exceeded retirement benefit obligations, unrecognized actuarial difference is indicated as assets related to retirement benefits.

Application of the standard follows the transitional approach described in Paragraph 37 of the standard, and the amount impacted by this change has been factored into retirement benefits liability adjustments under accumulated other comprehensive income.

Consequently, net defined benefit liability at the beginning of fiscal 2016 decreased ¥889 million and retained earnings increased by the same amount. The impact on consolidated-level income for fiscal 2016 is minimal.

## **6. Changes in method of presentation**

Commissions paid, under non-operating expenses, was a separate line item in the previous fiscal year (but was ¥0 in the fiscal year under review). Because the significance of this line item has dimmed, it was put into the “others” line item under non-operating expenses in the fiscal year under review.



## [Consolidated statements of income]

Accumulated depreciation on tangible fixed assets: ¥19,777 million

## [Consolidated Statements of Changes in Shareholders' Equity]

### 1. Number of Company shares outstanding at February 29, 2016

Common stock: 37,246,388 shares

### 2. Dividends

Dividends paid during fiscal 2016:

Total dividends: ¥524 million  
Record date: February 28, 2015  
Effective date: May 29, 2015

The effective date for dividends with a record date of fiscal 2016 ended February 29, 2016, shall be a date after the close of books for said consolidated period.

Total dividends: ¥522 million  
Record date: February 29, 2016  
Effective date: May 27, 2016

### 3. Number of subscription rights to shares issued by the Company at February 29, 2016

Common stock: 407,800 shares

## [Financial Instruments]

### 1. Status of financial instruments

#### (1) Policy on financial instruments

The Company and its major subsidiaries invest surplus cash mainly in highly secure short-term deposits. With regard to derivative transactions, forward exchange contracts are used as necessary to hedge against the risk of exchange rate fluctuations on foreign currency denominated receivables and payables, but it is policy within the Group to refrain from speculative transactions.

#### (2) Types of financial instruments and associated risks

Operating receivables such as notes and accounts receivable—trade are exposed to the credit risk of customers. Some operating receivables denominated in foreign currencies are exposed to exchange rate fluctuations. Marketable securities and investment securities are primarily bonds held to maturity and shares in companies that maintain business relationships with members of the Group. These securities are exposed to fluctuations in market price.

Operating payables such as notes and accounts payable—trade, and accounts payable are due within one year. Some operating payables denominated in foreign currencies are exposed to exchange rate fluctuations. Accrued corporate and other taxes is debt pertaining to corporate, inhabitant and business taxes, and all taxes are due within one year. Loans are exposed to interest rate fluctuation risk.

#### (3) Risk management system for financial instruments

##### a. Credit risk (risk associated with counterparty inability to meet terms of contract)

The Company keeps track of operating receivables through the Accounting Division, which enters and organizes data on each account. Supervising branches monitor major corporate customers on a regular basis and strive to identify any concerns about collection of receivables caused by such factors as worsening financial condition as early as possible and thereby mitigate problems. Consolidated subsidiaries follow the Company's lead and apply the same risk-management approaches.

##### b. Market risk (risk mainly associated with fluctuating exchange rates and interest rates)

For investment securities, the Company tracks market values and the financial status of issuers (corporate customers) on a regular basis and takes relationships with corporate customers into account in an ongoing review of conditions to ensure the appropriateness of keeping the applicable securities.

##### c. Liquidity risk on fund procurement (risk that funds cannot be repaid by the due date)

The Finance Division prepares cash flow plans and updates the content as necessary to control liquidity risk.

#### (4) Supplementary information about fair market values etc. of financial instruments

Fair market values of financial instruments are based on quoted prices in active markets or, when a quoted price is not available, a reasonable estimate value. Since variable factors are applied in the

calculation of said values, the results of valuation may fluctuate due to different underlying assumptions.

(5) Concentration of credit risk

The trade notes and accounts receivable carried on designated large-volume customers as of February 29, 2016, represented 9.7% of operating receivables.

## 2. Fair value of financial instruments

The carrying value presented on the consolidated balance sheets, fair value and differences between both value sets, as of February 29, 2016, are as follows. Financial instruments for which a market price is deemed extremely difficult to ascertain are not included in the table below (see Note 2).

(Millions of yen)

	Amount posted on consolidated balance sheet	Fair value	Difference
(1) Cash and deposits	11,979	11,979	—
(2) Notes and accounts receivable —trade	6,321	6,321	—
(3) Investment securities	526	526	—
<b>Assets</b>	<b>18,827</b>	<b>18,827</b>	<b>—</b>
(1) Notes and accounts payable —trade	1,289	1,289	—
(2) Current portion of long-term loans payable	1,232	1,232	—
(3) Accrued corporate and other taxes	115	115	—
(4) Accounts payable	1,999	1,999	—
(5) Bonds with subscription rights to shares	10,035	9,768	(266)
(6) Long-term loans payable	1,536	1,536	—
<b>Liabilities</b>	<b>16,208</b>	<b>15,941</b>	<b>(266)</b>

Notes:

1. Calculation method for fair value of financial instruments

Assets

(1) Cash and deposits, (2) Notes and accounts receivable— trade

Since deposits and notes and accounts receivable—trade are short-term instruments, fair value closely approximates book value. Therefore, fair value is based on book value.

(3) Investment securities

Fair value of stock is based on quoted stock exchanges prices.

Liabilities

(1) Notes and accounts payable—trade, (3) Accrued corporate and other taxes and (4) Accounts payable

The short-term settlement of these liabilities makes fair value nearly equal to book value. Therefore, fair value is based on book value.

(2) Current portion of long-term loans payable, (6) Long-term loans payable

Long-term loans payable, including current portion, are impacted by fluctuating interest rates.

Therefore, since they reflect short-term market rates and the Company's credit status has not changed much since the loans were granted, management deems fair value to approximate book value and has used book value here.

(5) Bonds with subscription rights to shares

Bonds with subscription rights to shares are based on market prices.

2. Financial instruments for which fair value is extremely difficult to measure

(Millions of yen)

	Amount posted on consolidated balance sheet
Shares in subsidiaries and affiliates	870
Guarantee deposits	4,032

Shares in subsidiaries and affiliates have no market value, and the timing for repayment of guarantee deposits is difficult to estimate. The effort to pinpoint market value when future cash flow from unlisted stock and guarantee deposits cannot be estimated is deemed to be extremely complicated and for this reason the items above are excluded from 2. Fair value of financial instruments.

## [Investment and Rental Property]

### 1. Status of investment and rental property

The Company owns some real estate in the Tokyo metropolitan area and Ibaraki Prefecture that have become idle.

### 2. Fair value of investment and rental property

(Millions of yen)

Amount posted on consolidated balance sheet	Fair value
3,118	3,607

Notes:

1. Balance sheet carrying amounts are acquisition costs less aggregate depreciation.
2. Fair value at February 28, 2015, is based on an appraisal report prepared by qualified external real estate appraisers (including those adjusted using relevant indexes).

## [Regarding Consolidated per Share Data]

1. Net assets per share: ¥1,028.56
2. Net loss per share: ¥53.27

## [Significant Subsequent Events]

There is no relevant information.

## **Non-Consolidated Balance Sheets**

(As of February 29, 2016)

(Millions of yen)

	<b>Fiscal 2016</b> <b>(As of February 29, 2016)</b>
<b>Assets</b>	
<b>CURRENT ASSETS</b>	<b>17,374</b>
Cash and time deposits	8,400
Notes receivable—trade	705
Accounts receivable	3,502
Commercial goods	2,561
Inventories	425
Prepaid expenses	470
Deferred tax assets	569
Others	740
Allowance for doubtful accounts	(1)
<b>FIXED ASSETS</b>	<b>44,195</b>
<b>Tangible fixed assets</b>	<b>9,365</b>
Buildings	2,860
Structures	35
Machinery	4
Vehicles	0
Equipment	611
Land	3,508
Lease assets	2,340
Construction in process	3
<b>Intangible fixed assets</b>	<b>2,079</b>
Patents	0
Leaseholds	1,275
Trademarks	14
Software	727
Others	61
<b>Investments and other fixed assets</b>	<b>32,749</b>
Investment securities	526
Investment securities in affiliates	5,319
Equity funds	0
Investments in partnerships with affiliates	0
Long-term loans	400
Long-term loans to affiliates	23,588
Long-term prepaid expenses	143
Deferred tax assets	54
Guarantee deposits	3,671
Others	46
Allowance for doubtful accounts	(1,002)
<b>TOTAL ASSETS</b>	<b>61,569</b>

Note: Amounts less than one million yen are omitted.

(Millions of yen)

	<b>Fiscal 2016</b> <b>(As of February 29, 2016)</b>
<b>Liabilities and Net Assets</b>	
<b>CURRENT LIABILITIES</b>	<b>7,985</b>
Accounts payable—trade	273
Current portion of long-term loans payable	1,232
Lease obligations	846
Accrued accounts payable	1,856
Accrued expenses	558
Accrued consumption tax	52
Accounts payable	1,274
Deposits received	524
Unearned revenue	0
Allowances for employees' bonuses	959
Allowance for product guarantee	124
Allowance for returned goods	105
Allowance for losses on store closure	1
Asset retirement obligations	9
Others	165
<b>FIXED LIABILITIES</b>	<b>15,454</b>
Bonds with stock acquisition rights	10,035
Long-term loans payable	1,536
Lease obligations	1,497
Allowance for employees' severance and retirement benefits	640
Asset retirement obligations	1,608
Others	136
<b>TOTAL LIABILITIES</b>	<b>23,439</b>
<b>NET ASSETS</b>	
<b>Shareholders' equity</b>	<b>37,666</b>
<b>Common stock</b>	<b>12,944</b>
<b>Capital surplus</b>	<b>13,157</b>
Additional paid-in capital	13,157
<b>Earned surplus</b>	<b>15,925</b>
Earned legal reserve	1,022
Other reserve	14,903
Deferred capital gain on sales of buildings	0
Retained earnings carried forward	14,903
<b>Treasury stock</b>	<b>(4,360)</b>
<b>Unrealized gain on securities and foreign currency translation adjustments</b>	<b>14</b>
<b>Unrealized gains (losses) on investment securities</b>	<b>14</b>
<b>Stock acquisition rights</b>	<b>448</b>
<b>TOTAL NET ASSETS</b>	<b>38,129</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>61,569</b>

Note: Amounts less than one million yen are omitted.

## **Non-Consolidated Statements of Income**

(March 1, 2015, to February 29, 2016)

(Millions of yen)

	<b>Fiscal 2016</b> <b>(Ended February 29, 2016)</b>
<b>Net sales</b>	<b>38,915</b>
<b>Cost of sales</b>	<b>7,425</b>
<b>Gross profit</b>	<b>31,489</b>
<b>Selling, general and administrative expenses</b>	<b>31,203</b>
<b>Operating income</b>	<b>285</b>
<b>Non-operating income</b>	<b>1,194</b>
Interest received	478
Interest on securities	1
Dividends received	6
Rent on real estate	46
Consulting fee income	399
Compensation income	134
Other	127
<b>Non-operating expenses</b>	<b>1,231</b>
Interest paid	68
Transfer to allowance for doubtful accounts	219
Rent on real estate	13
Foreign exchange losses	786
Others	144
<b>Ordinary profit</b>	<b>247</b>
<b>Extraordinary income</b>	<b>0</b>
Gain on sales of investment securities	0
<b>Extraordinary expenses</b>	<b>565</b>
Losses on retirement of fixed assets	20
Loss on valuation of stocks of subsidiaries and affiliates	517
Loss on valuation of investments in affiliates	0
Losses on store closures	27
<b>Loss before income taxes</b>	<b>(317)</b>
Corporate, inhabitant and business taxes	222
Adjustments to corporate and other taxes	951
Total income taxes	<b>1,174</b>
<b>Net loss</b>	<b>(1,492)</b>

Note: Amounts less than one million yen are omitted.

## Non-Consolidated Statements of Changes in Shareholders' Equity

(March 1, 2015, to February 29, 2016)

(Millions of yen)

	Shareholders' Equity							
	Common Stock	Capital Surplus			Earned reserve	Retained Earnings		
		Additional paid-in capital	Other reserve	Total capital surplus		Other reserve	Reserve for reduction entry of buildings	Retained earnings carried forward
Balance at beginning of fiscal year	12,944	13,157	—	13,157	1,022	0	16,035	17,057
Cumulative effects of changes in accounting policies	—	—	—	—	—	—	889	889
Balance at beginning of current period after changes in accounting policies	12,944	13,157	—	13,157	1,022	0	16,924	17,946
Changes	—	—	—	—	—	—	—	—
Dividends from surplus	—	—	—	—	—	—	(524)	(524)
Net income (loss)	—	—	—	—	—	—	(1,492)	(1,492)
Purchases of treasury stock	—	—	—	—	—	—	—	—
Disposal of treasury stock	—	—	(5)	(5)	—	—	—	—
Reverse of reserve for reduction entry of buildings	—	—	—	—	—	(0)	0	—
Transfer to capital surplus from retained earnings	—	—	5	5	—	—	(5)	(5)
Net changes of items other than shareholders' equity during fiscal year	—	—	—	—	—	—	—	—
Total changes	—	—	—	—	—	(0)	(2,021)	(2,021)
Balance at end of fiscal year	12,944	13,157	—	13,157	1,022	0	14,903	15,925

(Millions of yen)

	Shareholders' Equity		Other comprehensive income		Stock acquisition rights	Total net assets
	Treasury stock	Total shareholders' Equity	Unrealized gain (loss) on other securities	Total of other comprehensive income		
Balance at beginning of fiscal year	(4,288)	38,870	43	43	270	39,185
Cumulative effects of changes in accounting policies	—	889	—	—	—	889
Balance at beginning of current period after changes in accounting policies	(4,288)	39,759	43	43	270	40,074
Changes	—	—	—	—	—	—
Dividends from surplus	—	(524)	—	—	—	(524)
Net loss	—	(1,492)	—	—	—	(1,492)
Purchases of treasury stock	(90)	(90)	—	—	—	(90)
Disposal of treasury stock	18	13	—	—	—	13
Reverse of reserve for reduction entry of buildings	—	—	—	—	—	—
Transfer to capital surplus from retained earnings	—	—	—	—	—	—
Net changes of items other than shareholders' equity during fiscal year	—	—	(29)	(29)	177	148
Total changes	(71)	(2,092)	(29)	(29)	177	(1,944)
Balance at end of fiscal year	(4,360)	37,666	14	14	448	38,129

Note: Amounts less than one million yen are omitted.

# Notes to Non-Consolidated Financial Statements

## Significant Accounting Standards

### 1. Valuation standards and methods

(1) Marketable securities

Shares of subsidiaries: Cost determined by the moving-average method

Other securities

Securities quoted on exchanges

Market value method based on market value at fiscal year-end.

Appraisal differences are dealt with by means of the direct capital influx method, with cost of securities sold calculated with the moving-average method.

(2) Derivatives

Market value method

(3) Inventories

Cost method (that estimates the net sale value for assets with noticeably diminished profitability and drops the book value by this amount)

Commercial goods

Custom-made wigs: unit cost method

Ready-made wigs: moving-average method

Other products: moving-average method

Supplies: moving-average method

### 2. Depreciation method of fixed assets

Tangible fixed assets (excluding lease assets)

Declining-balance method. For buildings (excluding building fixtures) acquired after April 1, 1998, straight-line method applies.

Estimated useful lives of significant fixed assets is as follows:

Buildings: Three to 47 years

Structures: 10 years

Machinery: Seven years

Equipment: Two to 20 years

Intangible fixed assets (excluding lease assets)

The straight-line method is applied.

Software for in-house use is accounted for with the straight-line method over its estimated useful life (five years).

Leased assets related to finance lease transactions other than those deemed to transfer ownership

The lease period shall be the period of asset depreciation and will be determined under a method with zero residual value over the lease period.

Long-term prepaid expenses: Equal-installment depreciation

### 3. Standards for allowances

(1) Allowance for doubtful accounts

To prepare against credit losses, allowances for doubtful accounts are stated at an amount considered appropriate based on the company's past credit loss experience for ordinary receivables. For receivables such as those threatened with bankruptcy, allowance is provided for the estimated amount of uncollectable receivables by examining collectible amounts individually.

(2) Allowance for employees' bonuses

An amount is set aside to cover bonuses to employees, in accordance with the estimated amounts payable.

(3) Allowance for product warranties

An amount is set aside to cover expenses arising from free warranties on goods and products sold, and the Company adds an appropriate amount based on past experience.

(4) Allowance for returned goods

The Company makes provisions in order to account for losses due to returns of sold products.

Amounts of the allowance for returned goods are calculated by multiplying the average returned goods ratios of the current period and previous fiscal year by the gross profit margin of the current period, and adding this total to the balance of accounts receivable.

(5) Allowance for loss on store closure

To prepare against loss through store closure, the reporting company makes additions to the



allowance in accordance with the estimated amounts payable.

(6) Employees' severance and retirement benefits

An amount is set aside for retirement benefits to employees, based on the estimated level of projected retirement benefit obligations and pension assets at fiscal year-end.

The treatment methods for reserve for retirement benefits and retirement benefit expense are as follows:

(i) Period attribution method for expected retirement benefits:

In calculating retirement benefit obligations, the straight-line attribution method is used to attribute expected benefits to the period up to the end of the fiscal year under review, that is, February 29, 2016.

(ii) Expense treatment for actuarial difference and prior service costs:

Actuarial difference is a proportional amount determined by the straight-line method over a specific period (3-5 years) not exceeding the average remaining years of service for employees at the time of occurrence in each consolidated fiscal year and is expensed from the fiscal year following the one in which the difference was recognized.

Prior service costs are principally expensed on a straight-line basis over a specific period (5 years) not exceeding the average remaining years of service for employees when such costs are incurred.

The handling of unrecognized actuarial difference and unrecognized prior service costs on the balance sheet is different for the consolidated financial statements.

#### **4. Basis for preparation of other financial documents**

(1) Translation of foreign-currency-denominated assets and liabilities into yen

Assets and liabilities denominated in foreign currencies are converted into yen at the rates of exchange in effect at the end of the consolidated period, with translation differences treated as gains or losses.

(2) Accounting treatment for consumption and other taxes

The Company applies the tax-exclusion accounting method to national and local consumption taxes.

#### **5. Changes in accounting policy**

##### **Accounting Standard for Retirement Benefits**

From end of the fiscal year under review, the Company has adopted "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan (ASBJ) Statement No. 26, issued on May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, issued on May 17, 2012). The Company then switched to a method that defines retirement benefit obligations, after deducting pension plan assets, as a liability related to retirement benefits, and booked unrecognized actuarial difference as such a liability. In case that pension plan assets exceeded retirement benefit obligations, unrecognized actuarial difference is indicated as assets related to retirement benefits.

Application of the standard follows the transitional approach described in Paragraph 37 of the standard, and the amount impacted by this change has been factored into retirement benefits liability adjustments under accumulated other comprehensive income.

Consequently, net defined benefit liability at the beginning of fiscal 2016 decreased ¥889 million and retained earnings increased by the same amount. The impact on nonconsolidated-level income for fiscal 2016 is minimal.

#### **6. Changes in method of presentation**

Commissions paid (¥0 in the fiscal year under review), under non-operating expenses, was a separate line item in the previous fiscal year. Because the significance of this line item has dimmed, it is disclosed as part of the "others" line item under non-operating expenses in the fiscal year under review.

### [Non-Consolidated Balance Sheets]

1. Accumulated depreciation of tangible fixed assets: ¥12,856 million
2. Receivables from and payables to affiliates (excludes amounts classified and presented)

Short-term receivables from affiliates	¥328 million
Short-term payables to affiliates	¥529 million

### [Non-Consolidated Statements of Income]

#### Transactions with affiliates:

Transaction volume through business activities	
Sales	¥61 million
Purchase amount	¥3,138 million
Supplies paid for	¥102 million
Selling, general and administrative expenses	¥165 million
Transactions other than ordinary business	¥925 million

### [Non-Consolidated Statements of Changes in Shareholders' Equity]

Number of shares of treasury stock at February 29, 2016

Common stock: 2,382,886 shares

### [Tax-Effect Accounting]

Major factors for the accrual of deferred tax assets and deferred tax liabilities:

(1) Deferred tax assets	
Valuation loss on investment securities in affiliates	¥4,400 million
Valuation loss on equity in subsidiaries	¥314 million
Allowance for doubtful accounts	¥277 million
Deficit brought forward	¥5,248 million
Excess of depreciation limit	¥728 million
Impairment loss	¥636 million
Allowance for employees' severance and retirement benefits	¥206 million
Allowance for employees' bonuses	¥317 million
Asset retirement obligations	¥522 million
Other	¥345 million
Subtotal	¥13,000 million
Valuation reserve	¥(12,016) million
Total deferred tax assets	¥984 million
(2) Deferred tax liabilities	
Expenses for asset retirement obligation	¥352 million
Other	¥8 million
Total deferred tax liabilities	¥360 million
(3) Net deferred tax assets	¥623 million

(Supplementary information)

#### Revised amounts for deferred tax assets and deferred tax liabilities owing to change in corporate tax rates

Partial Revision of the Income Tax Act (Act No.9 of 2015) and Partial Revision of Local Tax Act (Act No.2 of 2015) were issued on March 31, 2015, lowering corporate tax rates, effective from fiscal years beginning on or after April 1, 2015. Accordingly, the effective statutory tax rate applied to the calculation of deferred tax assets and deferred tax liabilities changed from 35.6% to 33.1% for temporary differences which are expected to be settled in the fiscal year beginning March 1, 2016, and 32.3% for temporary differences which are expected to be settled in fiscal years beginning on or after March 1, 2017.

Due to these changes in tax rate, the amount of deferred tax assets (after deducting deferred tax liabilities) decreased by ¥46 million, and income taxes—deferred and valuation difference on available-for-sale securities increased by ¥47 million and ¥0 million, respectively, in the fiscal year in review.

## [Related Party Transactions]

### (1) Subsidiaries

Name of company	Capital stock	Business	Percentage of the Company's ownership with voting rights	Relationship	Transactions	Transactions (Millions of yen)	Accounts	Year-end balance (Millions of yen)
Aderans America Holdings, Inc.	US\$98 million	Holding company	100%	Cash loans, Directors in concurrent roles	Capital recovery (Note 1)	203	Long-term loans to affiliates	21,121
					Interest income (Note 1)	470	Accrued revenue	72
Aderans (Shanghai) Co., Ltd.	CNY 50,500 thousand	Sales of wigs	100%	Cash loans, Directors in concurrent roles	Cash loans (Note 1)	—	Long-term loans to affiliates (Note 2)	607
					Interest income (Note 1)	—	Accrued revenue	10
Aderans Lao Co., Ltd.	US\$5,600 thousand	Factory of wigs	100%	Directors in concurrent roles	Capital increase (Note 3)	650	—	—
HC (USA) Inc.	US\$ 292	Holding company	100%	Management direction, Directors in concurrent roles	Receipt of management fees (Note 4)	203	Accounts due	48

Figures in ( ) in the column for ownership ratio of voting rights indicate indirect ownership ratio.

### Transaction Conditions and Policy on Transaction Conditions

Notes:

- Interest rates applied to loan transactions are determined by reasonable estimation methods, based on market interest rates.
- The Company booked ¥505 million in allowance for doubtful accounts to cover loans to Aderans (Shanghai) Co., Ltd., and a reversal of allowance for doubtful accounts ¥235 million, in fiscal 2016.
- The entire capital increase at Aderans Lao Co., Ltd., was underwritten.
- Management fees are based on conditions determined by contract.

### [Non-Consolidated per Share Data]

- Net assets per share: ¥1,080.82
- Net loss per share: ¥42.73

### [Significant Subsequent Events]

There is no relevant information.

(Translation)

**Independent Auditor's Report  
on Consolidated Financial Statements**

**Independent Auditor's Report**

April 12, 2016

To the Board of Directors of Aderans Co., Ltd.

**BDO Sanyu & Co.**  
Tomohiro Koto  
Representative and managing partner  
Certified Public Accountant  
Hiroshi Saito  
Representative and managing partner  
Certified Public Accountant

In accordance with Article 444, Paragraph 4, of the Corporation Law, we, the independent auditors, have conducted an audit of Aderans Co., Ltd.'s consolidated financial statements for the consolidated business year from March 1, 2015, through February 29, 2016. That is, we have audited the consolidated balance sheets, the consolidated statements of income, the consolidated statements of changes in shareholders' equity, and notes to the consolidated financial statements.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan. This obligation includes the establishment and application of internal controls that management deems necessary to facilitate the preparation of consolidated financial statements free from material misstatements, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to state an opinion on the consolidated financial statements from a perspective independent of the Company, based on an audit executed in our capacity as independent auditors. We conducted our audit in accordance with auditing standards, procedures and practices generally accepted as fair and appropriate in Japan. These standards, procedures and practices require that we lay out a plan and perform our audit in line with this plan so as to obtain reasonable assurance that the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain bookkeeping evidence about the amounts and disclosure presented in the consolidated financial statements. The procedures are selected and applied at our judgment, based on an assessment of the risk for material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit is not to express an opinion on the effectiveness of internal controls. However, in making risk assessments pertinent to an audit, we consider internal controls relevant to the preparation and fair presentation of consolidated financial statements so as to design audit procedures that are appropriate to the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used by management and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Auditor's Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the status of financial assets of Aderans Co., Ltd., and its subsidiaries, at February 29, 2016, as well as the status of profits and losses for the years covered in said statements, in accordance with accounting principles and practices generally accepted in Japan.

**Interests**

Neither our firm nor the managing partners have any special interest in the Company that should be disclosed pursuant to the provisions set forth in the Certified Public Accountants Law of Japan.

END

<p>The above represents a translation, for convenience only, of the original report issued in the Japanese language.</p>
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(Translation)

**Independent Auditor's Report**

April 12, 2016

To the Board of Directors of Aderans Co., Ltd.

**BDO Sanyu & Co.**  
Tomohiro Koto  
Representative and managing partner  
Certified Public Accountant  
Hiroshi Saito  
Representative and managing partner  
Certified Public Accountant

In accordance with Article 436, Paragraph 2, No. 1 of the Corporation Law, we, the independent auditors, have conducted an audit of Aderans Co., Ltd.'s non-consolidated financial statements for the Company's 47th business year, from March 1, 2015, through February 29, 2016. That is, we have audited the non-consolidated balance sheets, the non-consolidated statements of income, the non-consolidated statements of changes in shareholders' equity, and notes to the non-consolidated financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements and attachments in accordance with accounting principles generally accepted in Japan. This obligation includes the establishment and application of internal controls deemed necessary by management to facilitate the preparation and fair presentation of financial statements and attachments that are free from material misstatements, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to state an opinion on the financial statements and associated notes from perspective independent of the Company, based on an audit executed as independent auditors. We conducted our audit in accordance with auditing standards, procedures and practices generally accepted as fair and appropriate in Japan. These standards, procedures and practices require that we lay out a plan and perform our audit in line with this plan so as to obtain reasonable assurance that the financial statements and attachments are free of material misstatement.

An audit involves performing procedures to obtain bookkeeping evidence about the amounts and disclosure presented in the financial statements and attached notes. The procedures are selected and applied at our judgment, based on an assessment of the risk for material misstatement of the financial statements and attached notes, whether due to fraud or error. The purpose of an audit is not to express an opinion on the effectiveness of internal controls. However, in making risk assessments pertinent to an audit, we consider internal controls relevant to the preparation and fair presentation of the financial statements and attachments so as to design audit procedures that are appropriate to the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used by management and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and attached notes.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Auditor's Opinion**

In our opinion, the financial statements and attachments referred to above present fairly, in all material respects, the status of financial assets of Aderans Co., Ltd., and its profits and losses for the years covered in said statements and attached notes, in accordance with accounting principles and practices generally accepted in Japan.

**Interests**

Neither our firm nor its managing partners have any special interest in the Company that should be disclosed pursuant to the provisions set forth in the Certified Public Accountants Law of Japan.

END

The above represents a translation, for convenience only, of the original report issued in the Japanese language.

(Translation)

### **Audit & Supervisory Board's Report**

The Audit & Supervisory Board has prepared the following report, based on a review of all reports by auditors regarding the execution of directors' duties, obligations and responsibilities during the 47th business year, from March 1, 2015, through February 29, 2016.

1. Methods and content of audits by members of the Audit & Supervisory Board and the Audit & Supervisory Board

- (1) The Audit & Supervisory Board determined auditing policies and assignment of duties to be performed. Members of the Audit & Supervisory Board reported to the Board on the status of the audit implementation and the results produced, while directors and independent auditors provided updates on the execution of respective duties. Explanations were provided when necessary.
- (2) In keeping with standards set by the Audit & Supervisory Board regarding the execution of audits by auditors, members of the Audit & Supervisory Board worked to ensure open lines of communication with directors and members of the internal auditing division and other divisions to facilitate the collection of relevant information and the establishment of audit-friendly environments. The following methods were applied to audits.
  - a. Auditors also attended important meetings (including Board of Directors' meetings), received updates from directors and employees on the execution of respective duties with explanations when necessary, reviewed material settlement-related documents, and investigated the status of business activities and financial assets at headquarters and major offices. Regarding subsidiary companies, auditors worked to ensure open lines of communication with directors and auditors at these companies to facilitate the exchange of information, and relied on business activity reports when necessary.
  - b. Members of the Audit & Supervisory Board received reports from directors and employees on the status of implementation and operation of the system to ensure that the execution of duties by directors conforms to prevailing laws and the Company's Articles of Incorporation—as described in the business report—and the system (internal control system) based on the content of a resolution by the Board of Directors concerning the creation of internal control criteria, as required under Article 100, Paragraphs 1 and 3, of rules for the enforcement of the Corporation Law to ensure appropriate business practices of corporate groups comprising stock companies and their subsidiaries, and the resolution itself, and also asked for explanations as necessary and offered opinions.
  - c. Members of the Audit & Supervisory Board confirmed the status of independent auditors—that is, their independent perspective—and monitored and verified that accounting audits were being conducted appropriately. Independent auditors provided updates on the execution of duties and detailed explanations when necessary. The independent auditors also provided members of the Audit & Supervisory Board with notification that their firm maintains a system to ensure proper completion of duties, which is addressed in Article 131 of Regulations for Corporate Accounting, in accordance with “Standards for Quality Control of Audits,” issued by the Business Accounting Council on October 28, 2005, and offered supplementary explanations when required.

Based on these methods, members of the Audit & Supervisory Board duly reviewed the business report and attached statements and non-consolidated financial documents—that is, balance sheets, statements of income, statements of changes in shareholders' equity, and notes to non-consolidated financial statements—and attachments as well as consolidated financial documents—namely, balance sheets, statements of income, statements of changes in shareholders' equity, and notes to consolidated financial statements—for the fiscal year ended February 29, 2016.



2. Audit results

(1) Results of audits on business report and attachments

- a. The business report and the attachments fairly reflect the status of the Company, in accordance with laws and the Company's articles of incorporation.
- b. No serious cases of misconduct were found in the execution of directors' duties, nor were any significant legal violations or contravention of the Company's articles of incorporation detected.
- c. The resolution passed by the Board of Directors regarding the internal control system was deemed to be sufficient, and no problems were noted in the execution of duties by directors pursuant to said internal control system.

(2) Results of the audit on non-consolidated financial statements and attachments

In our opinion, the auditing methods applied by BDO Sanyu & Co. independent auditors and their results were appropriate.

(3) Results of the audit on consolidated financial statements and attachments

In our opinion, the auditing methods applied by BDO Sanyu & Co. independent auditors and their results were appropriate.

3. Subsequent events

There are no relevant subsequent events.

April 12, 2016

The Audit & Supervisory Board, Aderans Co., Ltd.

Masayoshi Sato, Standing Audit & Supervisory Board Member  
(Outside auditor)  
Kazuhiro Miyakawa, Outside Audit & Supervisory Board Member  
Yoshikazu Suzuki, Outside Audit & Supervisory Board Member

END

The above represents a translation, for convenience only, of the original report issued in the Japanese language.

## Guide to Voting

### Agenda and Referenced Items

#### First item on the agenda—Appropriation of retained earnings

The return of profit to shareholders is one of management’s top priorities, and efforts are made to distribute dividends with due consideration given to a stable return of profits to shareholders and investment opportunities that will enable the Company to achieved sustained growth into the future. The dividend thus takes into account fiscal performance in any given year, payout ratio and status of retained earnings.

#### Year-End Dividend

- a) Type of dividend assets  
Cash
- b) Allocation of dividend assets and sum total  
The Company intends to pay ¥15 per share of common stock, which will generate a sum total of ¥522,952,530.
- c) Effective date for dividends from retained earnings  
May 27, 2016.

#### Second item on the agenda— Partial amendment to Articles of Incorporation

##### (1) Reasons for proposal

- a) To add to purpose of business in line with efforts to develop the business activities of the Company
- b) To specify in the Articles of Incorporation a predetermined period of validity for substitute members of the Audit & Supervisory Board

##### (2) Description of amendments

The following table compares existing articles with proposed amendments. Such amendments in Japanese that cause a change in the corresponding English version are underlined.

Current	After Amendment
(Purpose) Article 2 The purpose of the Company shall be to undertake the following business activities: (1) ~ (23) (Omitted) (New)  (24) Investment in the business activities set forth in the preceding descriptions of business activities and any businesses related to these activities. 2. Control and management of the business activities undertaken by companies that <u>engage in</u> the activities set forth in the preceding descriptions numbered (1) through (24) and the overseas companies engaged in corresponding operations <u>through</u> stockholdings and equity stakes in <u>said</u> companies.	(Purpose) Article 2 The purpose of the Company shall be to undertake the following business activities: (1) ~ (23) (No changes) (24) <u>Purchase and sale of secondhand items (including but not limited to wigs) in accordance with the Secondhand Articles Dealers Act.</u> (25) Investment in the business activities set forth in the preceding descriptions of business activities and any businesses related to these activities. 2. Control and management of the business activities undertaken by companies ( <u>including overseas companies</u> ) that engage in the activities set forth in the preceding descriptions numbered (1) through (25), <u>partnerships (including activities equivalent to a partnership in overseas locations) and other operations</u> through stockholdings and equity stakes in <u>business entities which fall under said descriptions.</u>
(Term of office) Article 31 (1) (Omitted) (New)	(Term of office) Article 31 (1) (No change) (2) <u>Resolutions pertaining to election of substitute</u>

<p>(2) The term of office for a member of the Audit &amp; Supervisory Board who has assumed the position as a replacement for another member of the Audit &amp; Supervisory Board due to his/her retirement before the end of the stated term shall be the period that remains in the term of that retiring member of the Audit &amp; Supervisory Board.</p>	<p><u>members to the Audit &amp; Supervisory Board shall be valid until the beginning of the ordinary general meeting of shareholders relating to the last fiscal year ending within four years of the individual's appointment as a substitute member of the Audit &amp; Supervisory Board.</u></p> <p>(3) The term of office for a member of the Audit &amp; Supervisory Board who has assumed the position as a replacement for another member of the Audit &amp; Supervisory Board due to his/her retirement before the end of the stated term shall be the period that remains in the term of that retiring member of the Audit &amp; Supervisory Board. <u>However, should the substitute member of the Audit &amp; Supervisory Board assume a place on the Audit &amp; Supervisory Board, his/her term of office shall not go beyond the conclusion of the ordinary general meeting of shareholders for the closing of accounts relating to the last business year that comes to an end within the space of four (4) years from his/her election as a substitute member of the Audit &amp; Supervisory Board.</u></p>
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**Third item on the agenda**—Election of seven (7) directors

The Company's five (5) directors will conclude respective terms in office at the end of the general shareholders' meeting. The Company has opted to increase the number of directors by two (2) to underpin future business expansion and reinforce the management supervisory function, and requests shareholder approval of the seven (7) candidates introduced below.

We propose the following candidates for election.

No.	Name (Date of Birth)	Career Summary and Positions as Representatives in Other Companies	No. of Shares Owned
1	Nobuo Nemoto (July 15, 1940)	<p>Mar. 1969 Founder and director, earlier incorporation of Aderans Co., Ltd.</p> <p>Mar. 1970 President and representative director</p> <p>May 1987 Supreme advisor and director</p> <p>May 1995 Chairman and representative director</p> <p>May 2000 Supreme advisor and director</p> <p>May 2008 Retired as director of Aderans Co., Ltd.</p> <p>May, 2010 Director and chairman, Aderans Co., Ltd.</p> <p>Feb. 2011 CEO, representative director, chairman and president, Aderans Co., Ltd. (current)</p> <p>Significant concurrent positions: President, Seishin Co., Ltd.</p>	4,493,458
2	Yoshihiro Tsumura (August 12, 1963)	<p>Mar. 1982 Joined Aderans Co., Ltd.</p> <p>Feb. 2001 General manager, Tohoku Sales Division</p> <p>Jun. 2009 Executive officer</p> <p>Oct. 2009 Director, Fontaine Co., Ltd.</p> <p>May 2011 General manager, Sales Planning HQ</p> <p>May 2013 Director, Aderans Co., Ltd. In charge of Sales HQ</p> <p>Sep. 2015 COO, representative director and senior managing director, Aderans Co., Ltd. (current)</p>	6,600

3	Junichi Mizuo (August 12, 1947)	<p>Apr. 1970    Joined Shiseido Co., Ltd.</p> <p>Apr. 1998    Held concurrent post of lecturer at Senshu University</p> <p>Apr. 1999    Assistant professor at Surugadai University</p> <p>Apr. 2000    Professor at Surugadai University, Faculty of Economics (currently, Faculty of Economics and Management) (current)</p> <p>Apr. 2001    Professor at Surugadai University, Graduate School, Course of Economics (currently, Integral Policy) (current)</p> <p>Mar. 2004    Took a doctorate in Economics at Senshu University</p> <p>Apr. 2013    Part-time lecturer, Toyo University, Faculty of Economics (current)</p> <p>Apr. 2015    Concurrent position as professor, Tokyo Institute of Technology, Graduate School of Science (current)</p> <p>May 2015    Director, Aderans Co., Ltd. (current)</p> <p>Significant concurrent positions:  Professor of Surugadai University, Faculty of Economics and Management  Professor of Surugadai University, Graduate School, Course of Integral Policy  Deputy Chairmen and Director, Japan Society for Business Ethics Study</p>	—
4	Masayoshi Sato* (July 30, 1949)	<p>Apr. 1972    Joined Dai-Ichi Kangyo Bank, Ltd. (now, Mizuho Bank, Ltd.)</p> <p>Apr. 1996    General manager, Yotsuya Branch of Dai-Ichi Kangyo Bank</p> <p>Apr. 1999    General manager, Loan Division of Dai-Ichi Kangyo Bank</p> <p>Jan. 2001    General manager, Sapporo Branch of Dai-Ichi Kangyo Bank</p> <p>Apr. 2002    General manager, Sapporo-Chuo Branch, Mizuho Bank</p> <p>Jun. 2003    Representative director and senior managing director, Daiichi Jisho Co., Ltd.</p> <p>Dec. 2004    Senior managing executive officer, Chuo Real Estate Co., Ltd</p> <p>Jun. 2007    Senior managing director, Chuo Real Estate</p> <p>Jun. 2009    Senior managing executive officer, Chuo Real Estate</p> <p>May 2013    Outside Audit &amp; Supervisory Board Member (Standing), Aderans Co., Ltd. (current)</p>	
5	Masatoshi Kageyama* (April 16, 1963)	<p>Mar. 1982    Joined Aderans Co., Ltd.</p> <p>Mar. 2008    General manager, Kyushu Sales and Marketing Division</p> <p>May, 2011    Executive officer, general manager of East-Japan Sales and Marketing Division and concurrently general manager of Kanagawa/Chiba Business Headquarters</p> <p>Sep. 2015    Senior executive officer, general manager of East-Japan Business Headquarters for Aderans and Fontaine</p> <p>Mar. 2016    Senior executive officer, general manager of Domestic Business Headquarters (current)</p>	5,600

6	Masaaki Furukawa* (January 21, 1961)	Aug. 1982	Joined Aderans Co., Ltd.	1,700
		Feb. 1996	General manager, Tohoku Branch Office	
		Feb. 1998	General manager, Kyushu Sales and Marketing Division	
		May, 2011	Executive officer, general manager of West-Japan Sales and Marketing Division and concurrently general manager of Kyoshin/Hokuriku Business Headquarters	
		Sep. 2015	Senior executive officer, general manager of West-Japan Business Headquarters for Aderans and Fontaine	
		Mar. 2016	Senior executive officer, general manager of Overseas Business Headquarters (current)	
7	Kazuhiko Takano* (October 25, 1962)	Apr. 1986	Joined Tokyu Tourist Corporation	—
		Nov. 1992	Joined Fukutake Publishing Co., Ltd. (now, Benesse Corporation)	
		Apr. 2001	Section manager, risk management, Legal Affairs Division, at Benesse	
		Apr. 2005	Manager, corporate governance, Internal Control Division, at Benesse	
		Dec. 2007	Part-time lecturer, Nagoya University of Commerce and Business Graduate School, Division of Management	
		Oct. 2008	Visiting professor, NUCB Graduate School	
		Apr. 2009	Professor, NUCB Graduate School	
		Apr. 2010	Assistant professor, Graduate School and Faculty of Safety Science, Kansai University	
		Apr. 2012	Professor, Graduate School and Faculty of Safety Science, Kansai University (current)	
		Oct. 2014	Deputy dean, Graduate School and Faculty of Safety Science, Kansai University (current)	
Significant concurrent positions: Deputy dean and professor in Faculty of Safety Science, Kansai University and its graduate school				

Notes:

1. The \* notation in the Name column indicates new candidate for position of director.
2. No candidates have any special interests in the Company.
3. Masayoshi Sato is currently a member of the Audit & Supervisory Board at Aderans, but he plans to retire from this position, effective at the conclusion of the 47th General Shareholders' Meeting.
4. Junichi Mizuo and Kazuhiko Takano are candidates for positions as outside directors. The Company has tapped Mr. Mizuo as an independent officer, in accordance with regulations set by Tokyo Stock Exchange, Inc., and has submitted notice to the exchange.
5. The term of office for Junichi Mizuo, as an outside director at Aderans, will be one year from the conclusion of the 47th General Shareholders' Meeting.
6. The reasons for appointing this outside director candidate, as well as the limitation of liability agreements between the Company and any outside directors are described below:
  - (1) Reasons for electing outside director candidate
    - a. Mr. Mizuo has delved into corporate social responsibility and corporate governance as a professor in the Faculty of Economics and Management at Surugadai University, as well as the Graduate School for Integral Policy at this university. The Board of Directors asks for his appointment as an outside director because he will contribute to enhanced corporate governance at the Company through advice based on experience and knowledge acquired over many years as a specialist in economics.
    - b. Kazuhiko Takano has no experience directly involved in corporate management. However, as a professor at Kansai University, in the Faculty of Safety Science and the Graduate School of Safety Science, he has studied compliance as well as risk and crisis management and has also looked into information law in Europe and the United States. The Board of Directors believes that Mr. Takano can offer constructive opinions from his specialist perspective and asks shareholders to approve his appointment as an outside director.
  - (2) Limited liability agreement with outside directors

Junichi Mizuo signed an agreement with the Company that limits to a certain amount the level of compensation that the Company would pay in the event of a claim for damages, in accordance with the Company's Articles of Incorporation. If shareholders approve Mr. Mizuo's reappointment, the Company plans to roll this agreement over. In addition, if shareholders approve the appointment of Kazuhiko Takano, the Company will sign a similar agreement with him.

A summary of agreement content is provided below.

Outside directors and outside members of the Audit & Supervisory Board, in either case, sign an agreement that limits compensation for liability to the amount described in Article 423, Paragraph 1, of the Corporation Law, in accordance with Article 427, Paragraph 1, of the same law. The limit of liability, based on the agreement, is the greater of either ¥300 million or an amount established under legal provisions.

**Fourth item on the agenda**— Election of two (2) Audit & Supervisory Board members and one (1) substitute member

Masayoshi Sato, a member of the Audit & Supervisory Board, is to retire from his position at the close of the 47th General Shareholders' Meeting, and the term of Kazuhiro Miyakawa, a member of the Audit & Supervisory Board, will end, as of the close of the 47th General Shareholders' Meeting. Therefore, management asks shareholders to approve the appointment of two members to the Audit & Supervisory Board. Because Keizo Seki will fill the vacancy of Masayoshi Sato, who is retiring, his term of office will run until the end of the term of the person he replaces—in this case, Mr. Sato—as per the Company's Articles of Incorporation.

Also, as a backup measure ensuring uninterrupted auditing activities should the number of members on the Audit & Supervisory Board fall short of the legally required number, management asks shareholders to approve the appointment of one substitute member to the Audit & Supervisory Board. The validity of this appointment may be revoked by resolution of the Board of Directors, with the consent of the Audit & Supervisory Board but only before the appointed candidate takes office.

If the second item on the agenda—partial amendment of Articles of Incorporation—is approved as put forward, the resolution to appoint a substitute member to the Audit & Supervisory Board will be valid until the beginning of the ordinary general meeting of shareholders pursuant to the last fiscal year ending within four years of the individual's appointment as a substitute member of the Audit & Supervisory Board.

The Audit & Supervisory Board allows this agenda item to be presented for approval.

The candidate for members of the Audit & Supervisory Board is described below.

Number	Name (Date of Birth)	Career at Aderans and Current Representation in Other Companies	No. of Shares Owned
1	Kazuhiro Miyakawa (Feb. 18, 1965)	Oct. 1990 Joined Century Audit Corporation (now, Ernst & Young ShinNihon LLC) Mar. 1994 Certified public accountant Aug. 1994 Joined Nakajima Accounting Office (now, Asahi Tax Corporation) Sep. 1995 Certified tax accountant Feb. 1996 Opened Miyakawa Total Certified Tax Accountant Office (now, Beqone Partners, Inc.), assumed partner status (current) Jan. 2000 Representative director and president, Beqone Partners (current) May 2012 Member of the Audit & Supervisory Board at Aderans Co., Ltd.(current) Significant concurrent positions: Partner status, Beqone Partners Representative director and president, Beqone Partners	—

2	Keizo Seki (Apr. 14, 1954)	Apr. 1978	Joined Dai-Ichi Kangyo Bank, Limited (now, Mizuho Bank, Ltd.)	—
		Jul. 1999	Deputy general manager, Asset Coordination Office, Dai-Ichi Kangyo Bank	
		Apr. 2002	Deputy general manager, Asset Management Division, Mizuho Bank	
		Oct. 2003	Associate director, Business Audit Division, Mizuho Bank	
		Apr. 2004	General manager, Business Audit Division, Mizuho Trust & Banking Co., Ltd.	
		Jul. 2005	General manager, Compliance Supervision Division, Mizuho Trust & Banking	
		Jun. 2007	Executive officer, Chuo Fudosan K.K., general manager No.3, Development Business Division	
		Jun. 2010	Executive officer, general manager, Accounting Division, Chuo Fudosan	
		Jun. 2012	Executive officer, general manager, Corporate Planning Division, Chuo Fudosan	
		Jun. 2015	Managing director and executive officer, general manager, Business Planning Division, Chuo Fudosan	
		Mar. 2016	Advisor at Aderans Co., Ltd. (current)	

Notes:

- The \* notation in the Name column indicates new candidate for position as member of Audit & Supervisory Board.
- There are no special interests between the candidate and the Company.
- Kazuhiro Miyakawa is a candidate for outside member of the Audit & Supervisory Board. The Company has submitted notice to Tokyo Stock Exchange, Inc., to say Mr. Miyakawa serves as an independent officer, in accordance with regulations set by the exchange.
- Mr. Miyakawa's term of office as an outside member of the Audit & Supervisory Board will be four years from the close of the 47th General Shareholders' Meeting.
- Reason for appointment as possible substitute outside member of the Audit & Supervisory Board and limited liability agreement with substitute outside Audit & Supervisory Board Member
  - Reason for appointment as possible outside member of the Audit & Supervisory Board  
Mr. Miyakawa will be able to conduct audits from an objective perspective, based on specialized knowledge and experience as a certified public accountant and tax accountant. In addition, he is a man of outstanding integrity, which leads management to believe that he will be able to properly perform the duties of an outside member of the Audit & Supervisory Board.
  - Limited liability agreement with outside directors  
Kazuhiro Miyakawa has signed an agreement with the Company that limits to a certain amount the level of compensation that the Company would pay in the event of a claim for damages, in accordance with the Company's Articles of Incorporation. If shareholders approve Mr. Miyakawa's reappointment, the Company plans to roll this agreement over.  
A summary of agreement content is provided below.  
Outside directors and outside members of the Audit & Supervisory Board, in either case, sign an agreement that limits compensation for liability to the amount described in Article 423, Paragraph 1, of the Corporation Law, in accordance with Article 427, Paragraph 1, of the same law. The limit of liability, based on the agreement, is the greater of either ¥300 million or an amount established under legal provisions.

The candidate for substitute member of the Audit & Supervisory Board is described below.

Number	Name (Date of Birth)	Career at Aderans and Current Representation in Other Companies	No. of Shares Owned	
3	Yoshiyuki Seki (Nov. 19, 1974)	Apr. 1998	Joined Kokusai Securities Co., Ltd. (then in existence)	—
		Oct. 2000	Joined Century Ota Showa & Co. (now, Ernst & Young ShinNihon LLC)	
		Apr. 2004	Certified public accountant	
		Feb. 2006	Joined Risa Partners, Inc.	
		Dec. 2007	Established Trust Support General Accountants (now Larks Accounting Co., Ltd.), and assumed position as representative director (current)	
		Feb. 2009	Certified tax accountant	
		Feb. 2010	Established Larks CPA Partners, and assumed position as representative certified public accountant (current)	
		May 2012	Substitute member of Audit & Supervisory Board at Aderans Co., Ltd. (current)	

Notes:

1. There are no special interests between the candidate and the Company.
2. Yoshiyuki Seki is a candidate for substitute external member of the Audit & Supervisory Board.
3. Reason for appointment as possible substitute outside member of the Audit & Supervisory Board and limited liability agreement with substitute outside Audit & Supervisory Board Member
  - (1) Reason for appointment as possible substitute outside member of the Audit & Supervisory Board  
Mr. Seki will be able to conduct audits from an objective perspective, based on specialized knowledge and experience as a certified public accountant and tax accountant. In addition, he is a man of outstanding integrity, which leads management to believe that he will be able to properly perform the duties of an outside member of the Audit & Supervisory Board.
  - (2) Mr. Seki plans to sign an agreement with the Company that limits to a certain amount the level of compensation that the Company would pay in the event of a claim for damages, in accordance with the Company's Articles of Incorporation.  
Outside directors and outside members of the Audit & Supervisory Board, in either case, sign an agreement that limits compensation for liability to the amount described in Article 423, Paragraph 1, of the Corporation Law, in accordance with Article 427, Paragraph 1, of the same law. The limit of liability, based on the agreement, is the greater of either ¥300 million or an amount established under legal provisions.

END



**Access Map**  
**Aderans Holdings Co., Ltd.**  
**Notice of General Shareholders' Meeting**

Sumitomo Realty & Development Nishi-Shinjuku No. 3 Building,  
1st Floor,  
Belle Salle Nishi-Shinjuku Hall  
15-3, Nishi-Shinjuku 4-chome, Shinjuku-ku, Tokyo  
Tel: +81 (3) 3320-2611

**By JR, Subway, and Private Railway:**

- \* 6-minute walk from Nishi-Shinjuku 5-chome Station, A2 Gate (O-Edo Tokyo Metro Line)
- \* 5-minute walk from Tochomae Station, A5 Gate (O-Edo Tokyo Metro Line)
- \* 15-minute walk from Shinjuku Station, West Exit (JR, others)
- \* 12-minute walk from Shinjuku Station, Exit No.7  
(Shinjuku Line of the metropolitan subway system, Keio New Line)
- \* 3-minute walk from Juni-sha Ike-no-Shita bus stop  
(Keio Bus from Shinjuku Station, West Exit)

Request: Please be aware that there is no parking for cars or for bicycles at this building.