Consolidated Financial Results for the Fiscal Year Ended March 31, 2016 [J-GAAP]

May 13, 2016

Name of listed company:	ARTNATURE INC.	Listed on: Tokyo Stock Exchange
Securities code:	7823	URL: http://www.artnature.co.jp/english/index.html
Representative:	Yoshikata Igarashi, Chairman and President	
Contact:	Hiroaki Inoue, General Manager, Finance & Accounting Division Corporate Officer	TEL: +81-3-3379-3334

Scheduled date of holding the ordinary general meeting of shareholders:	June 23, 2016
Scheduled date to start dividends distribution:	June 24, 2016
Scheduled date of filing the financial report:	June 24, 2016
Supplementary documents for this summary of financial statements:	No
Explanation meeting for financial results:	Yes (for institutional investors and analysts)

(Figures shown are rounded down to the nearest million yen.)

1. Consolidated results for the fiscal year ended March 31, 2016 (April 1, 2015 – March 31, 2016)

(1) Consolidated operating results

(Percentage figures show changes from the previous year.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent company	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ended March 31, 2016	40,515	(1.9)	3,457	(14.5)	3,456	(18.9)	1,731	(23.1)
Year ended March 31, 2015	41,283	3.2	4,042	(24.9)	4,264	(21.9)	2,252	(28.1)

Note: Comprehensive income: Year ended March 31, 2016: ¥1,588 million (-34.6%) Year ended March 31, 2015: ¥2,429 million (-26.0%)

	Net income per share	Fully diluted net income per share	Return on shareholders' equity	Ordinary income to total assets	Operating income to net sales
	Yen	Yen	%	%	%
Year ended March 31, 2016	52.37	52.16	7.4	8.4	8.5
Year ended March 31, 2015	68.22	67.84	10.2	10.8	9.8

(Reference) Equity in earnings of affiliates: Year ended March 31, 2016: ¥— million Year ended March 31, 2015: ¥— million

Note: The Company conducted a 2-for-1 stock split of common shares with an effective date of November 1, 2014. Net income per share and diluted net income per share have been calculated assuming the stock split was conducted at the start of the previous fiscal year.

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of March 31, 2016	40,734	23,653	58.0	712.77
As of March 31, 2015	41,147	23,012	55.8	694.79

(Reference) Equity capital: As of March 31, 2016: ¥23,608 million As of March 31, 2015: ¥22,960 million

Note: The Company conducted a 2-for-1 stock split of common shares with an effective date of November 1, 2014. Net assets per share have been calculated assuming the stock split was conducted at the start of the previous fiscal year.

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of year
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Year ended March 31, 2016	3,106	(1,733)	(1,541)	16,072
Year ended March 31, 2015	3,343	(4,714)	859	16,309

2. Dividends

	Dividends per share					Total dividends (annual)	Dividends payout ratio (consolidated)	Dividends on net assets (consolidated)
	First quarter-end	Second quarter-end	Third quarter-end	Year-end	Annual			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Year ended March 31, 2015	—	25.00	—	15.00	—	908	40.3	4.1
Year ended March 31, 2016	—	14.00	—	14.00	28.00	926	53.5	4.0
Year ending March 31, 2017 (Forecast)	—	14.00	—	14.00	28.00		36.6	

Note: The Company conducted a 2-for-1 stock split of common shares with an effective date of November 1, 2014. The year-end dividend for the fiscal year ended March 31, 2015 is based on the number of shares after the stock split.

3. Consolidated financial forecast for the fiscal year ending March 31, 2017 (April 1, 2016 – March 31, 2017)

(Percentage figures show changes from the same period in the previous year.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent company		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
First six months	20,612	3.9	1,773	3.9	1,813	2.0	1,150	19.8	34.75
Full year	43,079	6.3	3,844	11.2	3,925	13.5	2,533	46.3	76.48

Notes:

(1) Significant changes to subsidiaries during the term (Transfers of specific subsidiaries with changes in the scope of consolidation): None

(2) Changes in accounting policies, accounting estimates and restatement of revisions

1) Changes in accounting policies due to revision of accounting standard, etc.: Yes
2) Changes in accounting policies other than 1): None
3) Changes in accounting estimates: None
4) Restatement of revisions: None

Note: For more details, please refer to page 20 of the supplementary materials, “5. Consolidated Financial Statements, (5) Notes on consolidated financial statements, (Change in accounting policy).”

(3) Number of outstanding shares (common stock):

1) Number of shares issued and outstanding (including treasury stock)	As of March 31, 2016	34,393,200 shares		As of March 31, 2015	34,341,600	shares
2) Number of treasury stock	As of March 31, 2016	1,271,238 shares		As of March 31, 2015	1,295,438	shares
3) Average number of shares issued and outstanding in each period	Year ended March 31, 2016	33,070,605 shares		Year ended March 31, 2015	33,017,375	shares

Note: The Company conducted a 2-for-1 stock split of common shares with an effective date of November 1, 2014. Number of outstanding shares (common stock) has been calculated assuming the stock split was conducted at the start of the previous fiscal year.

* Disclosures related to the implementation of audit procedures

The audit procedures for these financial statements in accordance with the Financial Instruments and Exchange Act had not been completed at the time of disclosure.

* Explanation of appropriate use of forecasts of financial results; other important items

(Cautionary statement with regard to the forward-looking statements, etc.)

The forward-looking statements in this document, including forecasts, are based on information available at the time of disclosure and on certain assumptions deemed to be reasonable by the Company. Actual results may differ materially from forward-looking statements due to a number of factors. For more details about these assumptions and other conditions that form the basis of these forecasts, please refer to page 2 of the supplementary materials, “1. Analysis of operating results and financial position, (1) Analysis of operating results.”

Contents

1. Analysis of operating results and financial position

(1) Analysis of operating results

1) Operating results for fiscal 2016

In fiscal 2016, ended March 31, 2016, the Japanese economy showed some positive signs, including an upturn in corporate earnings and an improvement in employment conditions on the back of the government’s economic policies and monetary easing measures. However, the outlook remained uncertain due to sharp fluctuations in share prices and foreign exchange rates and weakness in consumer spending, with consumers still cautious following the hike to consumption tax.

Against this backdrop, ARTNATURE INC. and its consolidated subsidiaries (the ARTNATURE Group) targeted further growth, based on five pillars: establish a sales system that balances efficiency with high levels of customer satisfaction; create a global manufacturing system capable of rapidly delivering high-quality products at low cost; build a robust earnings structure by encouraging a greater emphasis on profits and by boosting productivity; cultivate personnel that are resilient to change and establish a motivating workplace; and create a healthy management structure that wins the trust of the public by addressing their needs. Guided by these policies, the Group implemented a range of initiatives, such as improving customer retention by regularly launching innovative products and by enhancing the technical skills, customer service and product proposal capabilities of sales staff. The Group also actively held trial fitting events and reinforced the sales structure in the JULIA OLGER business, which sell ladies’ ready-made wigs.

However, sales of ladies’ products in particular were weaker than projected due to sluggishness in the wider economy and intensifying competition with other companies.

As a result, the Group reported net sales of ¥40,515 million, a decrease of 1.9% year on year. Although steps were taken to limit sales promotion costs and other expenses compared with the previous fiscal year, the drop in sales and an increase in the cost of sales led to lower profits year on year. Operating income fell 14.5% to ¥3,457 million, ordinary income declined 18.9% to ¥3,456 million and net income attributable to owners of the parent company dropped 23.1% to ¥1,731 million.

Sales in each segment were as follows:

< Men’s business >

Sales in the men’s business remained almost unchaged from the previous fiscal year at ¥23,439 million, decreasing 0.2% year on year, despite initiatives such as reinforcing the customer supervisor system to improve customer retention and strengthening the skills, customer service and product proposal capabilities of sales staff to raise customer satisfaction.

< Ladies’ business >

Sales in the ladies’ business declined 4.9% year on year to ¥12,779 million. Initiatives were implemented to increase customer satisfaction by improving the skills of sales staff and to enhance customer follow-up support and encourage customers to visit stores more regularly. However, this was insufficient to offset the impact of persistently weak consumer sentiment since the hike to consumption tax and intensifying competition with other companies.

< Ladies’ ready-made wigs business >

Sales in the JULIA OLGER business, which sells ladies’ ready-made wigs, declined 4.1% year on year to ¥3,436 million, mainly due to sluggish sales at existing stores.

2) Outlook for fiscal 2017

In fiscal 2017, ending March 31, 2017, we expect the Japanese economy to recover at a moderate pace, supported by the government’s package of emergency policies to realize a society in which all citizens are dynamically engaged. In the Group’s sector of hair products and services, we expect the operating environment to remain challenging due to competition from companies within the sector and in peripheral sectors.

Against this backdrop, we will work to increase corporate value by pursuing even higher levels of customer satisfaction, lifting productivity and also taking steps to strengthen corporate governance. In the Group's mainstay custom-made wigs, we will increase the number of customers by focusing on new products for both men and women. In the JULIA OLGER ladies’ ready-made wig business, we will reinforce our nationwide retail store network to build a base of loyal customers and strengthen our foothold in the ready-made wig sector. We are also targeting growth by focusing on the online business and the overseas business.

Based on these initiatives, for fiscal 2017, we forecast consolidated net sales of ¥43,079 million, up 6.3% year on year, operating income of ¥3,844 million, up 11.2%, ordinary income of ¥3,925 million, up 13.5%, and net income attributable to owners of the parent company of ¥2,533 million, up 46.3%.

(2) Analysis of financial position

1) Assets, liabilities and net assets

(Assets)

As of the fiscal year-end, total assets were ¥40,734 million, a decrease of ¥412 million compared with the end of the previous fiscal year. Current assets decreased ¥766 million, mainly due to declines in cash and deposits and notes and accounts receivable – trade, while non-current assets rose ¥353 million, primarily due to an increase in intangible assets.

(Liabilities)

As of the fiscal year-end, liabilities totaled ¥17,081 million, a decrease of ¥1,053 million compared with the end of the previous fiscal year. This mainly reflected a decrease of ¥1,291 million in current liabilities due to declines in income taxes payable and advances received.

(Net Assets)

As of the fiscal year-end, net assets totaled ¥23,653 million, an increase of ¥640 million compared with the end of the previous fiscal year. This primarily reflected an increase of ¥773 million in retained earnings.

2) Cash flow position

As of the fiscal year-end, cash and cash equivalents (cash) totaled ¥16,072 million, a decrease of ¥237 million compared with the end of the previous fiscal year. The Company's cash flow position and factors behind changes in cash flows were as follows:

(Cash flows from operating activities)

Operating activities provided net cash of ¥3,106 million, compared with ¥3,343 million in the previous fiscal year. This mainly reflected income before income taxes and minority interests of ¥3,308 million, depreciation of ¥1,237 million, increase in net defined benefit liability of ¥516 million, and decrease in notes and accounts receivable – trade of ¥764 million, versus decrease in advances received of ¥297 million, increase in inventories of ¥501 million, and income taxes paid of ¥2,001 million.

(Cash flows from investing activities)

Investing activities used net cash of ¥1,733 million, compared with ¥4,714 million in the previous fiscal year. This mainly reflected purchase of property, plant and equipment of ¥1,453 million and purchase of intangible assets of ¥267 million.

(Cash flows from financing activities)

Financing activities used net cash of ¥1,541 million, compared with net cash provided of ¥859 million in the previous fiscal year. This mainly reflected repayments of long-term loans payable of ¥401 million, cash dividends paid of ¥957 million, and repayments of lease obligations of ¥190 million.

The Group's cash flow-related indicators are as follows:

Year ended March 31,	2012	2013	2014	2015	2016
Equity ratio (%)	56.2	54.3	56.5	55.8	58.0
Market value-based equity ratio (%)	54.0	77.5	128.4	88.4	82.4
Cash flow to interest-bearing debt (%)	–	–	–	59.9	51.6
Interest coverage ratio (times)	–	–	–	2,889.2	261.3

Notes: The above indicators are calculated as follows:

Equity ratio: Equity capital / total assets

Market value-based equity ratio: Market capitalization / total assets

Cash flow to interest-bearing debt: Interest-bearing debt / cash flow from operating activities

Interest coverage ratio: Cash flow from operating activities / interest payments

* All indicators are calculated using consolidated financial data

* Market capitalization is calculated by multiplying the number of shares outstanding at the fiscal year end (excluding treasury stock) by the closing share price at the fiscal year end.

* Cash flow is "Cash flow from operating activities" shown on the consolidated statements of cash flow.

* Interest-bearing debt is all liabilities on which interest is paid shown under liabilities on the consolidated balance sheet. Interest payments are "Interest paid" shown on the consolidated statement of cash flow.

(3) Basic policy on distribution of profits and dividends for fiscal 2016 and fiscal 2017

ARTNATURE Group believes that returning profits to shareholders is one of the most important issues for management. The Company's basic policy is to pay stable dividends to shareholders while ensuring there are sufficient internal reserves to reinforce the Group's management base and financial position and to invest in future business expansion.

In line with this policy, the Company will pay a full-year dividend of ¥28 per share for fiscal 2016, ended March 31, 2016, comprising an interim dividend of ¥14 per share and a year-end dividend of ¥14 per share.

For fiscal 2017, ending March 31, 2017, the Company plans to pay a full-year dividend of ¥28 per share, comprising an interim dividend of ¥14 per share and a year-end dividend of ¥14 per share.

(4) Business risks

Factors that could affect the Group's operating results, financial position and share price include, but are not limited to, those listed below.

1) Overseas production

A significant proportion of the manufacturing process for the Company's mainstay custom-made wigs is carried out by hand. All this manual work has been conducted by ARTNATURE PHILIPPINES INC. (consolidated subsidiary; AN Philippines) and by ARTNATURE MANUFACTURING PHILIPPINES INC. (consolidated subsidiary; ANMP) in the Philippines, where labor costs are low. To mitigate risks related to the concentration of production sites in the Philippines, the Company also conducts manufacturing activities at a recently established consolidated subsidiary in Cambodia called ARTNATURE (CAMBODIA) INC. (ANKH).

However, the Group's production activities in the Philippines and Cambodia may be affected by political, economic and social conditions, as well as by natural disasters and legal regulations and restrictions implemented by the local authorities. Fluctuations in exchange rates may also affect the Group's operating results, as business transactions with overseas subsidiaries are conducted in foreign currencies.

2) Exposure to specific products and technological innovation

Custom-made wigs, which are produced individually according to the requirements of each customer, account for a high proportion of the Group's sales. In the fiscal year under review, custom-made wigs generated 60.3% of the Group's total sales.

Hair growth tonics and hair addition systems are products and technologies that compete with the Company's mainstay custom-made wigs. Until now, those products have not represented a major threat to ARTNATURE's custom-made wigs, because the benefits of hair growth tonics differ from person to person and hair addition systems have limits in terms of the number of synthetic hair strands that can be added. However, there may be a significant impact on the Group's operating results if a new hair growth tonic with groundbreaking efficacy is developed and launched, or if medical technology such as hair addition or hair regrowth products with no limits on the number of hair strands is developed and launched.

3) Limited number of suppliers

The Company procures supplies of synthetic hair – the main material used in its custom-made wigs and other products – from three domestic manufacturers, in order to ensure quality and stable supplies. However, relying on a limited number of suppliers has inherent risks. The Company stores a certain volume of synthetic hair procured from its three suppliers, but there may be a significant impact on the Group's operating results if, for whatever reason, supplies are halted for a period longer than those stocks last.

4) Limited number of distribution centers

Aiming to reduce delivery times and cut operating costs, the Company has contracted Yamato Logistics Co., Ltd. to distribute its products. Yamato Logistics uses two logistics facilities to distribute ARTNATURE products, the Quick Online Logistics Center in Kanagawa and the Quick Online Logistics Center in Osaka. Although these distribution centers are robust enough to withstand earthquakes within normal expected parameters, the Group's operating results could be affected in the event of a major disaster that destroys buildings and cuts off transportation links, which could partially interrupt orders and product distribution between domestic stores, consolidated subsidiaries and third-party manufacturers that supply the Group.

To prepare for this kind of situation, the Company stores a certain amount of appliances, synthetic hair and other items at its distribution center in Murakami City, Niigata Prefecture in accordance with a business continuity plan (BCP).

5) Leaks of customer information and information security

A. Information management systems at the Company

The Company's customer base is made up of ordinary individuals who have concerns about their hair. Information about those customers is very important, so the Company takes the utmost care in information management.

The Company has created a personal information protection management system that is compliant with the Japanese Industrial Standard JISQ15001 "Personal information protection management systems-Requirements." The Company also applied for Privacy Mark certification from the Japan Institute for Promotion of Digital Economy and Community (JIPDEC) in August 2006. Certification was then awarded and is regularly renewed.

The Company has taken every possible step to reinforce its customer information management system, such as using a customer management system (My-Do) to digitize and store customer data in a centralized manner. However, the Group's business activities and operating results may be affected if customer data is leaked and used wrongfully by third parties, resulting in a wider public issue that damages the brand and corporate image of ARTNATURE.

B. Information management systems at business partners

Sending direct mail to customers is a key part of the Company's marketing activities. Due to personnel cost considerations, the Company outsources the distribution of direct mail to a third party, which involves temporarily providing that company with data such as customer names and addresses. Prior to providing customer information to third parties, the Company carries out an assessment to confirm whether personal information management systems at contractors meet the Company's in-house standards based on compliance with the Japanese Industrial Standard JISQ15001 "Personal information protection management systems-Requirements." Once this is confirmed, the Company signs a confidentiality agreement with the contractor.

Company representatives also conduct onsite visits and regularly review contractors. However, the Group's operations and operating results may be affected if information is leaked by a contractor, resulting in the risk of wrongful use of customer data by a third party.

6) Securing staff

Business activities at the Company’s salons are subject to the Barbers Act and the Beauticians Act, meaning that stylists who serve customers at salons must hold national qualifications as barbers and hairdressers. As of March 31, 2016, 1,945 employees, or roughly 80% of the Company’s total permanent workforce, were qualified as barbers or hairdressers. To secure qualified personnel, the Company hires mid-career stylists with barber or hairdresser qualifications. However, the Group’s operating results may be affected if it fails to hire the necessary number of barbers or hairdressers, which could lead to a decline in the quality of service provision due to a lack of staff.

7) Research and development

The cornerstone of the Group’s business strategy is to provide products and services that satisfy customers who have concerns about their hair. Consequently, the Group focuses its research and development efforts on wigs and hair addition products, and on hair growth and related appliances.

However, new products and services launched by the Company may not prove to be popular in the market, as they have to compete with new products and services launched by rival companies. There may be a significant impact on the Group’s operating results and growth forecasts if it fails to accurately read customers needs or if it falls behind in technological innovation.

8) Product defects, quality control and product liability

The Group is exposed to the risk of product liability damages for all the products it develops and manufactures. The Group’s mainstay custom-made wigs are attached directly to the heads of customers, so the Group may be subject to product liability claims if the wigs have a detrimental effect on customers’ skin due to product defects or poor quality control. The Group’s operating results and financial position may be affected in the event that it is required to pay product liability damages in excess of amounts covered by product liability insurance.

9) Maintaining brand power

The ARTNATURE brand, which the Company has built up during 50 years since it was founded, is crucial to the operation of its comprehensive hair consultancy business, such as custom-made wigs. Maintaining and raising the visibility of the Company and its products through commercials featuring famous celebrities also plays a crucial role in expanding the Group's business base. Moreover, the Company recognizes that it is vitally important to reinforce its brand in order to more clearly differentiate its products from those of its competitors.

However, the Company’s brand power may decline if its products and services lose the support of customers due to changing needs, or if an event occurs that has a negative impact on the Company’s ability to win the trust of customers. The brand may also be damaged by compliance or corporate governance issues at a Group company, which could have a significant impact on the Group’s operating results.

10) Home consultations by sales staff that could infringe the Specified Commercial Transactions Act

To ensure sales activities comply with the Specified Commercial Transactions Act, which is designed to protect consumers, the Company provides rigorous training to sales staff about areas they should comply with during home visits, and also concludes contracts with customers.

However, the Group’s operating results may be affected if the conduct of sales staff during home visits infringes regulations related to home sales visits in the Specified Commercial Transactions Act, resulting in a business improvement order or a business cessation order.

11) Possibilities of stricter legal restrictions

The Company’s hair-related business is subject to legal restrictions such as the Specified Commercial Transactions Act, Consumer Contract Act, Barber Act, Beautician Act, the Act against Unjustifiable Premiums and Misleading Representations, and the Installment Sales Act. The Group’s operating results may be affected if those laws are revised or new regulations are implemented.

12) Earthquakes and other major disasters

The Company has formulated a business continuity plan to ensure it fulfills its social responsibility to customers to continue supplying products and services, even during an earthquake or other major disaster, by maintaining a certain level of production, distribution and sales capabilities.

The Company partially revised its business continuity plan to reflect lessons learnt from the Great East Japan Earthquake on March 11, 2011, but the Group’s operating results may be affected if the impact of a future disaster is much greater than anticipated.

(As of the date of this report, the Company’s business continuity plan has been confirmed as effective in responding to the 2016 Kumamoto Earthquakes, which began on April 14, 2016).

2. The ARTNATURE Group (Group overview)

As of March 31, 2016, the ARTNATURE Group comprised the parent company ARTNATURE INC. and 12 consolidated subsidiaries. The Group is mainly involved in the manufacture and sale of custom-made wigs.

The Company's mainstay custom-made wigs are produced by two consolidated subsidiaries (AN Philippines and ANMP) based on measurements of customers' heads taken with 3D-imaging systems at the Company's salons. The Company makes bulk purchases of human and synthetic hair – the main materials used to produce custom-made wigs – and supplies it free of charge to the two subsidiaries. The Company then purchases the finished custom-made wigs from the subsidiaries and delivers them to customers via its network of 263 domestic salons (as of March 31, 2016).

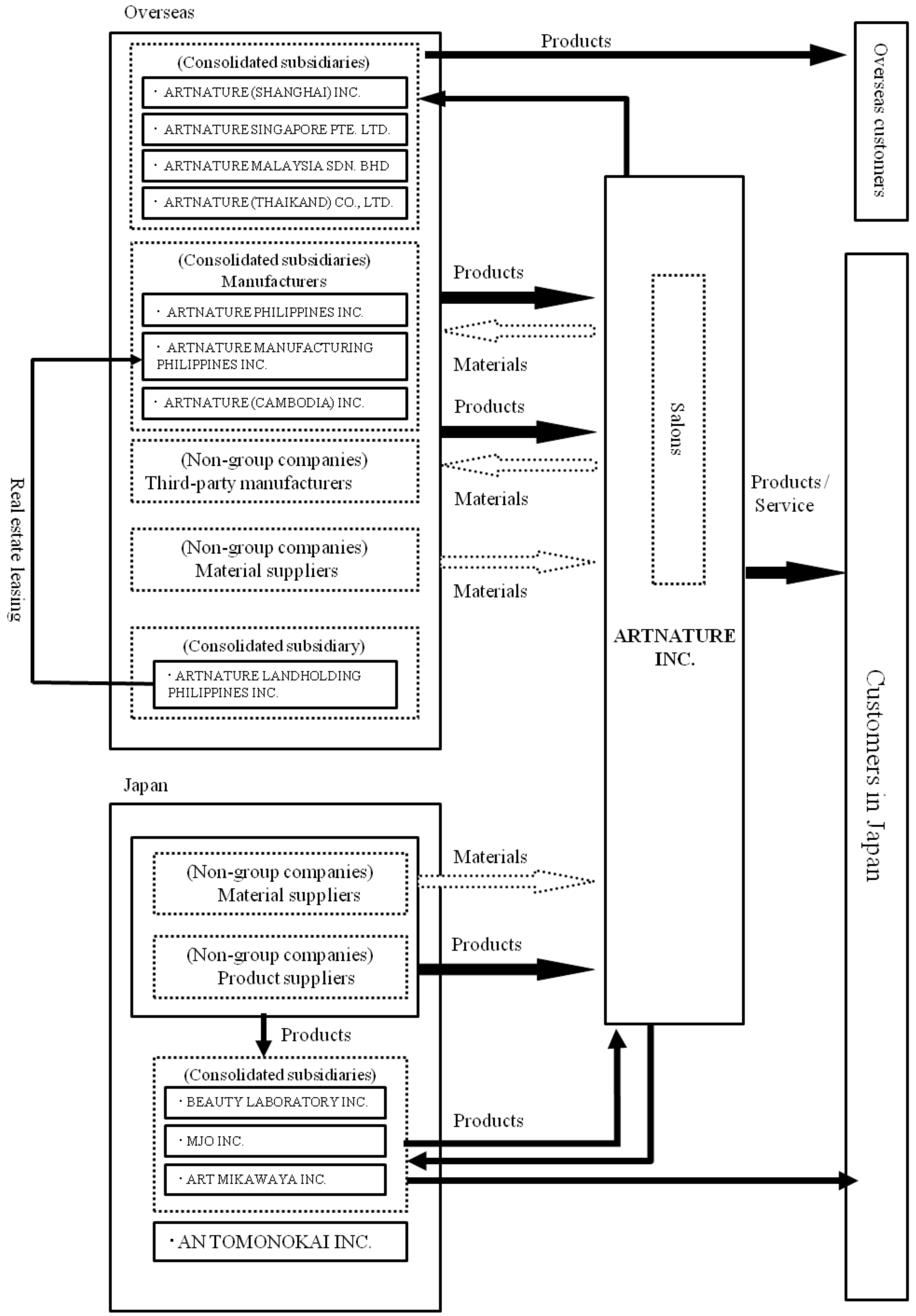
Production of ready-made wigs for women is outsourced to non-Group companies in China and Vietnam. The wigs are sold through a separate domestic network of 82 JULIA OLGER salons (as of March 31, 2016).

Group manufacturing subsidiary ANKH, which completed its plant in the previous fiscal year, is currently adjusting its manufacturing setup in order to achieve the same level of operations as other Group manufacturing subsidiaries.

The Group includes a number of other subsidiaries. In Japan, advance payment transaction company AN TOMONOKAI INC. makes it more convenient for customers to purchase the Company's products, and ART MIKAWAYA INC. is tasked with expanding the Company's wig business in the entertainment industry. Overseas, ARTNATURE (SHANGHAI) INC. (ANCN) is responsible for growing the Group's business in the Chinese market, ARTNATURE SINGAPORE PTE. LTD. (ANSG) is developing the business in Singapore, ARTNATURE MALAYSIA SDN. BHD. (ANMY) is tasked with developing the business in Malaysia, and ARTNATURE (THAILAND) CO., LTD. (ANTH) is developing the business in Thailand.

Please refer to the diagram below for the relationship between Group companies.

[Business line diagram] (As of March 31, 2016)



3. Management policies

(1) Basic management policy

As a comprehensive hair consultancy business, ARTNATURE strives to help all customers with concerns about their hair by providing them with the highest-quality products and services for their needs. Our management philosophy is to "foster a culture of hair that satisfies customers.”

To make this philosophy a reality, the Group is reinforcing its product development capabilities, upgrading its manufacturing framework, and improving its sales service system in areas such as counseling, customer support and styling skills, while also striving to operate its business in a way that wins the trust of shareholders, investors and all other stakeholders by strengthening its compliance system and actively disclosing corporate information.

(2) Management indicators and targets

The Group is working to expand its comprehensive hair consultancy business and boost profitability as well as capital efficiency by increasing sales and promoting efficient management.

We are therefore focusing on three key performance indicators: sales, ordinary margin (ratio of ordinary income to net sales) and ROE (return on equity).

We are targeting sales of ¥43,079 million in fiscal 2017, compared with ¥40,515 million in fiscal 2016. We plan to achieve this growth by actively implementing various initiatives to expand the customer base.

We also aim to steadily increase the ordinary margin by delivering gains in operational efficiency that support ongoing improvements in profitability.

In addition, we will operate our business with an emphasis on ROE to ensure we use capital entrusted by shareholders efficiently and increase corporate value.

(3) Medium- and long-term management strategy

We have formulated a three-year medium-term management plan, starting in fiscal 2017, based on the above performance indicators.

The plan is based on five basic policies: establish a sales system that balances efficiency with high levels of customer satisfaction; create a global manufacturing system capable of rapidly delivering high-quality products at low cost; build a robust earnings structure by encouraging a greater emphasis on profits and by boosting productivity; cultivate personnel that are resilient to change and establish a motivating workplace; and create a healthy management structure that wins the trust of the public by addressing their needs.

By implementing these policies in each business category, we are targeting consolidated sales of ¥48,289 million, an ordinary margin of 11.6% and ROE of 12.6%, three years from now in fiscal 2019, ending March 31, 2019.

(4) Issues to be resolved

We project rising demand in the domestic hair products and services market, where the ARTNATURE Group is active, due to trends such as increased stress in society, population aging and growing interest in anti-aging treatments. However, we also expect competition to intensify with companies in the sector of hair products and services, and with companies in peripheral industries. In this environment, we plan to work on the following key issues in order to generate further growth and boost corporate value.

1) In the men’s category, we will work to maintain our leading position in the industry while targeting steady growth by strengthening our customer supervisor system to boost existing customer retention rates.
2) In the ladies’ category, we will enhance the product proposal capabilities and technological expertise of our staff to increase contract closure rates, attract new customers and boost existing customer retention rates in order to expand the customer base and drive growth in earnings. Also, to address the challenge of new market entrants from other sectors, we will proactively provide information to effectively communicate the high quality of our products in order to ensure customers select ARTNATURE products.
3) In the ladies’ ready-made wig category (JULIA OLGER), we aim to increase earnings by using our existing store network as a base to implement sales promotions that raise brand awareness to attract new customers, while also promoting sales to existing customers.
4) In overseas markets, we will work to expand our business by raising brand awareness and implementing sales initiatives tailored to local markets in China, Singapore, Thailand and Malaysia in order to capture potential demand.
5) We will generate new demand by developing and regularly launching the highest-quality products and services for customers’ needs, and by devising advertising campaigns that resonate more closely with target customer groups.
6) In custom-made wigs, the Company has a network of three plants supplying custom-made wigs, comprising two subsidiaries in the Philippines (two plants) and one subsidiary in Cambodia (one plant). Also, in ready-made wigs, we have created a stable supply framework supported by manufacturing contractors in China and Vietnam and our plant in

Cambodia. Going forward, we will continue working to reduce costs, shorten delivery times and boost productivity.

7) We aim to create a stronger earnings structure for the Group by cutting fixed costs to reduce the breakeven point. Specifically, we will boost profit margins by reducing business costs across the whole Group and by using funds more efficiently.

8) As of March 31, 2016, 1,945 employees, or roughly 80% of the Company's permanent workforce, were qualified as barbers or hairdressers. Our aim is to make these individuals play a key role in winning the trust and boosting the satisfaction of customers to ensure they keep coming back to ARTNATURE. In addition to existing training about the Company's products, styling skills and services, we will provide these employees with regular training about customer satisfaction and compliance. In addition, in order to improve the specialist and interchangeable skills of employees not assigned to sales divisions, we will establish a training and development program and implement systems that support self-study as part of efforts to upgrade personnel development. In addition, as part of efforts to promote diversity, we will appoint female employees to key positions and actively introduce schemes such as short-term leave systems that emphasize a healthy work-life balance.

(5) Internal control system: upgrades and operational status

Details on this item are provided in the Group's report related to corporate governance, "Fundamental approach to internal control systems and current status of the system." (Japanese version only)

4. Basic stance on selection of accounting standards

The Group uses Japanese accounting standards, as many shareholders, creditors, business partners and other stakeholders are based in Japan, and there is limited need for the Group to procure funds overseas.

5. Consolidated financial statements

(1) Consolidated balance sheets

(Thousands of yen)

	As of March 31, 2015	As of March 31, 2016
Assets		
Current assets		
Cash and deposits	14,288,860	14,050,920
Accounts receivable – trade	3,794,180	3,024,585
Secutities	2,020,739	2,021,488
Merchandise and finished goods	1,918,655	1,959,211
Work in process	168,209	122,470
Raw materials and supplies	1,336,416	1,821,481
Deferred tax asset	564,894	508,446
Others	1,154,117	964,039
Allowance for doubtful accounts	(12,223)	(5,242)
Total current assets	25,233,850	24,467,400
Non-current assets		
Property, plant and equipment		
Buildings and structures	12,451,284	13,732,274
Accumulated depreciation	(6,206,901)	(6,758,321)
Buildings and structures, net	6,244,383	6,973,952
Machinery equipment and vehicle	158,412	159,719
Accumulated depreciation	(116,359)	(125,891)
Machinery equipment and vehicle, net	42,052	33,827
Land	3,545,016	3,540,606
Construction in progress	605,522	–
Others	2,241,664	2,465,505
Accumulated depreciation	(1,552,718)	(1,810,982)
Others, net	688,946	654,522
Total property, plant and equipment	11,125,921	11,202,909
Intangible assets		
Others	734,578	934,930
Total intangible assets	734,578	934,930
Investments and other assets		
Investment securities	382,123	353,081
Deferred tax assets	1,258,924	1,335,391
Lease and guarantee deposits	2,324,734	2,339,761
Net defined benefit asset	11,261	20,112
Others	138,719	145,917
Allowance for doubtful accounts	(62,888)	(64,848)
Total investments and other assets	4,052,874	4,129,414
Total non-current assets	15,913,375	16,267,254
Total assets	41,147,225	40,734,655

(Thousands of yen)

	As of March 31, 2015	As of March 31, 2016
Liabilities		
Current liabilities		
Notes and accounts payable – trade	354,757	314,102
Current portion of long-term loans payable	400,320	401,364
Accounts payable – other	1,891,436	1,921,385
Income taxes payable	1,136,133	681,130
Advances received	4,585,853	4,288,745
Provision for bonuses	815,798	815,827
Provision for directors’ bonuses	150,000	150,000
Provision for product warranties	31,575	46,231
Provision for point card certificates	65,686	81,868
Others	1,892,593	1,332,435
Total current liabilities	11,324,154	10,033,090
Non-current liabilities		
Long-term loans payable	1,602,812	1,200,404
Provision for directors’ retirement benefits	1,232,609	1,283,252
Net defined benefit liability	2,687,741	3,203,880
Asset retirement obligations	1,144,288	1,217,011
Others	142,753	143,580
Total non-current liabilities	6,810,205	7,048,128
Total liabilities	18,134,359	17,081,219
Net assets		
Shareholders’ equity		
Capital stock	3,663,375	3,667,245
Capital surplus	3,552,020	3,556,426
Retained earnings	16,041,854	16,815,192
Treasury stock	(512,178)	(502,610)
Total shareholders’ equity	22,745,072	23,536,254
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	12,342	3,644
Foreign currency translation adjustment	365,565	368,615
Remeasurements of defined benefit plans	(162,849)	(300,275)
Total accumulated other comprehensive income	215,058	71,984
Subscription rights to shares	41,650	31,570
Non-controlling interests	11,086	13,626
Total net assets	23,012,866	23,653,435
Total liabilities and net assets	41,147,225	40,734,655

(2) Consolidated statements of income and comprehensive income

(Consolidated statements of income)

(Thousands of yen)

	Year ended March 31, 2015	Year ended March 31, 2016
Net sales	41,283,535	40,515,407
Cost of sales	11,063,634	11,395,766
Gross profit	30,219,901	29,119,641
Selling, general and administrative expenses	26,177,431	25,662,264
Operating income	4,042,469	3,457,377
Non-operating income		
Interest income	113,979	117,311
Foreign exchange gains	65,500	—
Gain on valuation of investment securities	56,744	—
Commission fee	20,854	21,283
Others	46,621	50,450
Total non-operating income	303,700	189,045
Non-operating expenses		
Interest expenses	180	12,087
Foreign exchange losses	—	103,189
Guarantee commission	61,400	44,508
Others	19,813	29,735
Total non-operating expenses	81,395	189,520
Ordinary income	4,264,774	3,456,901
Extraordinary income		
Gain on sales of non-current assets	949	811
Compensation income	112,018	—
Total extraordinary income	112,968	811
Extraordinary losses		
Loss on retirement of non-current assets	71,075	50,508
Impairment loss	25,872	98,395
Litigation expenses	64,620	—
Total extraordinary losses	161,568	148,903
Income before income taxes and minority interests	4,216,174	3,308,808
Income taxes – current	1,882,881	1,506,565
Income taxes – deferred	78,388	70,945
Total income taxes	1,961,270	1,577,510
Net income	2,254,903	1,731,297
Net income (loss) attributable to non-controlling interests	2,421	(640)
Net income attributable to owners of the parent company	2,252,482	1,731,937

(Consolidated statements of comprehensive income)

(Thousands of yen)

	Year ended March 31, 2015	Year ended March 31, 2016
Net income	2,254,903	1,731,297
Other comprehensive income		
Valuation difference on available-for-sale securities	9,013	(8,698)
Foreign currency translation adjustment	198,605	2,864
Remeasurements of defined benefit plans	(32,910)	(137,425)
Total other comprehensive income	174,708	(143,259)
Comprehensive income	2,429,611	1,588,038
(Comprehensive income attributable to)		
Owners of the parent company	2,426,895	1,588,864
Non-controlling interests	2,715	(826)

(3) Consolidated statements of changes in net assets

Year ended March 31, 2015

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of period	3,662,925	3,550,447	14,626,624	(531,433)	21,308,564
Cumulative effects of changes in accounting policies			70,435		70,435
Restated balance	3,662,925	3,550,447	14,697,059	(531,433)	21,378,999
Change of items during the period					
Issuance of new shares	450	450			900
Dividends from surplus			(907,687)		(907,687)
Net income attributable to owners of the parent company			2,252,482		2,252,482
Disposal of treasury stock		1,123		19,254	20,377
Net changes of items other than shareholders' equity					
Total change of items during the period	450	1,573	1,344,794	19,254	1,366,072
Balance at the end of the period	3,663,375	3,552,020	16,041,854	(512,178)	22,745,072

	Accumulated other comprehensive income				Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income			
Balance at the beginning of period	3,329	167,253	(129,939)	40,643	51,368	8,371	21,408,947
Cumulative effects of changes in accounting policies							70,435
Restated balance	3,329	167,253	(129,939)	40,643	51,368	8,371	21,479,383
Change of items during the period							
Issuance of new shares							900
Dividends from surplus							(907,687)
Net income attributable to owners of the parent company							2,252,482
Disposal of treasury stock							20,377
Net changes of items other than shareholders' equity	9,013	198,312	(32,910)	174,414	(9,718)	2,715	167,411
Total change of items during the period	9,013	198,312	(32,910)	174,414	(9,718)	2,715	1,533,483
Balance at the end of the period	12,342	365,565	(162,849)	215,058	41,650	11,086	23,012,866

Year ended March 31, 2016

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of period	3,663,375	3,552,020	16,041,854	(512,178)	22,745,072
Change of items during the period					
Issuance of new shares	3,870	3,870			7,740
Dividends from surplus			(958,599)		(958,599)
Net income attributable to owners of the parent company			1,731,937		1,731,937
Disposal of treasury stock		535		9,567	10,103
Net changes of items other than shareholders' equity					
Total change of items during the period	3,870	4,405	773,338	9,567	791,182
Balance at the end of the period	3,667,245	3,556,426	16,815,192	(502,610)	23,536,254

	Accumulated other comprehensive income				Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income			
Balance at the beginning of period	12,342	365,565	(162,849)	215,058	41,650	11,086	23,012,866
Change of items during the period							
Issuance of new shares							7,740
Dividends from surplus							(958,599)
Net income attributable to owners of the parent company							1,731,937
Disposal of treasury stock							10,103
Net changes of items other than shareholders' equity	(8,698)	3,050	(137,425)	(143,073)	(10,079)	2,539	(150,613)
Total change of items during the period	(8,698)	3,050	(137,425)	(143,073)	(10,079)	2,539	640,569
Balance at the end of the period	3,644	368,615	(300,275)	71,984	31,570	13,626	23,653,435

(4) Consolidated statements of cash flows

(Thousands of yen)

	Year ended March 31, 2015	Year ended March 31, 2016
Cash flows from operating activities		
Income before income taxes and minority interests	4,216,174	3,308,808
Depreciation	1,000,799	1,237,653
Impairment loss	25,872	98,395
Increase (decrease) in allowance for doubtful accounts	(8,092)	(5,021)
Increase (decrease) in provision for bonuses	(90,082)	31
Increase (decrease) in provision for product warranties	368	14,656
Increase (decrease) in provision for point card certificates	(2,074)	16,182
Increase (decrease) in provision for directors' retirement benefits	30,544	50,643
Increase (decrease) in net defined benefit liability	301,073	516,645
Interest income	(113,979)	(117,311)
Interest expenses	180	12,087
Loss on retirement of non-current assets	71,075	50,508
Loss (gain) on sales of non-current assets	(949)	(811)
Loss (gain) on valuation of investment securities	(56,744)	6,144
Decrease (increase) in notes and accounts receivable – trade	1,174,537	764,222
Decrease (increase) in inventories	(706,464)	(501,038)
Increase (decrease) in notes and accounts payable – trade	(9,745)	(37,288)
Increase (decrease) in advances received	(217,098)	(297,108)
Others	(89,306)	(112,415)
Subtotal	5,526,089	5,004,982
Interest income received	112,614	115,679
Interest expenses paid	(1,157)	(11,892)
Income taxes paid	(2,293,989)	(2,001,827)
Net cash provided by (used in) operating activities	3,343,557	3,106,941
Cash flows from investing activities		
Purchase of property, plant and equipment	(4,909,961)	(1,453,070)
Proceeds from sales of property, plant and equipment	1,678	811
Purchase of intangible assets	(362,042)	(267,155)
Proceeds from redemption of investment securities	500,000	–
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(19,971)	–
Collection of long-term loans receivable	678	440
Payments for lease and guarantee deposits	(252,817)	(92,348)
Proceeds from collection of lease and guarantee deposits	298,503	82,779
Others	29,919	(5,121)
Net cash provided by (used in) investing activities	(4,714,012)	(1,733,665)

(Thousands of yen)

	Year ended March 31, 2015	Year ended March 31, 2016
Cash flows from financing activities		
Repayments of long-term loans payable	–	(401,364)
Proceeds from long-term loans payable	2,000,000	–
Repayments of lease obligations	(233,808)	(190,020)
Proceeds from issuance of common shares	900	7,740
Cash dividends paid	(907,377)	(957,871)
Net cash provided by (used in) financing activities	859,713	(1,541,516)
Effect of exchange rate change on cash and cash equivalents	110,206	(68,950)
Net increase (decrease) in cash and cash equivalents	(400,533)	(237,190)
Cash and cash equivalents at the beginning of period	16,710,133	16,309,599
Cash and cash equivalents at the end of period	16,309,599	16,072,409

(5) Notes on consolidated financial statements

(Notes related to the going concern assumption)

There is no related information.

(Basic important matters for preparing the consolidated financial statements)

1. Items related to the scope of consolidation

All the Company's subsidiaries are consolidated

Number of consolidated subsidiaries: 12

Name of important consolidated subsidiaries

ARTNATURE PHILIPPINES INC., ARTNATURE MANUFACTURING PHILIPPINES INC.
ARTNATURE (SHANGHAI) INC., ARTNATURE (CAMBODIA) INC.

ARTNATURE THAILAND CO., LTD., a newly established subsidiary, has been included in the scope of consolidation.

BICOL HAIR EXPORT CORPORATION, a consolidated subsidiary in the previous fiscal year, has been excluded from the scope of consolidation due to its liquidation.

2. Notes related to the application of the equity method

(1) Non-consolidated subsidiaries and affiliates to which the equity method has been applied

There is no related information.

(2) Non-consolidated subsidiaries and affiliates to which the equity method has not been applied

There is no related information.

3. Notes related to fiscal years and other details of consolidated subsidiaries

The Company has nine consolidated subsidiaries with December 31 fiscal year ends. The Company's consolidated financial statements are prepared based on the financial statements of those companies at their fiscal year-ends. Where necessary, any significant transactions that occur between their fiscal year-ends and the Company's consolidated balance sheet date are reflected in the consolidated financial statements.

All other consolidated subsidiaries have the same fiscal year-ends as the Company's consolidated balance sheet date.

4. Items related to accounting standards

(1) Valuation standards and methods for important assets

1) Securities

Other marketable securities

With market value

Market value method based on market prices on the fiscal year closing date. (All valuation differences are booked directly to net assets, while cost of sales is calculated using the moving average method.) Hybrid financial instruments, from which an embedded derivative cannot be separated, are stated at fair value and gains or losses are recognized in the consolidated financial statements for that fiscal year.

Without market value

Moving average cost method

2) Derivatives

Market value method

3) Inventories

Products

Wigs

Custom-made wigs

Cost method based on the specific cost method

Other wigs

Moving average cost method

Other products

Moving average cost method

(The value of products on the balance sheet is written down based on declines in the profitability of those products)

Products, materials, work-in-progress

Cost method mainly based on the moving average cost method

(The value of products on the balance sheet is written down based on declines in the profitability of those products)

Inventory goods

Supplied materials

Moving average cost method

Loaned products

Moving average cost method

Sample products

Cost method based on the specific cost method

Other inventory goods

Last cost method

(The value of products on the balance sheet is written down based on declines in the profitability of those products)

(2) Depreciation and amortization methods for important depreciable assets

1) Property, plant and equipment (Excluding lease assets)

Declining balance method

However, the straight-line method is used for buildings and structures (excluding attached facilities) purchased after April 1, 1998. At overseas consolidated subsidiaries, the straight-line method is used for tangible fixed assets.

Expected useful lives of assets are principally as follows:

Buildings and structures: 10 – 50 years

2) Intangible assets (Excluding lease assets)

Straight-line method

Software for use by the Company is based on estimated usable life within the Company (five years).

3) Lease assets

Lease assets related to the finance lease transactions other than those where the ownership of the lease assets is deemed to be transferred to the lessee

Straight-line method assuming the lease period as the useful life and no residual value

4) Long-term prepaid expenses

Straight-line method

(3) Accounting standards for important allowances and provisions

1) Allowance for doubtful accounts

Allowance for doubtful accounts is provided for at an amount determined based on the loan loss ratio with respect to general receivables, plus an estimate of unrecoverable amounts determined by reference to specific doubtful receivables from customers experiencing financial difficulties.

2) Provision for bonuses

Provision for employee bonuses is provided for at the expected payment amount.

3) Provision for directors’ bonuses

Provision for director bonuses is provided for at the expected payment amount.

4) Provision for point card certificates

Provision for the use of points given to customers under the point card system is provided for at the amount expected to cover the estimated cost of points used in the future based on historical rates of point usage.

5) Provision for directors’ retirement benefits

Retirement benefits for directors are provided for at the expected payment amount at the end of the fiscal year in accordance with internal rules.

6) Provision for product warranties

Allowance for product warranties is provided for at an expected amount to cover repair costs under free repair guarantees, based on historical repair rates.

(4) Accounting for retirement benefits

(a) Allocation of expected benefit payments

When calculating retirement benefit liabilities, the straight-line method is used to allocate expected benefit payments to the period until this fiscal year-end.

(b) Actuarial differences

Actuarial differences are amortized using the straight-line method over a period within the average remaining service years for employees (mainly six years) at the time of recognition, and recorded as expenses from the fiscal year following the fiscal year of recognition.

(5) Standards for translation of foreign currency-denominated assets and liabilities into Japanese yen

Foreign currency receivable and payable is converted into Japanese yen at the exchange rates prevailing at the consolidated balance sheet date, and translation is recorded as income or expeses.

The assets and liabilities of overseas consolidated subsidiaries are translated into Japanese yen based on spot exchange rates at their respective balance sheet dates, while revenues and expenses at overseas consolidated subsidiaries are converted based on average exchange rates during the fiscal year. Differences arising from such translations are included in both “Foreign currency translation adjustments” and “Non-controlling interests” in the net assets section of the balance sheet.

(6) Scope of funds in the consolidated statements of cash flows

Funds include cash at hand, demand deposits at banks and highly liquid short-term investments with negligible risk of fluctuation in value and maturities of less than three months.

(7) Goodwill amortization method and period

Goodwill is amortized using the straight-line method over a period of five years.

(8) Additional information related to the preparation of consolidated financial statements

Accounting treatment of consumption and other taxes

Tax exclusion method

(Change in accounting policy)

(Application of Accounting Standard for Business Combinations, etc.)

The Company has applied the “Accounting Standard for Business Combinations” (Accounting Standards Board of Japan (ASBJ) Statement No. 21, September 13, 2013), the “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, September 13, 2013) and the “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013) from the current fiscal year. As a result, the accounting method was changed to record the difference arising from changes in the equity in subsidiaries under ongoing control of the Company as capital surplus, and acquisition-related costs as expenses for the fiscal year in which they are incurred. In addition, with respect to any business combination entered into on or after the first day of the current fiscal year, the accounting method was changed to reflect adjustments to the allocation of acquisition cost under provisional accounting treatment on the consolidated financial statements of the financial period in which the relevant business combinations became or will become effective. Furthermore, the presentation method for “net income” has been changed, and references to "minority interests" have been changed to "non-controlling interest." To reflect these changes, the Company has reclassified its full-year consolidated financial statements for the previous fiscal year.

The Company has applied the Accounting Standard for Business Combinations and the other standards in accordance with transitional provisions in paragraph 58-2(4) of the Accounting Standard for Business Combinations, paragraph 44-5(4) of the Accounting Standard for Consolidated Financial Statements and paragraph 57-4(4) of the Accounting Standard for Business Divestitures, prospectively at the beginning of the current fiscal year.

The application of the Accounting Standard for Business Combinations and the other standards had no impact on consolidated financial statements in the current fiscal year.

(Additional information)

(Transactions of Delivering the Company’s Own Stock to Employees etc. through Trusts)

(1) Summary of transactions

The Company has introduced an Employee Stock Ownership Plan (J-ESOP) to motivate and incentivize employees to increase the share price and results. The scheme is designed to create a closer link between employee remuneration and the Company’s share price and results so that economic benefits are shared among shareholders. In accordance with the provisions of the Company’s stock benefit regulations, employees that satisfy certain criteria are granted shares in the Company.

Specifically, employees are awarded points based on performance, and accumulated points can be converted into shares of the Company once certain conditions are met. Shares granted to employees, including shares to be granted in the future, are acquired using funds held in trust and managed independently as trust assets. In addition to increasing the motivation of employees and encouraging greater interest in the Company’s share price, this scheme is also expected to help the Company retain and attract high-caliber personnel.

(2) Accounting treatment related to transactions for granting shares to employees through trusts

The Company has applied the provisions in paragraph 20 of the “Practical Solution on Transactions of Delivering the Company’s Own Stock to Employees etc. through Trusts” (ASBJ Practical Issues Task Force No. 30, March 26, 2015) and continued to use existing accounting treatment.

(3) Items related to shares of the Company held in trust

The book value of shares held in trust was ¥90,266,000 in the previous fiscal year and ¥183,566,000 in the fiscal year under review. In addition, shares of the Company held in trust were recorded under net assets as treasury stock at book value in the trust (excluding associated costs). Shares held in trust totaled 179,800 at the end of the previous fiscal year and 279,100 at the end of the fiscal year under review. The average number of shares held in trust was 179,670 during the previous fiscal year and 191,395 during the fiscal year under review. These shares are included in treasury stock, which is deducted from calculations of per share data.

(Consolidated balance sheets)

1 Commitment line

The Company has concluded commitment line contracts with four financial institutions in order to secure efficient fund procurement.

The balance of available funds under these contacts at the end of the fiscal year was as follows:

(Thousands of yen)

	As of March 31, 2015	As of March 31, 2016
Total amount of commitment line	5,000,000	5,000,000
Funds borrowed	–	–
Balance	5,000,000	5,000,000

(Consolidated statements of income)

*1 Inventory amounts at the fiscal year-end are after writedowns to book value related to declines in profitability and the following valuation loss on inventories is included in the cost of sales.

(Thousands of yen)

	Year ended March 31, 2015	Year ended March 31, 2016
	80,256	131,916

*2 The main components in selling, general and administrative expenses and their amounts are as follows:

(Thousands of yen)

	Year ended March 31, 2015	Year ended March 31, 2016
Advertising expenses	6,997,988	6,903,651
Salaries	4,213,669	4,365,638
Provision for bonuses	358,083	359,456
Provision for point card certificates	–	16,182
Provision for retirement benefits	157,053	175,055
Provision for directors' bonuses	150,000	150,000
Provision for directors' retirement benefits	54,711	50,643
Depreciation	962,496	1,189,876
Rent expenses	3,237,344	3,186,989

*3 Total research and development expenses included in general and administrative expenses are as follows:

(Thousands of yen)

	Year ended March 31, 2015	Year ended March 31, 2016
	141,723	135,769

*4 Breakdown of gain on sales of non-current assets is as follows:

(Thousands of yen)

	Year ended March 31, 2015	Year ended March 31, 2016
Machinery, equipment and vehicles	949	811

*5 Breakdown for loss on retirement of non-current assets are as follows:

(Thousands of yen)

	Year ended March 31, 2015	Year ended March 31, 2016
Buildings and structures	65,890	50,066
Machinery, equipment and vehicles	–	138
Other property, plant and equipment	5,185	303
Total	71,075	50,508

*6 Impairment loss

The Company has booked impairment losses on the following asset groups.

Year ended March 31, 2015

(1) Main assets for which impairment losses have been recognized

Company / location	Application	Type
ARTNATURE INC. (Tokyo and two other prefectures)	Stores (Business assets)	Buildings and structures, etc.
Consolidated subsidiary ARTNATURE (SHANGHAI) INC.	Stores (Business assets)	Buildings and structures, etc.

(2) Reasons for recognition of impairment losses

Impairment losses were recognized on the business assets due to sustained losses arising from operating activities at those business sites.

(3) Breakdown of impairment losses

Main purpose	Type	Amount (Thousands of yen)
Stores	Buildings and structures, etc.	25,872
Total		25,872

* Breakdown of impairment losses by applications

- Stores ¥25,872,000 (comprising ¥24,327,000 for buildings and structures, and ¥1,545,000 for other tangible fixed assets).

(4) Asset grouping method

The Group groups its business assets on a single store basis.

(5) Recoverable value calculation method

The recoverable value of stores is calculated based on value in use. The discount rate has been omitted, as undiscounted future cash flow is negative.

Year ended March 31, 2016

(1) Main assets for which impairment losses have been recognized

Company / location	Application	Type
ARTNATURE INC. (Tokyo and four other prefectures)	Stores (Business assets)	Buildings and structures, etc.
Consolidated subsidiary MJO INC. (Japan)	Stores (Business assets)	Buildings and structures, etc.

(2) Reasons for recognition of impairment losses

Impairment losses were recognized on the business assets due to sustained losses arising from operating activities at those business sites.

(3) Breakdown of impairment losses

Main purpose	Type	Amount (Thousands of yen)
Stores	Buildings and structures, etc.	98,395
Total		98,395

* Breakdown of impairment losses by applications

- Stores ¥98,395,000 (comprising ¥90,753,000 for buildings and structures, and ¥7,641,000 for other tangible fixed assets).

(4) Asset grouping method

The Group groups its business assets on a single store basis.

(5) Recoverable value calculation method

The recoverable value of stores is calculated based on value in use. The discount rate has been omitted, as undiscounted future cash flow is negative.

(Consolidated statements of cash flows)

* The relationship between the balance of cash and cash equivalents at the end of the fiscal year and the amount shown on the consolidated balance sheet is shown below:

(Thousands of yen)

	Year ended March 31, 2015	Year ended March 31, 2016
Cash and deposit account	14,288,860	14,050,920
Securities account	2,020,739	2,021,488
Cash and cash equivalents	16,309,599	16,072,409

(Segment information, etc.)

Segment information

1. Overview of reportable segments

The Group’s reportable segments are components of the Group for which separate financial information is available. These segments are regularly reviewed to enable the Company’s Board of Directors to decide how to allocate resources and assess operating performance.

The Group develops business strategy and conducts business activities related to hair products and services for general customers based on the gender of the customer.

Consequently, the Group has classified its operations into three reportable segments: the men’s business, the ladies’ business and the ladies’s ready-made wigs business. In the men’s business, the Company supplies male customers with custom-made wigs and other products and services. In the ladies’ business, the Company supplies female customers with custom-made wigs and other products and services. In the ladies’ ready-made wigs business, the Company supplies female customers with ready-made wigs and other products and services.

2. Method used to calculate sales, income (loss), assets, liabilities and other items by reportable segment

Accounting policies for the reportable segments are the same as those described in “Basic important matters for preparing the consolidated financial statements.”

Intersegment sales are booked based on the value of transactions with external customers.

The Company's reportable segments have been changed, effective from the start of the fiscal year under review. The impact of these changes on profits is minimal.

3. Information regarding sales, income (loss), assets, liabilities and other items by reportable segment

Year ended March 31, 2015

(Thousands of yen)

	Reportable segment				Others Note 1	Total	Adjustment Note 2	Carried on consolidated financial statements Note 3
	Men's business	Ladies' business	Ladies' ready-made wigs business	Total				
Net sales								
Sales to external customers	23,480,571	13,433,575	3,583,980	40,498,127	785,408	41,283,535	—	41,283,535
Intersegment sales and transfers	—	—	—	—	2,271,450	2,271,450	(2,271,450)	—
Total	23,480,571	13,433,575	3,583,980	40,498,127	3,056,859	43,554,986	(2,271,450)	41,283,535
Segment income	16,358,066	9,934,236	3,170,478	29,462,781	763,088	30,225,869	(5,968)	30,219,901

Year ended March 31, 2016

(Thousands of yen)

	Reportable segment				Others Note 1	Total	Adjustment Note 2	Carried on consolidated financial statements Note 3
	Men's business	Ladies' business	Ladies' ready-made wigs business	Total				
Net sales								
Sales to external customers	23,439,522	12,779,937	3,436,223	39,655,682	859,724	40,515,407	—	40,515,407
Intersegment sales and transfers	—	—	—	—	2,750,790	2,750,790	(2,750,790)	—
Total	23,439,522	12,779,937	3,436,223	39,655,682	3,610,515	43,266,198	(2,750,790)	40,515,407
Segment income	16,151,375	9,131,103	2,947,998	28,230,477	897,274	29,127,751	(8,110)	29,119,641

Notes:1. Other is not a reportable segment and mainly includes businesses related to ready-made products in the men's business and manufacturing subsidiaries.

2. Details of adjustments are as follows:

Segment profits

(Thousands of yen)

	Year ended March 31, 2015	Year ended March 31, 2016
Intersegment eliminations*	(5,968)	(8,110)
Total	(5,968)	(8,110)

*Intersegment eliminations refers to the elimination of inventory asset adjustments related to intersegment transactions, etc.

3. Segment profits have been adjusted to reconcile with gross profits on the consolidated financial statements.
4. Assets and liabilities have not been shown, as they are not allocated to each segment.
5. Adjustments to reconcile total segment income for reportable segments with operating income in the consolidated financial statements

(Thousands of yen)

Income	Year ended March 31, 2015	Year ended March 31, 2016
Total for reportable segments	29,462,781	28,230,477
Other*[1]	763,088	897,274
Total	30,225,869	29,127,751
Adjustment*[2]	(5,968)	(8,110)
Gross profit in consolidated financial statements	30,219,901	29,119,641
Selling, general and administrative expenses	26,177,431	25,662,264
Operating income in consolidated financial statements	4,042,469	3,457,377

(Per share information)

(Yen)

Year ended March 31, 2015		Year ended March 31, 2016	
Net assets per share	694.79	Net assets per share	712.77
Net income per share	68.22	Net income per share	52.37
Fully diluted net income per share	67.84	Fully diluted net income per share	52.16

Note: The basis for calculating net income per share and fully diluted net income per share is as follows:

	Year ended March 31, 2015	Year ended March 31, 2016
Net income per share		
Net income attributable to owners of the parent company (thousands of yen)	2,252,482	1,731,937
Amounts not attributable to owners of common stock (thousands of yen)	–	–
Net income attributable to owners of the parent company associated with common stock (thousands of yen)	2,252,482	1,731,937
Average number of shares of common stock during fiscal year (thousands of share)	33,017	33,070
Fully diluted net income per share		
Adjustment to net income attributable to owners of the parent company (thousands of yen)	–	–
Increase in number of shares of common stock (thousands of share)	185	132
(of which, subscription rights to shares)	(185)	(132)
Summary of residual shares not included in calculations of fully diluted net income per share due to no dilutive effect	–	–

Notes: 1. The average number of shares of common stock during fiscal year is calculated based on the deduction of the treasury stocks (179,670 shares as of March 31, 2015 and 191,395 shares as of March 31, 2016) held by the Trust & Custody Services Bank, Ltd. (trust account) and others.

2. The Company conducted a 2-for-1 stock split of common shares with an effective date of November 1, 2014. Net income per share and fully diluted net income per share have been calculated based on the assumption that the stock split was conducted at the start of the previous fiscal year.

(Significant subsequent events)

There is no related information.

(Disclosure omissions)

Notes related to consolidated statements of comprehensive income, consolidated statements of changes in net assets, lease transactions, related party information, tax effect accounting, financial instruments, investment securities, derivative transactions, retirement benefits, stock options, etc., business combinations, etc., asset retirement obligations, and leased real estate have been omitted, as they have been judged to be immaterial to disclosures for these consolidated financial results.

6. Other

There is no related information.