Consolidated Financial Results for the Fiscal Year Ended March 31, 2015 [J-GAAP]

May 14, 2015

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 24, 2015
Scheduled date to start dividends distribution:	June 25, 2015
Scheduled date of filing the financial report:	June 25, 2015
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, 2015 (April 1, 2014 – March 31, 2015)

(1) Consolidated operating results (Percentage figures show changes from the previous year.)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ended March 31, 2015	41,283	3.2	4,042	(24.9)	4,264	(21.9)	2,252	(28.1)
Year ended March 31, 2014	40,017	14.0	5,383	32.4	5,461	32.9	3,131	35.5

Note: Comprehensive income: Year ended March 31, 2015: ¥2,429 million (-26.0%) Year ended March 31, 2014: ¥3,281 million (33.9%)

	Net income per share	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, 2015	68.22	67.84	10.2	10.8	9.8
Year ended March 31, 2014	97.57	96.92	16.0	15.5	13.5

(Reference) Equity in earnings of affiliates: Year ended March 31, 2015: ¥— million Year ended March 31, 2014: ¥— 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, 2015	41,147	23,012	55.8	694.79
As of March 31, 2014	37,754	21,408	56.5	647.12

(Reference) Equity capital: As of March 31, 2015: ¥22,960 million As of March 31, 2014: ¥21,349 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, 2015	3,343	(4,714)	859	16,309
Year ended March 31, 2014	2,728	(1,313)	364	16,710

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, 2014	—	25.00	—	30.00	55.00	891	28.2	4.6
Year ended March 31, 2015	—	25.00	—	15.00	—	908	40.3	4.1
Year ending March 31, 2016 (Forecast)	—	14.00	—	14.00	28.00		33.2	

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, 2016 (April 1, 2015 – March 31, 2016)

(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	20,820	6.9	1,154	(41.1)	1,185	(42.3)	650	(48.1)	19.69
Full year	45,090	9.2	4,580	13.3	4,643	8.9	2,789	23.9	84.43

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, 2015	34,341,600 shares	As of March 31, 2014	34,335,600 shares
2) Number of treasury stock	As of March 31, 2015	1,295,438 shares	As of March 31, 2014	1,344,138 shares
3) Average number of shares issued and outstanding in each period	Year ended March 31, 2015	33,017,375 shares	Year ended March 31, 2014	32,094,300 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.

(References) Overview of the non-consolidated business results

1. Non-consolidated results for the fiscal year ended March 31, 2015 (April 1, 2014 – March 31, 2015)

(1) Non-consolidated operating results (Percentage figures show changes from the previous year.)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ended March 31, 2015	41,072	3.0	4,255	(21.7)	4,426	(19.5)	2,174	(31.6)
Year ended March 31, 2014	39,879	13.9	5,436	33.0	5,498	33.6	3,178	43.9

	Net income per share	Diluted net income per share
	Yen	Yen
Year ended March 31, 2015	65.85	65.48
Year ended March 31, 2014	99.04	98.39

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) Non-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, 2015	40,871	23,146	56.5	699.17
As of March 31, 2014	37,729	21,789	57.6	658.89

(Reference) Equity capital: As of March 31, 2015: ¥23,104 million As of March 31, 2014: ¥21,737 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.

2. Non-consolidated financial forecast for the fiscal year ending March 31, 2016 (April 1, 2015 – March 31, 2016)

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

	Net sales		Ordinary income		Net income		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
First six months	20,612	6.4	1,354	(35.3)	846	(35.8)	25.60
Full year	44,800	9.1	5,194	17.3	3,355	54.3	101.53

*** 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 2015

In fiscal 2015, ended March 31, 2015, the Japanese economy showed signs of recovery, including an upturn in share prices, supported by the government's economic and monetary policies. However, the outlook remained uncertain, with a prolonged pullback in demand after the consumption tax hike and higher domestic prices caused by the weak yen weighing on consumer spending.

Against this backdrop, ARTNATURE INC. and its consolidated subsidiaries (the ARTNATURE Group) targeted further growth, based on four 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; and cultivate personnel that are resilient to change and establish a motivating workplace. Guided by these policies, the Group worked to improve customer retention by reinforcing product development capabilities and by improving the skills, customer service and product proposal capabilities of sales staff. The Group also actively held trial fitting events, expanded its network of JULIA OLGER salons, which sell ladies' ready-made wigs, made preparations for the startup of a new production site in Cambodia and implemented a range of other initiatives.

As a result, the Group reported net sales of ¥41,283 million, an increase of 3.2% year on year. Operating income decreased 24.9% to ¥4,042 million, mainly due to aggressive spending on sales promotion, ordinary income declined 21.9% to ¥4,264 million and net income decreased 28.1% to ¥2,252 million, with an increase in sales and a decrease in profits compared with the previous fiscal year.

Sales in each segment were as follows:

< Men's business >

Sales in the men's business rose 6.6% year on year to ¥23,480 million, due to 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.

< Ladies' business >

In the ladies' business, the Group implemented various initiatives. These included actively holding trial fitting events, working to enhance the skills of sales staff, reinforcing customer follow-up support in stores, and enhancing technical capabilities to encourage customers to visit stores more regularly. However, the impact of these initiatives was limited, failing to offset the pullback in demand after the hike to consumption tax. As a result, sales in the ladies' business declined 6.0% year on year to ¥13,433 million.

< Ladies' ready-made wigs business >

Sales in the JULIA OLGER business, which sells ladies' ready-made wigs, increased 20.6% year on year to ¥3,583 million, mainly due to aggressive new salon openings in shopping malls and other locations.

2) Outlook for fiscal 2016

In fiscal 2016, ending March 31, 2016, we expect the moderate recovery in the Japanese economy to continue, with the government's ongoing economic stimulus measures and monetary policy supporting solid corporate earnings, broader wage hikes and employment stability. 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 target another phase of sales and profit growth by pursuing even higher levels of customer satisfaction and lifting productivity. We will also work to increase corporate value by 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. We will actively work to expand the JULIA OLGER ladies' ready-made wig business though the store network, TV shopping and other retail channels, while also further raising brand visibility. We are also targeting growth by focusing on the online business and the overseas business.

Based on these initiatives, for fiscal 2016, we forecast consolidated net sales of ¥45,090 million, up 9.2% year on year, operating income of ¥4,580 million, up 13.3%, ordinary income of ¥4,643 million, up 8.9%, and net income of ¥2,789 million, up 23.9%.

(2) Analysis of financial position

1) Assets, liabilities and net assets

(Assets)

As of the fiscal year-end, total assets were ¥41,147 million, an increase of ¥3,392 million compared with the end of the previous fiscal year. Current assets decreased ¥619 million, mainly due to declines in cash and deposits and notes and accounts receivable – trade, while noncurrent assets rose ¥4,011 million, primarily due to the acquisition of real estate for the head office.

(Liabilities)

As of the fiscal year-end, liabilities totaled ¥18,134 million, an increase of ¥1,788 million compared with the end of the previous fiscal year. This mainly reflected declines in taxes payable and advances received, versus increases in the current portion of long-term loans payable and long-term loans payable.

(Net Assets)

As of the fiscal year-end, net assets totaled ¥23,012 million, an increase of ¥1,603 million compared with the end of the previous fiscal year. This primarily reflected an increase of ¥1,415 million in retained earnings.

2) Cash flow position

As of the fiscal year-end, cash and cash equivalents (cash) totaled ¥16,309 million, a decrease of ¥400 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 ¥3,343 million, compared with ¥2,728 million in the previous fiscal year. This mainly reflected income before income taxes and minority interests of ¥4,216 million, depreciation and amortization of ¥1,000 million, increase in retirement benefit liabilities of ¥301 million, and decrease in notes and accounts receivable – trade of ¥1,174 million, versus decrease in advances received of ¥217 million, increase in inventories of ¥706 million, and income taxes paid of ¥2,293 million.

(Cash flows from investing activities)

Investing activities used net cash of ¥4,714 million, compared with ¥1,313 million in the previous fiscal year. This mainly reflected proceeds from redemption of investment securities of ¥500 million and repayments of lease and guarantee deposits received of ¥298 million, versus purchase of property, plant and equipment of ¥4,909 million, payments for lease and guarantee deposits of ¥252 million, and purchase of intangible assets of ¥362 million.

(Cash flows from financing activities)

Financing activities provided net cash of ¥859 million, compared with ¥364 million in the previous fiscal year. This mainly reflected proceeds from long-term loans payable of ¥2,000 million, versus cash dividends paid of ¥907 million, and repayments of lease obligations of ¥233 million.

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

Year ended March 31,	2011	2012	2013	2014	2015
Equity ratio (%)	59.0	56.2	54.3	56.5	55.8
Market value-based equity ratio (%)	48.4	54.0	77.5	128.4	88.4
Cash flow to interest-bearing debt (%)	–	–	–	–	59.9
Interest coverage ratio (times)	378.5	–	–	–	2,889.2

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 2015 and fiscal 2016

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 ¥40 per share for fiscal 2015, ended March 31, 2015, comprising an interim dividend of ¥25 per share and a year-end dividend of ¥15 per share (based on the number of shares outstanding after the 2-for-1 stock split of common shares on November 1, 2014). Based on the number of shares before the split, the year-end dividend is ¥30 per share, the same as in fiscal 2014, and the full-year dividend is ¥55.

For fiscal 2016, ending March 31, 2016, 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, resulting in an effective dividend hike of ¥0.5 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 is 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 address risks related to the concentration of production sites in the Philippines, the Company established a new consolidated subsidiary in Cambodia called ARTNATURE (CAMBODIA) INC. (ANKH) in the previous fiscal year. The Company is currently setting up manufacturing systems ahead of the start of full production. 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 62.0% 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" compliance program 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). Certification was awarded in August 2006 and is regularly renewed.

The Company has taken every possible step to reinforce its customer information management system, such as introducing a customer management system (My-Do) in January 2005 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, 2015, 1,894 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.

2. The ARTNATURE Group (Group overview)

As of March 31, 2015, 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 256 domestic salons (as of March 31, 2015).

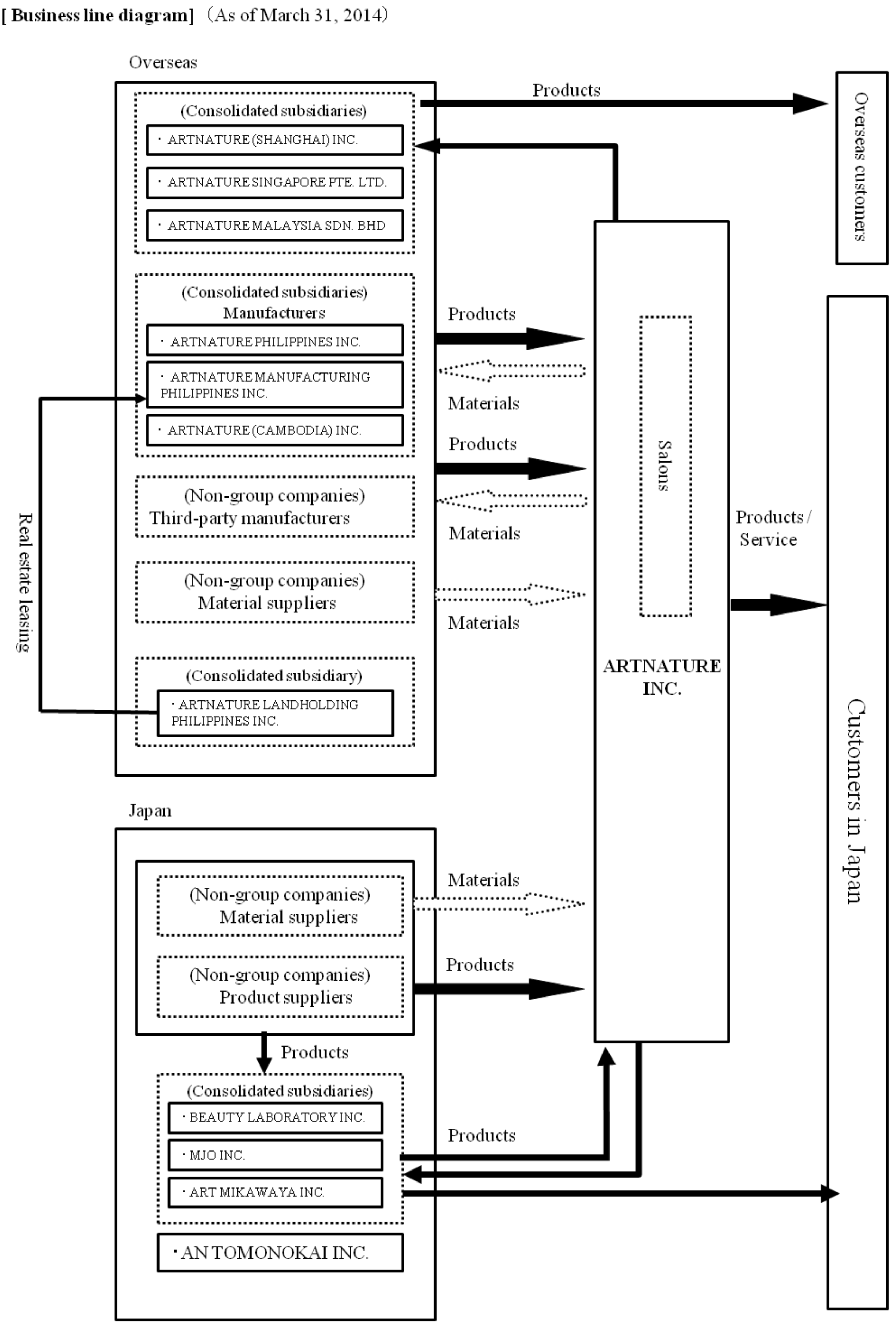
Production of ready-made wigs for women is outsourced to non-Group companies in China and Vietnam. The wigs are sold through a separate domestic network of 78 JULIA OLGER salons (as of March 31, 2015).

A new plant was completed in Cambodia in February 2015 and manufacturing systems are currently being set up ahead of the start of full production.

The Group includes a number of other subsidiaries. In Japan, MJO INC. develops and sells ready-made wigs for men to meet a wide range of needs, 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, and ARTNATURE MALAYSIA SDN. BHD. (ANMY) is tasked with developing the business in Malaysia.

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

[Business line diagram] (As of March 31, 2015)



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 ¥45,090 million in fiscal 2016, compared with ¥41,283 million in fiscal 2015. 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 2016, 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 ¥51,920 million, an ordinary margin of 12.1% and ROE of 13.2%, three years from now in fiscal 2018, ending March 31, 2018.

(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 offering services such as hair growth, hair transplants and medical hair regeneration, 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 and improving the customer retention rate.
2) In the ladies’ category, we will develop new products to address customer needs and enhance our product proposal and technological capabilities to secure even greater trust and satisfaction from customers, helping us attract new customers and boost existing customer retention rates to drive growth in earnings.
3) In the ladies’ ready-made wig category (JULIA OLGER), we are aiming to grow the business by using the recently expanded store network as a base to implement sales initiatives tailored to each area in order to attract new customers, while also promoting sales to existing customers.
4) In overseas markets, we will work to expand our business by using Singapore as a regional base to develop markets in the ASEAN area, and by raising brand visibility and capturing potential demand in China.
5) We will generate new demand by developing and regularly launching the highest-quality products and services for customers’ needs, and by creating advertising campaigns that resonate more closely with target customer groups.
6) In custom-made wigs, the Company completed a new production plant in Cambodia in February 2015. Together with two existing subsidiaries in the Philippines, this will give the Company three plants supplying custom-made wigs, once the Cambodia site is operational. Also, in ready-made wigs, we are building a more stable supply framework to avoid risks associated with production being concentrated in a single country. In addition to contracting out work to companies in China, we will reinforce our production system by using new contractors in Vietnam and carrying out production at our

new plant in Cambodia when it becomes operational. Going forward, we will continue to actively boost productivity, reduce costs and shorten delivery times.

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, 2015, 1,894 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 hair, dealing with customers, 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, we aim to increase opportunities for women in the workplace by appointing women to key posts and actively introducing childcare leave and other systems to support a better 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, 2014	As of March 31, 2015
Assets		
Current assets		
Cash and deposits	14,690,314	14,288,860
Accounts receivable – trade	4,950,216	3,794,180
Secutities	2,019,818	2,020,739
Merchandise and finished goods	1,511,546	1,918,655
Work in process	124,072	168,209
Raw materials and supplies	1,034,979	1,336,416
Deferred tax asset	609,580	564,894
Others	932,112	1,154,117
Allowance for doubtful accounts	(19,677)	(12,223)
Total current assets	25,852,963	25,233,850
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	9,770,187	12,451,284
Accumulated depreciation	(5,707,472)	(6,206,901)
Buildings and structures, net	4,062,714	6,244,383
Machinery equipment and vehicle	130,050	158,412
Accumulated depreciation	(89,459)	(116,359)
Machinery equipment and vehicle, net	40,591	42,052
Land	2,054,251	3,545,016
Construction in progress	3,986	605,522
Others	2,113,815	2,241,664
Accumulated depreciation	(1,440,108)	(1,552,718)
Others, net	673,706	688,946
Total property, plant and equipment	6,835,251	11,125,921
Intangible assets		
Others	445,670	734,578
Total intangible assets	445,670	734,578
Investments and other assets		
Investment securities	843,541	383,123
Deferred tax assets	1,329,948	1,258,924
Lease and guarantee deposits	2,370,793	2,324,734
Others	140,151	149,981
Allowance for doubtful accounts	(63,527)	(62,888)
Total investments and other assets	4,620,907	4,052,874
Total noncurrent assets	11,901,830	15,913,375
Total assets	37,754,793	41,147,225

(Thousands of yen)

	As of March 31, 2014	As of March 31, 2015
Liabilities		
Current liabilities		
Notes and accounts payable – trade	358,818	354,757
Current portion of long-term loans payable	-	400,320
Accounts payable – other	2,013,447	1,891,436
Income taxes payable	1,557,281	1,136,133
Advances received	4,802,951	4,585,853
Provision for bonuses	905,878	815,798
Provision for directors’ bonuses	150,000	150,000
Provision for product warranties	31,206	31,575
Provision for point card certificates	67,760	65,686
Others	1,411,324	1,892,593
Total current liabilities	11,298,669	11,324,154
Noncurrent liabilities		
Long-term loans payable	-	1,602,812
Provision for directors’ retirement benefits	1,202,065	1,232,609
Net defined benefit liability	2,496,107	2,687,741
Asset retirement obligations	1,067,620	1,144,288
Others	281,382	142,753
Total noncurrent liabilities	5,047,176	6,810,205
Total liabilities	16,345,845	18,134,359
Net assets		
Shareholders’ equity		
Capital stock	3,662,925	3,663,375
Capital surplus	3,550,447	3,552,020
Retained earnings	14,626,624	16,041,854
Treasury stock	(531,433)	(512,178)
Total shareholders’ equity	21,308,564	22,745,072
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,329	12,342
Foreign currency translation adjustment	167,253	365,565
Remeasurements of defined benefit plans	(129,939)	(162,849)
Total accumulated other comprehensive income	40,643	215,058
Subscription rights to shares	51,368	41,650
Minority interests	8,371	11,086
Total net assets	21,408,947	23,012,866
Total liabilities and net assets	37,754,793	41,147,225

(2) Consolidated statements of income and comprehensive income

(Consolidated statements of income)

(Thousands of yen)

	Year ended March 31, 2014	Year ended March 31, 2015
Net sales	40,017,123	41,283,535
Cost of sales	10,316,026	11,063,634
Gross profit	29,701,097	30,219,901
Selling, general and administrative expenses	24,318,052	26,177,431
Operating income	5,383,044	4,042,469
Non-operating income		
Interest income	90,664	113,979
Dividends income	1,414	-
Foreign exchange gains	-	65,500
Gain on valuation of investment securities	71,824	56,744
Others	53,426	67,475
Total non-operating income	217,328	303,700
Non-operating expenses		
Interest expenses	-	180
Foreign exchange losses	39,529	-
Guarantee commission	58,271	61,400
Others	40,911	19,813
Total non-operating expenses	138,713	81,395
Ordinary income	5,461,660	4,264,774
Extraordinary income		
Gain on sales of noncurrent assets	1,317	949
Compensation income	-	112,018
Total extraordinary income	1,317	112,968
Extraordinary losses		
Loss on retirement of noncurrent assets	24,121	71,075
Impairment loss	33,492	25,872
Litigation expenses	-	64,620
Total extraordinary losses	57,614	161,568
Income before income taxes and minority interests	5,405,363	4,216,174
Income taxes – current	2,458,796	1,882,881
Income taxes – deferred	(187,925)	78,388
Total income taxes	2,270,871	1,961,270
Income before minority interests in income (loss)	3,134,491	2,254,903
Minority interests	3,189	2,421
Net income	3,131,302	2,252,482

(Statements of comprehensive income)

(Thousands of yen)

	Year ended March 31, 2014	Year ended March 31, 2015
Income before minority interests	3,134,491	2,254,903
Other comprehensive income		
Valuation difference on available-for-sale securities	299	9,013
Foreign currency translation adjustment	146,579	198,605
Remeasurements of defined benefit plans	-	(32,910)
Total other comprehensive income	146,878	174,708
Comprehensive income	3,281,370	2,429,611
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of the parent	3,277,639	2,426,895
Comprehensive income attributable to minority interests	3,731	2,715

(3) Consolidated statements of changes in net assets

Year ended March 31, 2014

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of period	3,001,095	2,888,595	12,288,081	(531,453)	17,646,317
Cumulative effects of changes in accounting policies					
Restated balance	3,001,095	2,888,595	12,288,081	(531,453)	17,646,317
Change of items during the period					
Issuance of new shares	661,830	661,830			1,323,661
Dividends from surplus			(792,759)		(792,759)
Net income			3,131,302		3,131,302
Purchase of treasury stock				(58)	(58)
Disposal of treasury stock		21		79	100
Net changes of items other than shareholders' equity					
Total change of items during the period	661,830	661,852	2,338,542	20	3,662,246
Balance at the end of the period	3,662,925	3,550,447	14,626,624	(531,433)	21,308,564

	Accumulated other comprehensive income				Subscription rights to shares	Minority 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	3,030	21,216	—	24,246	21,658	4,640	17,696,861
Cumulative effects of changes in accounting policies							
Restated balance	3,030	21,216	—	24,246	21,658	4,640	17,696,861
Change of items during the period							
Issuance of new shares							1,323,661
Dividends from surplus							(792,759)
Net income							3,131,302
Purchase of treasury stock							(58)
Disposal of treasury stock							100
Net changes of items other than shareholders' equity	299	146,037	(129,939)	16,397	29,710	3,731	49,839
Total change of items during the period	299	146,037	(129,939)	16,397	29,710	3,731	3,712,085
Balance at the end of the period	3,329	167,253	(129,939)	40,643	51,368	8,371	21,408,947

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			2,252,482		2,252,482
Purchase of treasury stock					—
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	Minority 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							2,252,482
Purchase of treasury stock							—
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

(4) Consolidated statements of cash flows

(Thousands of yen)

	Year ended March 31, 2014	Year ended March 31, 2015
Cash flows from operating activities		
Net income before income taxes	5,405,363	4,216,174
Depreciation and amortization	819,670	1,000,799
Impairment loss	33,492	25,872
Increase (decrease) in allowance for doubtful accounts	13,004	(8,092)
Increase (decrease) in provision for bonuses	129,568	(90,082)
Increase (decrease) in product warranties	(2,912)	368
Increase (decrease) in provision for point card certificates	5,463	(2,074)
Increase (decrease) in provision for directors' retirement benefits	51,670	30,544
Increase (decrease) in net defined benefit liability	245,199	301,073
Interest and dividends income	(92,078)	–
Interest income	–	(113,979)
Interest expenses	–	180
Loss on retirement of noncurrent assets	24,121	71,075
Loss (gain) on sales of noncurrent assets	(1,317)	(949)
Loss (gain) on valuation of investment securities	(71,824)	(56,744)
Decrease (increase) in notes and accounts receivable – trade	(1,129,353)	1,174,537
Decrease (increase) in inventories	(612,950)	(706,464)
Increase (decrease) in notes and accounts payable – trade	78,900	(9,745)
Increase (decrease) in advances received	84,189	(217,098)
Others	(194,415)	(89,306)
Subtotal	4,785,792	5,526,089
Interest and dividends income received	87,799	–
Interest income received	–	112,614
Interest expenses paid	–	(1,157)
Income taxes paid	(2,145,025)	(2,293,989)
Net cash provided by (used in) operating activities	2,728,566	3,343,557
Cash flows from investing activities		
Purchase of securities	(2,000,000)	–
Proceeds from redemption of securities	2,000,000	–
Purchase of property, plant and equipment	(1,061,672)	(4,909,961)
Proceeds from sales of property, plant and equipment	2,376	1,678
Purchase of intangible assets	(105,826)	(362,042)
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	1,341	678
Payments for lease and guarantee deposits	(185,119)	(252,817)
Repayments of lease and guarantee deposits received	26,990	298,503
Others	8,313	29,919
Net cash provided by (used in) investing activities	(1,313,596)	(4,714,012)

(Thousands of yen)

	Year ended March 31, 2014	Year ended March 31, 2015
Cash flows from financing activities		
Proceeds from long-term loans payable	–	2,000,000
Repayments of lease obligations	(166,387)	(233,808)
Proceeds from issuance of common stock	1,323,661	900
Purchase of treasury stock	(58)	–
Cash dividends paid	(792,499)	(907,377)
Net cash provided by (used in) financing activities	364,715	859,713
Effect of exchange rate change on cash and cash equivalent	45,116	110,206
Net increase (decrease) in cash and cash equivalents	1,824,802	(400,533)
Cash and cash equivalents at the beginning of period	14,885,330	16,710,133
Cash and cash equivalents at the end of period	16,710,133	16,309,599

(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 MALAYSIA SDN. BHD. and ART MIKAWAYA INC. have both been included in the scope of consolidation. The former is a newly established subsidiary and the latter became a subsidiary through the purchase of shares.

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 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 and prior service cost

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 “Minority 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) Additional information related to the preparation of consolidated financial statements

Accounting treatment of consumption and other taxes

Tax exclusion method

(Change in accounting policy)

(Accounting for retirement benefits)

(Application of “Accounting Standard for Retirement Benefits”, etc.)

Effective from the fiscal year under review, the Company has applied the provisions in paragraph 35 of the “Accounting Standard for Retirement Benefits” (Accounting Standards Board of Japan (“ASBJ”) Statement No.26, May 17, 2012) and in paragraph 67 of the “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No.25, March 26, 2015). As a result, the Company has changed the way it calculates retirement benefit liabilities and service costs. The straight-line method will still be used for attributing projected benefits to periods, but the method for determining the discount rate has been changed to a method that uses several discount rates, which are set at the time of each expected retirement benefit period.

In accordance with the transitional treatment provided in paragraph 37 of the “Accounting Standard for Retirement Benefits,” the effect of changing the method for calculating retirement benefit liabilities and service costs was recognized by adjusting retained earnings at the start of the fiscal year under review.

As a result, at the start of the fiscal year, retirement benefit liabilities declined ¥109,439,000 and retained earnings increased ¥70,435,000. Also, the application of the new accounting standard had an immaterial impact on operating income, ordinary income and net income before income taxes for the fiscal year under review.

(Application of “Practical Solution on Transactions of Delivering the Company’s Own Stock to Employees etc. through Trusts”)

Effective from the fiscal year under review, the Company has adopted the “Practical Solution on Transactions of Delivering the Company’s Own Stock to Employees etc. through Trusts” (Accounting Standards Board of Japan (“ASBJ”) Practical Issues Task Force No. 30, March 26, 2015). However, the Company has continued to apply existing accounting standards to trust contracts that were concluded before the start of the fiscal year under review.

(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 ¥90,619,000 in the previous fiscal year and ¥90,266,000 in the fiscal year under review. As of the end of the fiscal year under review, shares held in trust totaled 179,100 and the average number held in trust during the fiscal year was 179,670. 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, 2014	As of March 31, 2015
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 goods sold.

(Thousands of yen)

	Year ended March 31, 2014	Year ended March 31, 2015
	37,960	80,256

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

(Thousands of yen)

	Year ended March 31, 2014	Year ended March 31, 2015
Advertising expenses	6,855,647	6,997,988
Provision of allowance for doubtful accounts	11,191	-
Salaries	3,712,180	4,213,669
Provision for bonuses	396,667	358,083
Provision for point card certificates	5,463	-
Provision for retirement benefits	128,842	157,053
Provision for directors’ bonuses	150,000	150,000
Provision for directors’ retirement benefits	51,670	54,711
Depreciation	780,394	962,496
Rent expenses	3,077,492	3,237,344

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

(Thousands of yen)

	Year ended March 31, 2014	Year ended March 31, 2015
	160,030	141,723

*4 Breakdown of gains on the sale of fixed assets is as follows:

(Thousands of yen)

	Year ended March 31, 2014	Year ended March 31, 2015
Machinery, equipment and vehicles	1,317	949

*5 Breakdown for loss on retirement of noncurrent assets are as follows:

(Thousands of yen)

	Year ended March 31, 2014	Year ended March 31, 2015
Buildings and structures	21,276	65,890
Other property, plant and equipment	2,844	5,185
Total	24,121	71,075

*6 Impairment loss

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

Year ended March 31, 2014

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

Company / location	Application	Type
ARTNATURE INC. (Kanagawa and three other prefectures)	Stores (Business assets)	Buildings and other 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 other structures, etc.	33,492
Total		33,492

* Breakdown of impairment losses by applications

- Stores ¥33,492,000 (comprising ¥31,381,000 for buildings and other structures, ¥433,000 for furniture and fixtures, and ¥1,677,000 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 discounted future cash flow is negative.

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 other structures, etc.
Consolidated subsidiary ARTNATURE (SHANGHAI) INC.	Stores (Business assets)	Buildings and other 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 other structures, etc.	25,872
Total		25,872

* Breakdown of impairment losses by applications

- Stores ¥25,872,000 (comprising ¥24,327,000 for buildings and other 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 discounted future cash flow is negative.

(Consolidated statements of changes in net assets)

Year ended March 31, 2014

1. Numbers and types of shares issued and treasury stock

(Shares)

	Number of shares at beginning of the period	Number of shares increased during the period	Number of shares decreased during the period	Number of shares at end of the period
Issued shares				
Common shares	16,527,300	640,500	—	17,167,800
Total	16,527,300	640,500	—	17,167,800
Treasury stock				
Common shares	672,138	31	100	672,069
Total	672,138	31	100	672,069

Notes:1. The total number of common shares issued and outstanding increased by 640,500. This increase comprised 450,000 new shares issued through a public offering, 180,000 new shares issued through a private placement (sale of new shares through an over-allotment), and 10,500 new shares issued through the exercise of subscription rights to shares.
2. The increase of 31 shares in common shares of treasury stock was due to the acquisition of fractional shares.
3. Treasury stock decreased by 100 shares due to the granting of shares from the stock benefit trust (J-ESOP) to employees of the Company.
4. Treasury stock includes 89,900 shares of the Company's common stock held by the Trust & Custody Services Bank, Ltd. (trust account), as the shares held by the Trust & Custody Services Bank, Ltd. (trust account) are recognized as treasury stock.

2. Matters related to subscription rights to shares, etc.

Category	Breakdown of subscription rights to shares	Type of shares subject to subscription rights to shares	Number of shares subject to subscription rights to shares (shares)				Balance at end of the period (Thousands of yen)
			Number of shares at beginning of the period	Number of shares increased during the period	Number of shares decreased during the period	Number of shares at end of the period	
Submitting company (Parent company)	Subscription right to shares as a stock option	—	—	—	—	—	51,368
Total		—	—	—	—	—	51,368

3. Items related dividend payments

(1) Dividend payments

Resolution	Share type	Total dividends (Thousands of yen)	Dividends per share (Yen)	Record date	Effective date
Annual general meeting of shareholders held on June 20, 2013	Common shares	396,379	25	March 31, 2013	June 21, 2013
Board of directors' meeting held on October 30, 2013	Common shares	396,380	25	September 30, 2013	December 3, 2013

(2) Dividends with a record date in this fiscal year for which the effective date is the next fiscal year

Resolution	Share type	Source of dividends	Total dividends (Thousands of yen)	Dividends per share (Yen)	Record date	Effective date
Annual general meeting of shareholders held on June 24, 2014	Common shares	Retained earnings	494,871	30	March 31, 2014	June 25, 2014

Note: Total dividends paid does not include ¥2,697,000 of dividends for 89,900 shares of the Company's common stock held by the Trust & Custody Services Bank, Ltd. (trust account), as the shares held by the Trust & Custody Services Bank, Ltd. (trust account) are recognized as treasury stock.

Year ended March 31, 2015

1. Numbers and types of shares issued and treasury stock

(Shares)

	Number of shares at beginning of the period	Number of shares increased during the period	Number of shares decreased during the period	Number of shares at end of the period
Issued shares				
Common shares	17,167,800	17,173,800	—	34,341,600
Total	17,167,800	17,173,800	—	34,341,600
Treasury stock				
Common shares	672,069	672,069	48,700	1,295,438
Total	672,069	672,069	48,700	1,295,438

Notes:1. The total number of common shares issued and outstanding increased by 17,173,800. This increase comprised 17,167,800 shares due to the 2-for-1 stock split of common shares on November 1, 2014, and 6,000 new shares issued through the exercise of subscription rights to shares (including 2,400 new shares issued before the stock split).

2. Treasury stock increased by 672,069 shares due to the 2-for-1 stock split of common shares on November 1, 2014.

3. Treasury stock decreased by 48,700 shares due to the granting of 700 shares from the stock benefit trust (J-ESOP) to employees of the Company, and 48,000 shares due to the exercise of subscription rights to shares (including 15,000 shares issued before the stock split).

4. Treasury stock includes 179,100 shares of the Company's common stock held by the Trust & Custody Services Bank, Ltd. (trust account E), as the shares held by the Trust & Custody Services Bank, Ltd. (trust account E) are recognized as treasury stock.

5. Increase in common shares issued and outstanding, increase in treasury stock and decrease in treasury stock have been adjusted to reflect the 2-for-1 stock split of common shares on November 1, 2014.

2. Matters related to subscription rights to shares, etc.

Category	Breakdown of subscription rights to shares	Type of shares subject to subscription rights to shares	Number of shares subject to subscription rights to shares (shares)				Balance at end of the period (Thousands of yen)
			Number of shares at beginning of the period	Number of shares increased during the period	Number of shares decreased during the period	Number of shares at end of the period	
Submitting company (Parent company)	Subscription right to shares as a stock option	Common shares	—	148,000	48,000	100,000	41,650
Total		Common shares	—	148,000	48,000	100,000	41,650

Notes: 1. The increase in the fiscal year under review reflected 74,000 shares for an upcoming exercise period and 74,000 shares due to the 2-for-1 stock split of common shares on November 1, 2014.

2. The decrease in the fiscal year under review reflected 48,000 shares due to the exercise of subscription rights to shares (including 15,000 shares issued before the stock split).

3. Items related dividend payments

(1) Dividend payments

Resolution	Share type	Total dividends (Thousands of yen)	Dividends per share (Yen)	Record date	Effective date
Annual general meeting of shareholders held on June 24, 2014	Common shares	494,871	30	March 31, 2014	June 25, 2014
Board of directors' meeting held on October 30, 2014	Common shares	412,815	25	September 30, 2014	December 2, 2014

Notes: 1. Total dividends paid does not include ¥2,697,000 of dividends (resolution passed June 24, 2014) for 89,900 shares and ¥2,247,000 of dividends (resolution passed October 30, 2014) for 89,900 shares of the Company's common stock held by the Trust & Custody Services Bank, Ltd. (trust account E), as the shares held by the Trust & Custody Services Bank, Ltd. (trust account E) are recognized as treasury stock.

2. Dividends per share is based on the number of shares outstanding prior to the 2-for-1 stock split of common shares on November 1, 2014.

(2) Dividends with a record date in this fiscal year for which the effective date is the next fiscal year

Resolution	Share type	Source of dividends	Total dividends (Thousands of yen)	Dividends per share (Yen)	Record date	Effective date
Annual general meeting of shareholders held on June 24, 2015	Common shares	Retained earnings	495,692	15	March 31, 2015	June 25, 2015

Note: Total dividends paid does not include ¥2,686,000 of dividends for 179,100 shares of the Company's common stock held by the Trust & Custody Services Bank, Ltd. (trust account E), as the shares held by the Trust & Custody Services Bank, Ltd. (trust account E) are recognized as treasury stock.

(Consolidated statements of cash flows)

*1 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, 2014	Year ended March 31, 2015
Cash and deposit account	14,690,314	14,288,860
Securities account	2,019,818	2,020,739
Cash and cash equivalent	16,710,133	16,309,599

(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.

3. Information regarding sales, income (loss), assets, liabilities and other items by reportable segment
Year ended March 31, 2014

(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	22,033,623	14,297,445	2,971,649	39,302,718	714,404	40,017,123	—	40,017,123
Intersegment sales and transfers	—	—	—	—	2,414,693	2,414,693	(2,414,693)	—
Total	22,033,623	14,297,445	2,971,649	39,302,718	3,129,098	42,431,816	(2,414,693)	40,017,123
Segment income	15,318,804	10,959,164	2,659,082	28,937,051	769,589	29,706,640	(5,543)	29,701,097

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

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, 2014	Year ended March 31, 2015
Intersegment eliminations*	(5,543)	(5,968)
Total	(5,543)	(5,968)

*Intersegment eliminations refers to the elimination of inventory asset adjustments related to intersegment transactions, etc.
3. Segment profits have been adjusted to reconcile with them 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. Items related to change in reportable segments, etc.
Effective from the fiscal year under review, the "Ladies' ready-made wigs business," which was previously included in "Other," has been classified as a separate reportable segment due to an increase in materiality.
Segment information for the previous fiscal year has been adjusted to reflect this change in reportable segments.

(Per share information)

(Yen)

Year ended March 31, 2014		Year ended March 31, 2015	
Net assets per share	647.12	Net assets per share	694.79
Net income per share	97.57	Net income per share	68.22
Fully diluted net income per share	96.92	Fully diluted net income per share	67.84

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

	Year ended March 31, 2014	Year ended March 31, 2015
Net income per share		
Net income (thousands of yen)	3,131,302	2,252,482
Amounts not attributable to owners of common stock (thousands of yen)	–	–
Net income associated with common stock (thousands of yen)	3,131,302	2,252,482
Average number of shares of common stock during fiscal year (thousands of share)	32,094	33,017
Fully diluted net income per share		
Adjustment to net income (thousands of yen)	–	–
Increase in number of shares of common stock (thousands of share)	214	185
(of which, subscription rights to shares)	(214)	(185)
Summary of residual shares not included in calculations of diluted net income per share due to no dilutive effect	–	–

Notes: 1. The average number of common shares during the term is calculated based on the deduction of the treasury stocks (179,800 shares as of March 31, 2014 and 179,100 shares as of March 31, 2015) 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 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, 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

(1) Top management changes

1) Changes to representatives

There is no related information.

2) Changes to other directors and auditors

- New candidate for director

Director, Yasuko Kobashikawa (currently certified accountant)

Note: Yasuko Kobashikawa is a candidate for outside director.

- New candidate for substitute auditor

Substitute auditor, Hiroaki Hasegawa (currently certified accountant)

3) Scheduled for appointment

June 24, 2015