Consolidated Financial Results for the Fiscal Year Ended March 31, 2014 [J-GAAP]

May 14, 2014

Name of listed company:	ARTNATURE INC.	Listed on: Tokyo Stock Exchange	
Securities code:	7823	URL: http://www.artnature.co.jp/	
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, 2014
Scheduled date to start dividends distribution:	June 25, 2014
Scheduled date of filing the financial report:	June 25, 2014
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, 2014 (April 1, 2013 – March 31, 2014)

(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, 2014	40,017	14.0	5,383	32.4	5,461	32.9	3,131	35.5
Year ended March 31, 2013	35,091	10.3	4,066	23.0	4,109	20.3	2,310	42.1

Note: Comprehensive income: Year ended March 31, 2014: ¥3,281 million (33.9%) Year ended March 31, 2013: ¥2,450 million (53.4%)

	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, 2014	195.13	193.83	16.0	15.5	13.5
Year ended March 31, 2013	145.75	145.13	13.7	13.5	11.6

(Reference) Equity in earnings of affiliates: Year ended March 31, 2014: ¥— million Year ended March 31, 2013: ¥— million

(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, 2014	37,754	21,408	56.5	1,294.23
As of March 31, 2013	32,544	17,696	54.3	1,114.50

(Reference) Equity capital: As of March 31, 2014: ¥21,349 million As of March 31, 2013: ¥17,670 million

(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, 2014	2,728	(1,313)	364	16,710
Year ended March 31, 2013	3,121	(726)	(834)	14,885

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, 2013	—	25.00	—	25.00	50.00	792	34.3	4.7
Year ended March 31, 2014	—	25.00	—	30.00	55.00	891	28.2	4.6
Year ending March 31, 2015 (Forecast)	—	25.00	—	30.00	55.00		27.6	

Note: Year end dividends for the year ended March 31, 2014: ordinary dividends of ¥25 and ¥5 to commemorate the listing on the first section of Tokyo Stock Exchange

3. Consolidated financial forecast for the fiscal year ending March 31, 2015 (April 1, 2014 – March 31, 2015)

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

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
First six months	20,072	7.3	1,764	(37.1)	1,792	(36.7)	995	(38.5)	60.35
Full year	43,840	9.6	5,528	2.7	5,597	2.5	3,286	4.9	199.20

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: The Company adopted a new depreciation method from the fiscal year under review. This change corresponds to "cases where changes in accounting policy may be difficult to distinguish from changes in accounting estimates." For more details, please refer to page 19 of the supplementary materials, "4. 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, 2014	17,167,800 shares	As of March 31, 2013	16,527,300 shares
2) Number of treasury stock	As of March 31, 2014	672,069 shares	As of March 31, 2013	672,138 shares
3) Average number of shares issued and outstanding in each period	Year ended March 31, 2014	16,047,150 shares	Year ended March 31, 2013	15,851,892 shares

(References) Overview of the non-consolidated business results

1. Non-consolidated results for the fiscal year ended March 31, 2014 (April 1, 2013 – March 31, 2014)

(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, 2014	39,879	13.9	5,436	33.0	5,498	33.6	3,178	43.9
Year ended March 31, 2013	35,012	10.2	4,088	23.8	4,114	26.3	2,209	49.9

	Net income per share	Diluted net income per share
	Yen	Yen
Year ended March 31, 2014	198.08	196.77
Year ended March 31, 2013	139.38	138.79

(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, 2014	37,729	21,789	57.6	1,317.78
As of March 31, 2013	32,806	18,049	55.0	1,137.03

(Reference) Equity capital: As of March 31, 2014: ¥21,737 million As of March 31, 2013: ¥18,027 million

2. Non-consolidated financial forecast for the fiscal year ending March 31, 2015 (April 1, 2014 – March 31, 2015)

(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	19,902	6.8	1,854	(34.2)	1,063	(34.1)	64.49
Full year	43,500	9.1	5,721	4.1	3,422	7.7	207.47

* 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 ... 2

(1) Analysis of operating results ... 2

(2) Analysis of financial position ... 2

(3) Basic policy on distribution of profits and dividends for fiscal 2014 and fiscal 2015 ... 3

(4) Business risks ... 3

2. The ARTNATURE Group (Group overview) ... 6

3. Management policies ... 8

(1) Basic management policy ... 8

(2) Management indicators and targets ... 8

(3) Medium- and long-term management strategy ... 8

(4) Issues to be resolved ... 8

(5) Internal control system: upgrades and operational status ... 9

4. Consolidated financial statements ... 10

(1) Consolidated balance sheets ... 10

(2) Consolidated statements of income and comprehensive income ... 12

(Consolidated statements of income) ... 12

(Statements of comprehensive income) ... 13

(3) Consolidated statements of changes in net assets ... 14

(4) Consolidated statements of cash flows ... 16

(5) Notes on consolidated financial statements ... 17

(Notes related to the going concern assumption) ... 17

(Basic important matters for preparing the consolidated financial statements) ... 17

(Change in accounting policy) ... 19

(Consolidated balance sheets) ... 19

(Consolidated statements of income) ... 20

(Consolidated statements of changes in net assets) ... 22

(Consolidated statements of cash flows) ... 24

(Segment information, etc.) ... 24

(Per share information) ... 26

(Significant subsequent events) ... 26

(Disclosure omissions) ... 26

5. Other ... 27

1. Analysis of operating results and financial position

(1) Analysis of operating results

1) Operating results for fiscal 2014

In fiscal 2014, ended March 31, 2014, the Japanese economy showed signs of recovery, supported by the government’s economic and monetary policies. However, the outlook remained uncertain, with the correction to the strong yen leading to higher import prices, which put upward pressure on domestic prices, and the hike in consumption tax from April potentially weighing on consumer spending.

Against this backdrop, ARTNATURE INC. and its consolidated subsidiaries (the ARTNATURE Group) targeted further growth based on four basic policies: pursue customer satisfaction through the integration of manufacturing and sales; deliver results in new retail formats and channels; implement business reforms and improve the earnings structure; and cultivate skilled personnel and establish a motivating corporate culture. Guided by these policies, the Group implemented initiatives to make advertising more effective, strengthen product development and increase customer retention through improvements to the technical skills, customer service and product proposal capabilities of sales staff.

As a result, the Group reported net sales of ¥40,017 million, an increase of 14.0% year on year. Operating income increased 32.4% to ¥5,383 million, mainly due to growth in sales, ordinary income rose 32.9% to ¥5,461 million and net income increased 35.5% to ¥3,131 million, with sales and profits both rising compared with the previous fiscal year.

Sales in each segment were as follows:

< Men’s business >

Sales in the men’s business rose 5.9% year on year to ¥22,033 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 >

Sales in the ladies’ business increased 20.5% year on year to ¥14,297 million. The growth in sales reflected efforts to improve customer satisfaction through an increase in trial fitting events at department stores, active promotion of new products, and improvements to the skills of sales staff, as well as initiatives to improve customer retention, such as a regular wig care program.

2) Outlook for fiscal 2015

In fiscal 2015, ending March 31, 2015, we see the risk of a fall back demand in reaction to the spike in demand caused by the hike to consumption tax. However, we forecast a steady recovery in the Japanese economy due to growth in corporate earnings and an improvement in the employment market, supported by the government’s economic stimulus measures. In the Group’s sector of hair products and services, we expect the operating environment to remain challenging due to competition with companies within the sector and with companies from peripheral sectors.

Against this backdrop, we will pursue even greater customer satisfaction and create an efficient sales system. We also aim to build a more robust operating base by raising productivity in order to boost profitability. In the Group’s mainstay custom-made wigs and hair addition products, we will focus on increasing the number of customers by boosting the contract closure rate, mainly for new products. We will also actively work to expand the JULIA OLGER ladies’ ready-made wig business , the online business and the overseas business.

Based on these initiatives, for fiscal 2015, we forecast consolidated net sales of ¥43,840 million, up 9.6% year on year, operating income of ¥5,528 million, up 2.7%, ordinary income of ¥5,597 million, up 2.5%, and net income of ¥3,286 million, up 4.9%.

(2) Analysis of financial position

1) Assets, liabilities and net assets

(Assets)

As of the fiscal year-end, total assets were ¥37,754 million, an increase of ¥5,210 million compared with the end of the previous fiscal year. Current assets increased ¥3,908 million, mainly due to growth in cash and deposits and notes and accounts receivable–trade, while noncurrent assets rose ¥1,302 million due to an increase in property, plant and equipment.

(Liabilities)

As of the fiscal year-end, liabilities totaled ¥16,345 million, an increase of ¥1,498 million compared with the end of the previous fiscal year. Current liabilities rose ¥763 million, mainly due to increases for income taxes payable and provision for bonuses, while noncurrent liabilities increased ¥734 million, mainly reflecting an increase for retirement benefit liabilities.

(Net Assets)

As of the fiscal year-end, net assets totaled ¥21,408 million, an increase of ¥3,712 million compared with the end of the previous fiscal year. Capital stock and capital surplus each increased by ¥661 million, while retained earnings rose ¥2,338 million.

2) Cash flow position

As of the fiscal year-end, cash and cash equivalents (cash) totaled ¥16,710 million, an increase of ¥1,824 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 ¥2,728 million, compared with ¥3,121 million in the previous fiscal year. This mainly reflected income before income taxes and minority interests of ¥5,405 million, depreciation and amortization of ¥819 million, increase in retirement benefit liabilities of ¥245 million, and increase in provision for bonuses of ¥129 million, versus increase in notes and accounts receivable–trade of ¥1,129 million, increase in inventories of ¥612 million, and income taxes paid of ¥2,145 million.

(Cash flows from investing activities)

Investing activities used net cash of ¥1,313 million, compared with ¥726 million in the previous fiscal year. This mainly reflected purchase of property, plant and equipment of ¥1,061 million, payments for lease and guarantee deposits of ¥185 million, and purchase of intangible assets of ¥105 million.

(Cash flows from financing activities)

Financing activities provided net cash of ¥364 million, compared with net cash used of ¥834 million in the previous fiscal year. This mainly reflected proceeds from the issuance of common shares of ¥1,323 million, versus cash dividends paid of ¥792 million and repayments of lease obligations of ¥166 million.

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

Year ended March 31,	2010	2011	2012	2013	2014
Equity ratio (%)	60.7	59.0	56.2	54.3	56.5
Market value-based equity ratio (%)	48.7	48.4	54.0	77.5	128.4
Cash flow to interest-bearing debt (%)	7.5	–	–	–	–
Interest coverage ratio (times)	227.6	378.5	–	–	–

Notes: The above indicators are calculated as follows:

Equity ratio: Equity capital / net 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 2014 and fiscal 2015

ARTNATURE 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.

Based on this policy, the Company will pay a full-year dividend of ¥55 per share for fiscal 2014, ended March 31, 2014, comprising an interim dividend of ¥25 per share and a year-end dividend of ¥30 per share (ordinary dividends of ¥25 and additional dividend of ¥5 per share to commemorate the listing on the first section of Tokyo Stock Exchange).

For fiscal 2015, ending March 31, 2015, the Company plans to pay a full-year dividend of ¥55 per share, comprising an interim dividend of ¥25 per share and a year-end dividend of ¥30 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.

As a result, the Group's business operations and operating results may be affected by political, economic and social conditions in the Philippines, as well as by natural disasters and legal regulations and restrictions implemented by the Philippines authorities.

To address risks related to the concentration of production sites in the Philippines, the Company has established a new consolidated subsidiary in Cambodia called ARTNATURE (CAMBODIA) INC. (ANKH). The Company aims to start operations at the new subsidiary in early 2015.

Fluctuations in exchange rates may also affect the Group's operating results, as both of the above overseas subsidiaries conduct their business 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 62.2% 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 established a "personal information protection management system" compliance program to ensure it complies with the Japanese Industrial Standard JISQ15001 "Personal information protection management systems – Requirements," and applied for Privacy Mark certification from the Japan Institute for Promotion of Digital Economy and Community (JIPDEC). The Company received Privacy Mark certification in August 2006, which was renewed periodically.

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 JISQ15001 standard "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, 2014, 1,776 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 almost 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 and sportspeople 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, 2014, the ARTNATURE Group comprised the parent company ARTNATURE INC. and ten consolidated subsidiaries. The Group is mainly involved in the manufacture and sale of custom-made wigs.

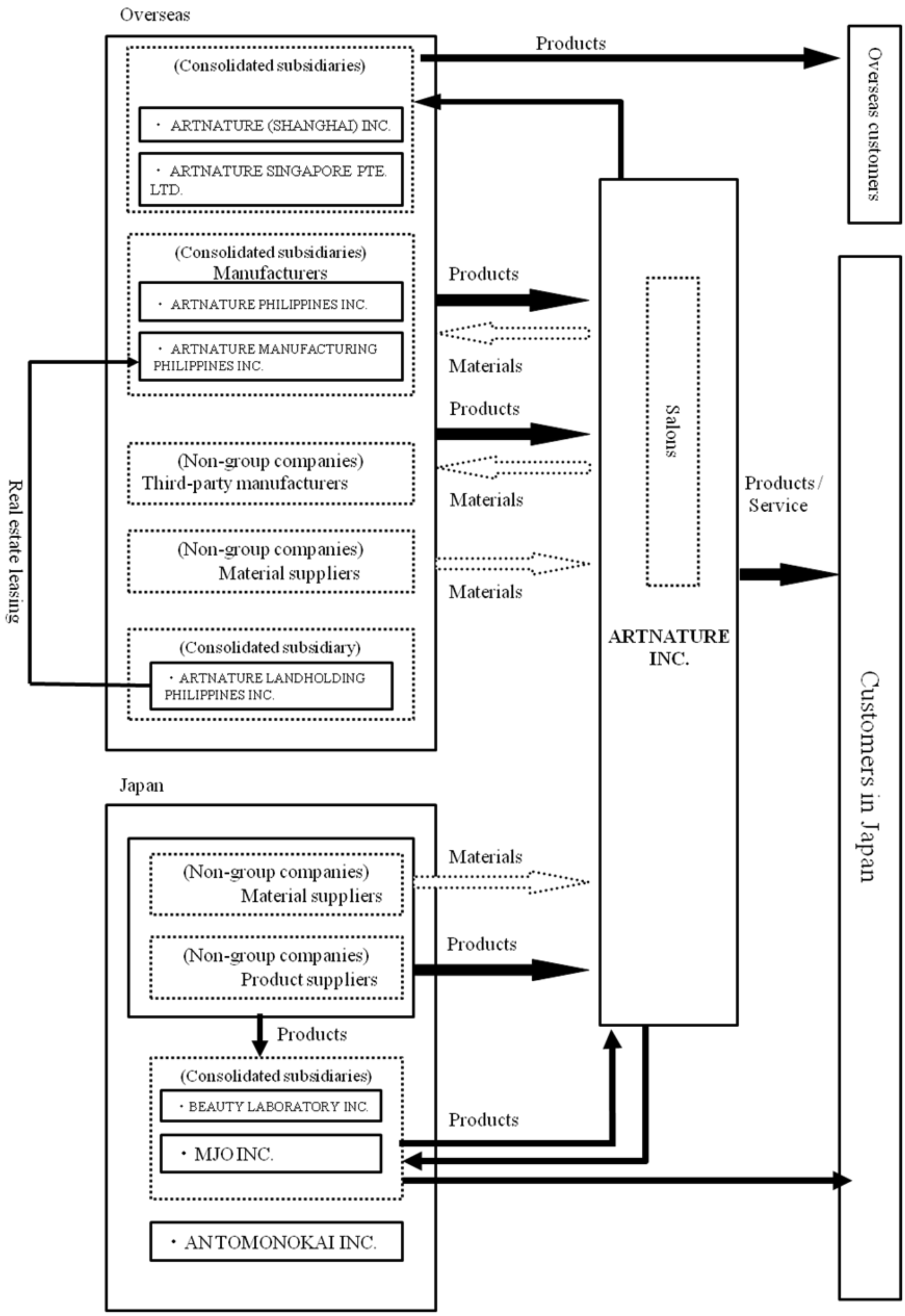
The Company's mainstay custom-made wigs are produced by two consolidated subsidiaries (AN Philippines and ANMP) using measurements of customers' heads taken at the Company's salons in Japan. The Company makes bulk purchases of human and synthetic hair – the main materials used to produce custom-made 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 251 domestic salons (as of March 31, 2014).

Production of ready-made wigs for women is outsourced to a non-Group company in China. The wigs are sold through a separate network of 51 JULIA OLGER salons (as of March 31, 2014).

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, and an advance payment transaction company AN TOMONOKAI INC makes it more convenient for customers to purchase the Company's products. Overseas, ARTNATURE (SHANGHAI) INC. (ANCN) is responsible for expanding the Group's business in China, and ARTNATURE SINGAPORE PTE. LTD. (ANSG) develops the Group's business in Singapore. The Group also established ANKH in Cambodia as a new production site in January 2014. The Company aims to start operations at the new subsidiary in early 2015.

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

[Business line diagram] (As of March 31, 2014)



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 "create a rich hair-related culture that ensures customer satisfaction.”

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 technologies, 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, aiming to drive growth through an increase in sales to female customers, where we see significant potential demand.

We therefore focus on three key performance indicators: sales, sales in the ladies’ business, and the ratio of ordinary income to sales (ordinary margin).

We are targeting sales of ¥43,846 million in fiscal 2015, compared with ¥40,017 million in the previous fiscal year.

We are targeting sales in the ladies’ business of ¥15,800 million in fiscal 2015, compared with ¥14,277 million in the previous fiscal year. In the ladies’ business, we plan to actively implement initiatives to boost sales in order to rapidly lift sales to the same level as in the men’s business.

Also, because boosting profitability is vital to increasing corporate value, we plan to achieve further efficiency gains in order to steadily increase the ordinary margin.

(3) Medium- and long-term management strategy

The ARTNATURE Group’s operating environment remains challenging. Although consumer spending is showing some signs of recovery due to active efforts by the government to end deflation through economic and monetary policies, competition within the hair products and services industry and with companies from related sectors is become more severe.

Despite these difficult conditions, the Company reported another year of sales and profit growth in fiscal 2014, continuing the trend from the previous fiscal year. In order to maintain this growth, we will continue to reinforce our operating base and work closely with all parts of the Group to implement initiatives aimed at sustaining growth well into the future.

In the men’s business, we will work to deliver steady growth in order to cement our position as the leading company in the sector.

In the ladies’ business, we are targeting sustained growth by channeling management resources into the female market, where we see significant potential demand.

Specific strategies to realize these goals will include appealing to customers through marketing efforts, such as regularly launching attractive products in both the men’s and the ladies’ businesses and implementing effective advertising campaigns. Also, in order to deliver growth over the medium- and long-term, we will focus on increasing customer numbers, while also targeting repeat business by enhancing customer satisfaction so that existing customers stay with the ARTNATURE Group.

In addition, we plan to actively build businesses that support the Group’s earnings going forward. Specifically, we will increase our network of JULIA OLGER salons, which sell ready-made wigs for women, expand our sales channels, boost online sales, and develop overseas operations in China and Singapore.

In product development and manufacturing, we will systematically develop new products based on an established new product development pipeline, set up efficient production systems at overseas manufacturing subsidiaries, reduce costs further and build a more integrated system from manufacturing through to sales.

Also, we will focus on cultivating the personnel we need to realize the above strategies. This will mean enhancing training for counselors and stylists, so that they can address customer needs more appropriately, and training people to be the Group’s future managers.

(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 reinforce 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 work to increase the contract closure rate for new customers through actively use of trial

fitting events and other approaches, while also aiming to boost earnings by improving technologies and customer support to ensure existing customers remain with ARTNATURE.

3) In the ladies' ready-made wig category (JULIA OLGER), we aim to grow the business by stepping up the pace of store openings, expanding sales channels such as marketing events and online retailing, and boosting brand visibility through TV commercials and other advertising.
4) 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.
5) The Company's custom-made wigs, which are made individually by hand at two plants operated by subsidiaries in the Philippines, have won support from customers for their high quality. However, we will work to boost productivity at both plants, lower costs and reduce delivery times. Production of the Company's ready-made wigs is currently outsourced to a company in China. However, we will work to create a more stable, low-cost supply framework to address rising sales volumes and counter increases in production costs. In addition, we plan to start production of custom-made wigs and ready-made wigs at a new plant in Cambodia, which is currently under construction. Going forward, we will work to build an optimal manufacturing framework based on a comprehensive assessment of country risk and the relative advantages of manufacturing sites, such as political, economic and social conditions in each country, the risk of natural disasters and local regulations.
6) 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.
7) As of March 31, 2014, 1,776 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, technologies 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.

(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. Consolidated financial statements

(1) Consolidated balance sheets

(Thousands of yen)

	As of March 31, 2013	As of March 31, 2014
Assets		
Current assets		
Cash and deposits	12,866,535	14,690,314
Accounts receivable – trade	3,814,111	4,950,216
Secutities	2,018,794	2,019,818
Merchandise and finished goods	984,194	1,511,546
Work in process	92,447	124,072
Raw materials and supplies	949,331	1,034,979
Deferred tax asset	575,026	609,580
Others	653,995	932,112
Allowance for doubtful accounts	(9,891)	(19,677)
Total current assets	21,944,547	25,852,963
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	8,942,005	9,770,187
Accumulated depreciation	(5,294,714)	(5,707,472)
Buildings and structures, net	3,647,291	4,062,714
Machinery equipment and vehicle	100,422	130,050
Accumulated depreciation	(66,487)	(89,459)
Machinery equipment and vehicle, net	33,935	40,591
Land	2,045,093	2,054,251
Construction in progress	–	3,986
Others	1,578,487	2,113,815
Accumulated depreciation	(1,280,187)	(1,440,108)
Others, net	298,300	673,706
Total property, plant and equipment	6,024,619	6,835,251
Intangible assets		
Others	392,846	445,670
Total intangible assets	392,846	445,670
Investments and other assets		
Investment securities	794,047	843,541
Deferred tax assets	1,113,500	1,329,948
Lease and guarantee deposits	2,217,733	2,370,793
Others	117,200	140,151
Allowance for doubtful accounts	(60,188)	(63,527)
Total investments and other assets	4,182,292	4,620,907
Total noncurrent assets	10,599,758	11,901,830
Total assets	32,544,306	37,754,793

(Thousands of yen)

	As of March 31, 2013	As of March 31, 2014
Liabilities		
Current liabilities		
Notes and accounts payable – trade	275,551	358,818
Accounts payable – other	2,173,868	2,013,447
Income taxes payable	1,231,090	1,557,281
Advances received	4,718,762	4,802,951
Provision for bonuses	776,310	905,878
Provision for directors’ bonuses	150,000	150,000
Provision for product warranties	34,119	31,206
Provision for point card certificates	62,296	67,760
Others	1,113,204	1,411,324
Total current liabilities	10,535,205	11,298,669
Noncurrent liabilities		
Provision for retirement benefits	2,053,340	-
Provision for directors’ retirement benefits	1,150,395	1,202,065
Net defined benefit liability	-	2,496,107
Asset retirement obligations	1,001,431	1,067,620
Others	107,072	281,382
Total noncurrent liabilities	4,312,239	5,047,176
Total liabilities	14,847,444	16,345,845
Net assets		
Shareholders’ equity		
Capital stock	3,001,095	3,662,925
Capital surplus	2,888,595	3,550,447
Retained earnings	12,288,081	14,626,624
Treasury stock	(531,453)	(531,433)
Total shareholders’ equity	17,646,317	21,308,564
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,030	3,329
Foreign currency translation adjustment	21,216	167,253
Remeasurements of defined benefit plans	-	(129,939)
Total accumulated other comprehensive income	24,246	40,643
Subscription rights to shares	21,658	51,368
Minority interests	4,640	8,371
Total net assets	17,696,861	21,408,947
Total liabilities and net assets	32,544,306	37,754,793

(2) Consolidated statements of income and comprehensive income

(Consolidated statements of income)

(Thousands of yen)

		Year ended March 31, 2013		Year ended March 31, 2014
Net sales		35,091,404		40,017,123
Cost of sales	*1	9,169,445	*1	10,316,026
Gross profit		25,921,958		29,701,097
Selling, general and administrative expenses	*2, *3	21,855,529	*2, *3	24,318,052
Operating income		4,066,428		5,383,044
Non-operating income				
Interest income		96,454		90,664
Dividends income		1,320		1,414
Gain on valuation of investment securities		38,206		71,824
Others		45,817		53,426
Total non-operating income		181,799		217,328
Non-operating expenses				
Foreign exchange losses		62,455		39,529
Guarantee commission		53,060		58,271
Others		23,451		40,911
Total non-operating expenses		138,968		138,713
Ordinary income		4,109,259		5,461,660
Extraordinary income				
Gain on sales of noncurrent assets	*4	12	*4	1,317
Total extraordinary income		12		1,317
Extraordinary losses				
Loss on retirement of noncurrent assets	*5	2,086	*5	24,121
Impairment loss	*6	29,477	*6	33,492
Loss on valuation of membership		2,450		-
Total extraordinary losses		34,013		57,614
Income before income taxes and minority interests		4,075,258		5,405,363
Income taxes – current		1,969,335		2,458,796
Income taxes – deferred		(201,953)		(187,925)
Total income taxes		1,767,382		2,270,871
Income before minority interests in income (loss)		2,307,875		3,134,491
Minority interests		(2,574)		3,189
Net income		2,310,450		3,131,302

(Statements of comprehensive income)

(Thousands of yen)

	Year ended March 31, 2013	Year ended March 31, 2014
Income before minority interests	2,307,875	3,134,491
Other comprehensive income		
Valuation difference on available-for-sale securities	4,851	299
Foreign currency translation adjustment	137,969	146,579
Total other comprehensive income	142,821	146,878
Comprehensive income	2,450,697	3,281,370
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of the parent	2,446,325	3,277,639
Comprehensive income attributable to minority interests	4,372	3,731

(3) Consolidated statements of changes in net assets

Year ended March 31, 2013

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of period	3,000,330	2,887,830	10,770,164	(531,422)	16,126,902
Change of items during the period					
Issuance of new shares	765	765			1,530
Dividends from surplus			(792,533)		(792,533)
Net income			2,310,450		2,310,450
Purchase of treasury stock				(31)	(31)
Disposal of treasury stock					
Net changes of items other than shareholders' equity					
Total change of items during the period	765	765	1,517,916	(31)	1,519,415
Balance at the end of the period	3,001,095	2,888,595	12,288,081	(531,453)	17,646,317

	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	(1,821)	(109,806)	—	(111,628)	—	267	16,015,541
Change of items during the period							
Issuance of new shares							1,530
Dividends from surplus							(792,533)
Net income							2,310,450
Purchase of treasury stock							(31)
Disposal of treasury stock							
Net changes of items other than shareholders' equity	4,851	131,022	—	135,874	21,658	4,372	161,904
Total change of items during the period	4,851	131,022	—	135,874	21,658	4,372	1,681,319
Balance at the end of the period	3,030	21,216	—	24,246	21,658	4,640	17,696,861

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
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
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

(4) Consolidated statements of cash flows

(Thousands of yen)

	Year ended March 31, 2013	Year ended March 31, 2014
Cash flows from operating activities		
Net income before income taxes	4,075,258	5,405,363
Depreciation and amortization	732,494	819,670
Impairment loss	29,477	33,492
Increase (decrease) in allowance for doubtful accounts	4,692	13,004
Increase (decrease) in provision for bonuses	114,610	129,568
Increase (decrease) in provision for directors’ bonuses	50,000	-
Increase (decrease) in product warranties	(3,028)	(2,912)
Increase (decrease) in provision for point card certificates	8,961	5,463
Increase (decrease) in provision for retirement benefits	285,266	-
Increase (decrease) in provision for directors’ retirement benefits	189,995	51,670
Increase (decrease) in net defined benefit liability	–	245,199
Interest and dividends income	(97,774)	(92,078)
Loss on retirement of noncurrent assets	2,086	24,121
Loss (gain) on sales of noncurrent assets	–	(1,317)
Loss (gain) on valuation of investment securities	(38,206)	(71,824)
Decrease (increase) in notes and accounts receivable – trade	(1,348,409)	(1,129,353)
Decrease (increase) in inventories	(604,314)	(612,950)
Increase (decrease) in notes and accounts payable – trade	111,694	78,900
Increase (decrease) in advances received	1,084,960	84,189
Others	359,194	(194,415)
Subtotal	4,956,957	4,785,792
Interest and dividends income received	98,722	87,799
Income taxes paid	(1,933,891)	(2,145,025)
Net cash provided by (used in) operating activities	3,121,788	2,728,566
Cash flows from investing activities		
Purchase of investment securities	(1,000,000)	(2,000,000)
Proceeds from redemption of securitie	1,000,000	2,000,000
Purchase of property, plant and equipment	(500,356)	(1,061,672)
Proceeds from sales of property, plant and equipment	28	2,376
Purchase of intangible assets	(155,571)	(105,826)
Collection of long-term loans receivable	1,705	1,341
Payments for lease and guarantee deposits	(110,034)	(185,119)
Repayments of lease and guarantee deposits received	31,599	26,990
Others	5,699	8,313
Net cash provided by (used in) investing activities	(726,930)	(1,313,596)
Cash flows from financing activities		
Proceeds from short-term loans payable	(44,287)	(166,387)
Proceeds from issuance of common stock	1,530	1,323,661
Purchase of treasury stock	(31)	(58)
Cash dividends paid	(792,199)	(792,499)
Net cash provided by (used in) financing activities	(834,988)	364,715
Effect of exchange rate change on cash and cash equivalent	34,652	45,116
Net increase (decrease) in cash and cash equivalents	1,594,522	1,824,802
Cash and cash equivalents at the beginning of period	13,290,807	14,885,330
Cash and cash equivalents at the end of period	*1 14,885,330	*1 16,710,133

(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: 10

Name of important consolidated subsidiaries

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

ARTNATURE (CAMBODIA) INC. is a newly established company and is included in the scope of consolidation.

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's seven overseas consolidated subsidiaries have 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 (5 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 6 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

All monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the consolidated balance sheet date.

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.)

The Company has applied "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan ("ASBJ") Statement No.26, May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25, May 17, 2012) from the end of fiscal 2013, excluding paragraph 35 of ASBJ Statement No.26 and paragraph 67 of ASBJ Guidance No.25. As a result, the Company has changed the way it recognizes the difference between retirement benefit liabilities and plan assets, with unrecognized actuarial liabilities and unrecognized prior service costs now recorded as retirement benefit liabilities.

At the application of these accounting standards, in accordance with paragraph 37 of ASBJ Statement No.26, the Company reduced accumulated other comprehensive income by the amount related to this change at the fiscal year end.

As a result, as of the fiscal year end, ¥2,496,107,000 was recognized as retirement benefit liabilities, and accumulated other comprehensive income decreased by ¥129,939,000.

(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, 2013	As of March 31, 2014
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, 2013	Year ended March 31, 2014
	42,184	37,960

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

(Thousands of yen)

	Year ended March 31, 2013	Year ended March 31, 2014
Advertising expenses	6,299,029	6,855,647
Provision of allowance for doubtful accounts	5,038	11,191
Salaries	3,317,646	3,712,180
Provision for bonuses	330,892	396,667
Provision for point card certificates	8,961	5,463
Provision for retirement benefits	142,216	128,842
Provision for directors' bonuses	150,000	150,000
Provision for directors' retirement benefits	189,995	51,670
Depreciation	698,312	780,394
Rent expenses	2,829,268	3,077,492

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

(Thousands of yen)

	Year ended March 31, 2013	Year ended March 31, 2014
	181,468	160,030

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

(Thousands of yen)

	Year ended March 31, 2013	Year ended March 31, 2014
Machinery, equipment and vehicles	–	1,317
Other property, plant and equipment	12	—
Total	12	1,317

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

(Thousands of yen)

	Year ended March 31, 2013	Year ended March 31, 2014
Buildings and structures	1,722	21,276
Machinery, equipment and vehicles	35	—
Other property, plant and equipment	328	2,844
Total	2,086	24,121

*6 Impairment loss

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

Year ended March 31, 2013

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

Company / location	Application	Type
ARTNATURE INC. (Tokyo)	Stores (Business assets)	Buildings and other structures, etc.
Consolidated subsidiary MJO INC. (Tokyo)	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.	29,477
Total		29,477

* Breakdown of impairment losses by applications
  - Stores ¥29,477,000 (comprising ¥28,622,000 for buildings and other structures, ¥854,000 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, 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.

(Consolidated statements of changes in net assets)

Year ended March 31, 2013

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	16,522,200	5,100	—	16,527,300
Total	16,522,200	5,100	—	16,527,300
Issued shares				
Common shares	672,111	27	—	672,138
Total	672,111	27	—	672,138

Notes:1. The increase of 5,100 shares in issued common stock was due to the exercise of subscription rights to shares.
2. The increase of 27 shares in treasury stock was due to the purchase of shares less than one unit.
3. Treasury stock includes 90,000 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	—	—	—	—	—	21,658
Total		—	—	—	—	—	21,658

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 21, 2012	Common shares	396,252	25	March 31, 2012	June 22, 2012
Board of directors' meeting held on October 30, 2012	Common shares	396,281	25	September 30, 2012	December 4, 2012

(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 20, 2013	Common shares	Retained earnings	396,379	25	March 31, 2013	June 21, 2013

Note: Total dividends paid does not include ¥2,250,000 of dividends for 90,000 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, 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
Issued shares				
Common shares	672,138	31	100	672,069
Total	672,138	31	100	672,069

Notes:1. The 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 issued common stock was due to the exercise of stock subscription rights.
3. The decrease of 100 shares in treasury stock was due to the payment to employees of the Company from Stock Benefit Trust (J-ESOP).
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 at beginning of the period	Number of shares at beginning of the period	Number of shares at beginning 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.

(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, 2013	Year ended March 31, 2014
Cash and deposit account	12,866,535	14,690,314
Securities account	2,018,794	2,019,818
Cash and cash equivalent	14,885,330	16,710,133

(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 two reportable segments: the men's business and the ladies' 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.

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, 2013

(Thousands of yen)

	Reportable segment			Others Note 1	Total	Adjustment Note 2	Carried on consolidated financial statements Note 3
	Men's business	Ladies' business	Total				
Net sales							
Sales to external customers	20,806,199	11,862,260	32,668,459	2,422,944	35,091,404	—	35,091,404
Intersegment sales and transfers	—	—	—	1,580,600	1,580,600	(1,580,600)	—
Total	20,806,199	11,862,260	32,668,459	4,003,545	36,672,005	(1,580,600)	35,091,404
Segment income	14,534,588	9,045,457	23,580,045	2,350,783	25,930,829	(8,870)	25,921,958

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	Total				
Net sales							
Sales to external customers	2,033,623	14,297,445	36,331,068	3,686,054	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	36,331,068	6,100,748	42,431,816	(2,414,693)	40,017,123
Segment income	15,318,804	10,959,164	26,277,968	3,428,671	29,706,640	(5,543)	29,701,097

Notes:1. Other is not a reportable segment and mainly includes businesses related to existing products in the men's business, existing products in the ladies' business and manufacturing subsidiaries.
2. Details of adjustments are as follows:
   Segment profits

(Thousands of yen)

	Year ended March 31, 2013	Year ended March 31, 2014
Intersegment eliminations*	(8,870)	(5,543)
Total	(8,870)	(5,543)

*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.

(Per share information)

(Yen)

Year ended March 31, 2013		Year ended March 31, 2014	
Net assets per share	1,114.50	Net assets per share	1,294.23
Net income per share	145.75	Net income per share	195.13
Fully diluted net income per share	145.13	Fully diluted net income per share	193.83

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

	Year ended March 31, 2013	Year ended March 31, 2014
Net income per share		
Net income (thousands of yen)	2,310,450	3,131,302
Amounts not attributable to owners of common stock (thousands of yen)	–	–
Net income associated with common stock (thousands of yen)	2,310,450	3,131,302
Average number of shares of common stock during fiscal year (thousands of share)	15,851	16,047
Fully diluted net income per share		
Adjustment to net income (thousands of yen)	–	–
Increase in number of shares of common stock (thousands of share)	67	107
(of which, subscription rights to shares)	(67)	(107)
Summary of residual shares not included in calculations of diluted net income per share due to no dilutive effect	–	–

Note: The average number of common shares during the term is calculated based on the deduction of the 90,000 treasury stocks as of the current fiscal year-end held by the Trust & Custody Services Bank, Ltd. (trust account) and others.

(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.

5. Other

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

(1) Top management changes

1) Changes to representatives

There is no related information.

2) Changes to other directors

- New candidate

Director, Jiro Nagao (currently lawyer)

Note: Jiro Nagao is a candidate for outside director.

-Retiring

Director, Shunji Tanefusa

3) Scheduled for appointment

June 24, 2014