

January 14, 2014

ADERANS CO., LTD.
Financial Statements (Unaudited)
for the First Three Quarters of the Fiscal Year ending February 28, 2014
(Translated from the Japanese original)

Corporate Information

Code: 8170 Listings: First Section of the Tokyo Stock Exchange
 (URL <http://www.aderans.com/english/index.html>)
 Representative: Nobuo Nemoto Representative Director, Chairman and President
 Contact: Michiyoshi Takahashi General Manager, Corporate Communications Office
 Telephone: +81-3-3350-3268

Anticipated date for filing *Shihanki Hokokusho* (a Japanese-language quarterly business report): January 14, 2014

Expected date of payment for dividends: —

Preparation of supplementary explanation material for quarterly financial results: Yes

Holding of presentation meeting for quarterly financial results: None

(Amounts rounded down)

1. Consolidated Performance (March 1, 2013 through November 30, 2013)**(1) Consolidated Operating Results (accumulated total)**

(Percentages represent changes from corresponding period of previous year)

	Net sales		Operating income (loss)		Ordinary income (loss)		Net income (loss)	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
First Three Quarters ended November 30, 2013	48,362	28.9	1,874	(37.0)	2,844	(5.9)	2,957	9.3
First Three Quarters ended November 30, 2012	37,528	8.1	2,973	167.2	3,023	199.3	2,706	—

(Note) Comprehensive income: 2,826 million yen (3.4%) (as of November 30, 2013)

2,733 million yen (—%) (as of November 30, 2012)

	Net income (loss) per share	Fully diluted net income per share
	Yen	Yen
First Three Quarters ended November 30, 2013	80.36	80.24
First Three Quarters ended November 30, 2012	73.54	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of November 30, 2013	61,195	32,834	53.3
As of February 28, 2013	40,904	30,219	73.6

(Note) Equity capital: 32,619 million yen (as of November 30, 2013)

30,086 million yen (as of February 28, 2013)

(Unaudited)

2. Payment of Dividends

	Dividends per share				
	First quarter-end	At end of first half	Third quarter-end	Year-end	For the year
	Yen	Yen	Yen	Yen	Yen
Fiscal 2013	—	0.00	—	10.00	10.00
Fiscal 2014	—	0.00	—		
Fiscal 2014 (Estimated)				10.00	10.00

(Notes) Change in the current quarter to dividend forecast: None

3. Anticipated Consolidated Results for Fiscal 2014 (March 1, 2013 through February 28, 2014)

(Percentages represent changes from corresponding period of previous year)

	Net sales		Operating income (loss)		Ordinary income (loss)	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Full year	64,500	26.2	4,100	15.2	4,000	3.9

	Net income (loss)		Net income (loss) per share
	Millions of yen	%	Yen
Full year	3,600	9.1	97.80

(Notes) Change in the current quarter to consolidated results forecast: None

Note

(1) Changes in significant subsidiaries during this quarter: Yes

(Changes in specified subsidiaries involving change in consolidation scope)

Newly included: 1 (HC (USA) Inc.) Excluded: None

(2) Application of simplified accounting and specific accounting: Yes

(3) Changes in accounting policy, changes in accounting estimate and retrospective restatement

1. Changes associated with revision of accounting standards, etc: Yes

2. Changes other than 1: None

3. Changes in accounting estimates: Yes

4. Restatements: None

(4) Number of shares outstanding (Common stock)

1. Number of shares outstanding at end of period (including treasury stock)

40,213,388 shares at November 30, 2013

40,213,388 shares at February 28, 2013

2. Number of treasury shares at end of period

3,406,059 shares at November 30, 2013

3,405,226 shares at February 28, 2013

3. Average number of shares (Quarterly cumulative period)

36,807,736 shares at November 30, 2013

36,808,224 shares at November 30, 2012

Note: Status of quarterly review procedures

This quarterly financial report falls outside the quarterly review procedures stipulated by the Financial Instruments and Exchange Law, and as of the disclosure date of this report, review procedures for quarterly financial statements as described under the Financial Instruments and Exchange Law had not been completed.

Note: Comment regarding appropriate use of performance forecasts, and other special remarks

Forward-looking statements, such as performance forecasts, described in these materials are based on information currently available to the Company and certain reasonable assumptions by management, and these forward-looking statements are not guarantees of future performance. Actual business results could be significantly different than expected due to a variety of factors.

[Index]

1. Qualitative information on quarterly consolidated performance -----	4
(1) Consolidated business results -----	4
(2) Consolidated financial position -----	5
(3) Consolidated performance forecasts -----	5
2. Miscellaneous -----	5
(1) Significant changes in subsidiaries -----	5
(2) Application of special accounting treatment for quarterly consolidated financial statements -----	5
(3) Changes in accounting policy, changes in accounting estimate and retrospective restatement -----	5
3. Quarterly consolidated financial statements -----	6
(1) Quarterly consolidated balance sheets -----	6
(2) Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income -----	8
Quarterly consolidated statements of income -----	8
Quarterly consolidated statements of comprehensive income -----	9
(3) Notes on assumption of a going concern -----	10
(4) Segment Information -----	10
(5) Notes on significant changes to shareholders' equity -----	12

1. Qualitative information on quarterly consolidated performance

(1) Consolidated business results

Over the first three quarters—March 1, 2013 to November 30, 2013—of fiscal 2014, ending February 28, 2014, existing signs of improvement in the domestic economy became brighter. The yen continued to drop and stock prices continued to rise, reflecting expectations of growth fueled by monetary easing and various other economic and financial policies introduced by the administration of Prime Minister Shinzo Abe.

Against this backdrop, the Aderans Group worked to achieve announced performance targets for fiscal 2014, the last year of its medium-term management plan. In the domestic market, efforts were directed toward increasing the number of new clients through proactive advertising and promotional activities and by retaining the interest of existing clients by enhancing customer services at salons. Overseas, the emphasis was on expanding market share.

As a result, net sales climbed 28.9% year-on-year, to ¥48,362 million. Although operating income and ordinary income tumbled, dropping 37.0%, to ¥1,874 million, and 5.9%, to ¥2,844 million, respectively, net income for the first three quarters increased 9.3%, to ¥2,957 million, due to lower income taxes.

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

Note that reporting segments have been reclassified, effective from the first quarter of fiscal 2014.

(i) The Aderans Business (Custom-made wigs)

Sales increased on the men's side of the Aderans Business, with solid interest from new customers for hair-growth services and hair-volumizing products offering a quick and easy way to boost volume in specific areas, and from repeat customers for custom-made wigs. Sales of custom-made wigs for women were also good, buoyed by a dramatic improvement in sales to new customers attending try-on events held at major department stores across the country and by steady sales to repeat customers. In the end, the segment achieved sales of ¥20,700 million, up 8.2% year-on-year, and operating income of ¥5,594 million, up 2.3%.

(ii) Fontaine Business (Ready-made wigs)

In the Fontaine Business, sales rose 4.9%, to ¥6,400 million, but operating income tumbled 38.7% year-on-year, to ¥1,344 million. Higher sales reflect the introduction of new products and better customer service techniques at shops as well as a positive effect from new store openings by retailers that offer Fontaine products.

(iii) Bosley Business (Hair transplantation)

The Bosley Business, which undertakes hair transplantation services in North America, experienced a decrease in inquiries, owing to a larger than initially planned for reduction in the advertising budget. Consequently, the segment generated sales of \$71 million on a local currency basis, down 8.8% year-on-year. On a yen basis, sales converted to ¥6,916 million, which was an improvement of 11.3% year-on-year. Operating income sank 48.7%, to ¥243 million.

(iv) Overseas Wig Business

The Overseas Wig Business achieved higher sales, supported by two recent additions to the Aderans Group. The latest acquisition was HC (USA) Inc., a major U.S. retailer of custom-made wigs, which became an Aderans subsidiary in April 2013, while Le Nouvel Espace Beauté SA, a provider of medical-use wigs in Europe, became an Aderans subsidiary in September 2012. The segment posted an operating loss, reflecting an amortization burden, mainly goodwill and intangible fixed assets.

Specifically, segment sales skyrocketed 227.8% year-on-year, to ¥12,121 million. The operating loss settled at ¥935 million, up from ¥118 million for the first three quarters of fiscal 2013.

(v) Other Operations

In the beauty supply route business, challenging market conditions still prevailed. Measures were formulated to address the situation, including comprehensive catalog renewal and a change in transaction conditions. But sales declined.

On a positive note, however, inter-segment sales and net transfer amounts increased. This underpinned a 7.3% year-on-year improvement in net sales, to ¥4,578 million. The operating loss fell further, settling at ¥551 million, compared with ¥273 million a year ago.

(2) Consolidated financial position

Total assets stood at ¥61,195 million as of November 30, 2013, up ¥20,290 million from February 28, 2013, primarily owing to an ¥11,054 million increase in other intangible fixed assets and a ¥6,212 million increase in goodwill accompanying the inclusion of HC (USA) Inc. under the scope of consolidation.

Total liabilities stood at ¥28,361 million, up ¥17,675 million, from February 28, 2013, largely because of a ¥9,970 million increase in long-term loans payable—funds used to acquire HC (USA)—and a ¥4,207 million increase in deferred tax liabilities, also associated with the inclusion of HC (USA) under consolidation.

Total net assets settled at ¥32,834 million, up ¥2,615 million, from February 28, 2013, mainly because the booking of net income led to a ¥2,676 million increase in earned surplus.

(3) Consolidated performance forecasts

There is no change to the consolidated performance forecasts announced on April 15, 2013.

2. Miscellaneous

(1) Significant changes in subsidiaries

Through the acquisition of shares, HC (USA) Inc. and its 10 subsidiaries are included in the scope of consolidation from the first quarter of fiscal 2014. The associated change in the scope of consolidation has had a material impact on the consolidated financial statements for the first three quarters of fiscal 2014. Briefly, this impact includes an increase in intangible fixed assets on the consolidated balance sheet and an increase in net sales on the consolidated statements of income.

(2) Application of special accounting treatment for quarterly consolidated financial statements

a. Calculation of income tax expense

The Company reasonably estimated the effective tax rate following application of tax-effect accounting on income before income taxes for the fiscal year, which includes the first three quarters of fiscal 2014, and applied this percentage to quarterly income before income taxes to determine income tax expense.

(3) Changes in accounting policy, changes in accounting estimates and retrospective restatement

a. Change in depreciation method

As a result of revision to the Corporation Tax Law, regarding tangible fixed assets acquired on or after March 1, 2013, the Company has adopted the depreciation method based on the Corporation Tax Law after revision, effective from the first quarter of fiscal 2014. The effect of this change on operating income, ordinary income, and income before income taxes in the current first three quarters is minor.

3. Quarterly consolidated financial statements

(1) Quarterly consolidated balance sheets

	As of February 28, 2013	As of November 30, 2013
	Millions of yen	Millions of yen
Assets		
Current assets		
Cash and deposits	14,001	9,196
Notes and accounts receivable - trade	4,961	5,955
Commercial goods and finished goods	2,882	4,081
Work in process	235	330
Raw materials and supplies	858	966
Deferred tax assets	851	1,820
Other current assets	1,266	2,929
Allowance for doubtful accounts	(213)	(282)
Total current assets	24,845	24,996
Fixed assets		
Tangible fixed assets	9,047	11,227
Buildings and structures (net)	2,993	4,261
Land	4,081	4,086
Lease assets (net)	805	788
Other tangible fixed assets (net)	1,167	2,090
Intangible fixed assets	3,072	20,339
Goodwill	522	6,734
Other intangible fixed assets	2,549	13,604
Investments and other fixed assets	3,939	4,632
Investment securities	207	1,043
Deferred tax assets	259	205
Guarantee deposits	3,222	3,173
Other fixed assets	825	757
Allowance for doubtful accounts	(576)	(548)
Total fixed assets	16,059	36,199
Total assets	40,904	61,195

	As of February 28, 2013	As of November 30, 2013
	Millions of yen	Millions of yen
Liabilities		
Current liabilities		
Notes and accounts payable – trade	483	831
Current portion of long-term loans payable	8	1,055
Accounts payable	2,129	2,231
Accrued corporate and other taxes	242	1,027
Deferred tax liabilities	2	4
Advances received	1,105	1,927
Allowance for employees' bonuses	1,172	669
Allowance for product guarantees	78	102
Allowance for returned goods	132	228
Other allowances	21	22
Other current liabilities	2,475	3,890
Total current liabilities	7,852	11,991
Fixed liabilities		
Long-term loans payable	1	8,925
Lease obligations	335	581
Deferred tax liabilities	56	4,263
Employees' severance and retirement benefits	1,064	1,282
Asset retirement obligations	1,019	1,014
Other fixed liabilities	356	302
Total fixed liabilities	2,833	16,370
Total liabilities	10,685	28,361
Net Assets		
Shareholders' equity		
Common stock	12,944	12,944
Capital surplus	13,157	13,157
Earned surplus	14,268	16,945
Treasury stock	(7,020)	(7,021)
Total shareholders' equity	33,349	36,024
Other comprehensive income		
Unrealized gains (losses) on investment securities	11	34
Foreign currency transaction adjustments	(3,274)	(3,439)
Total other comprehensive income	(3,262)	(3,404)
Stock acquisition rights as stock options	48	120
Minority interests	83	94
Total net assets	30,219	32,834
Total liabilities and net assets	40,904	61,195

(2) Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income

Quarterly consolidated statements of income

	First Three Quarters ended November 30, 2012	First Three Quarters ended November 30, 2013
	Millions of yen	Millions of yen
Net sales	37,528	48,362
Cost of sales	6,863	9,954
Gross profit	30,664	38,408
Selling, general and administrative expenses	27,691	36,533
Operating income (loss)	2,973	1,874
Non-operating income	208	1,429
Interest received	15	14
Dividends received	1	1
Rent on real estate	44	43
Foreign exchange gains	44	1,244
Others	103	126
Non-operating expenses	158	460
Interest paid	33	159
Rent on real estate	15	14
Commissions paid	58	239
Others	51	46
Ordinary income (loss)	3,023	2,844
Extraordinary income	5	3
Gains on sales of fixed assets	5	3
Others	0	—
Extraordinary expenses	125	289
Loss on sales of fixed assets	0	2
Impairment loss	84	44
Valuation loss on investment securities	11	—
Losses on business restructuring	—	204
Loss on closing of stores	24	28
Others	5	9
Income before income taxes	2,903	2,557
Income taxes	196	(399)
Income before minority interests	2,706	2,957
Net income (loss)	2,706	2,957

Quarterly consolidated statements of comprehensive income

	First Three Quarters ended November 30, 2012	First Three Quarters ended November 30, 2013
	Millions of yen	Millions of yen
Income before minority interests	2,706	2,957
Other comprehensive income		
Unrealized gain (loss) on available-for-sale securities	5	22
Foreign currency translation adjustments	20	(164)
Share of other comprehensive income of entities accounted for using equity method	—	9
Total other comprehensive income	26	(131)
Comprehensive income	2,733	2,826
Comprehensive income attribute to:		
shareholders of Aderans Co., Ltd.	2,733	2,815
Minority interests	—	10

(3) Notes on going concern assumptions

Not applicable

(4) Segment Information**I. First Three Quarters of Fiscal 2013 (March 1, 2012 through November 30, 2012)****1. Information related to sales and profit or loss amounts for each reporting segment**

Millions of yen

	Reporting segments				Other Operations (Note 1)	Total	Adjustment (Note 2)	Quarterly Consolidated Statements of Income amount (Note 3)
	Aderans Business	Fontaine Business	Bosley Business	Overseas Wig Business				
Sales								
External customers	19,133	6,100	6,214	3,691	2,388	37,528	—	37,528
Inter-segment	—	—	—	6	1,876	1,883	(1,883)	—
Total	19,133	6,100	6,214	3,698	4,265	39,411	(1,883)	37,528
Segment income (loss)	5,466	2,192	474	(118)	(273)	7,742	(4,768)	2,973

- Notes:
1. The classification “Other Operations” represents business segments not included under other reporting segments and is the beauty supply route business, medical-use wig business and electronic commerce business.
 2. The ¥ (4,768) million segment income (loss) adjustment includes ¥ 23 million in inter-segment elimination and ¥ (4,791) million in corporate expenses not included in any segment. Primary corporate expenses are general administrative expenses which are not associated with reporting segments.
 3. Segment income has been reconciled with operating income on the quarterly Consolidated Statements of Income.

2. Information regarding impairment loss and goodwill on fixed assets for each reporting segment

Not applicable.

II. First Three Quarters of Fiscal 2014 (March 1, 2013 through November 30, 2013)**1. Information related to sales and profit or loss amounts for each reporting segment**

Millions of yen

	Reporting segments				Other Operations (Note 1)	Total	Adjustment (Note 2)	Quarterly Consolidated Statements of Income amount (Note 3)
	Aderans Business	Fontaine Business	Bosley Business	Overseas wig Business				
Sales								
External customers	20,700	6,400	6,916	12,121	2,224	48,362	—	48,362
Inter-segment	—	—	—	—	2,354	2,354	(2,354)	—
Total	20,700	6,400	6,916	12,121	4,578	50,717	(2,354)	48,362
Segment income (loss)	5,594	1,344	243	(935)	(551)	5,694	(3,819)	1,874

- Notes:
1. The classification “Other Operations” represents business segments not included under other reporting segments and is the beauty supply route business, medical-use wig business and electronic commerce business.
 2. The ¥ (3,819) million segment income (loss) adjustment includes ¥ 119 million in intersegment elimination and ¥ (3,939) million in corporate expenses not included in any segment. Primary corporate expenses are general administrative expenses which are not associated with reporting segments.
 3. Segment income has been reconciled with operating income on the quarterly Consolidated Statements of Income.

2. Matters regarding changes in reporting segments

Previously, the Company had three reporting segments—the Aderans Business, the Fontaine Business and the Bosley Business—but from the first quarter of fiscal 2014, a fourth segment—the Overseas Wig Business—has been added.

This change reflects a review of overseas subsidiaries according to performance results, prompted by the addition of HC (USA) Inc. to the Group as a subsidiary from the first quarter of fiscal 2014.

Also, the beauty supply route, which previously fell under the Fontaine Business, is now under Other Operations due to organizational changes.

Segment information for the corresponding quarter of fiscal 2013 is reflected under the new segment names.

3. Information regarding impairment loss and goodwill on fixed assets for each reporting segment

Not applicable

(5) Notes on significant changes to shareholders' equity

Not applicable