Aderans Holdings Co., Ltd.

Annual Report
2010
Year ended
February 28, 2010

On September 1, 2010, we open a new corporate chapter as Unihair Co., Ltd.

Contents

The Aderans Group, headquartered in Tokyo, Japan, utilizes more than 40 years of expertise in hair-related businesses to provide a comprehensive selection of hair-related products and services to customers around the world. On September 1, 2010, the Group embarks on a new chapter in its corporate history under a new structure and a new name: Unihair Co., Ltd.

Cautionary Statement with Respect to Forward-Looking Statements

This annual report has been prepared for non-Japanese investors and contains forward-looking statements that are based on management estimates, assumptions and projections at the time of publication. Aderans Holdings cautions you that a number of factors could cause actual results to differ materially from expectations.

Why invest in us?

√ Comprehensive Hair-Related Solutions

As a group, we are engaged in the manufacture and sale of men's and ladies' custom-made and ready-made wigs and hair-volumizing products. We provide healthy hair-growth services for men and women as well as hair transplants and other hair-related products and services. The wig business was our starting point and still forms the core of the comprehensive hair-related solutions we offer today, exemplified by an extensive range of wigs to meet every need, from high fashion to medical use.

√ Global Brands

As of March 31, 2010, the Group maintains a presence in 16 countries, in North America, Europe and Asia. Showcased by *Aderans* for men and *Fontaine* for women, our wig business has captured the biggest slice of the domestic pie, while Bosley, Inc., enjoys the No.1 spot in the North American hair-transplant market.

√ Leading Technology

Innovative artificial hair technology has earned the Group a stellar reputation for quality worldwide. A prime example is Aderans Vital Hair, which was developed in-house. Our reputation is further enhanced by the world-leading research undertaken at Aderans Research Institute, Inc. (ARI), on hair regeneration. The institute is working toward commercialization of a marketable technique and is currently engaged in Phase 2 of clinical trials.

Wigs

ADERANS
FONTAINE
LOVES CHANGE
NORIKO
René of Paris
Rafra
先頭 SENTOO COLLECTION
VALAN
Cyberhair

Hair Transplants

BOSLEY

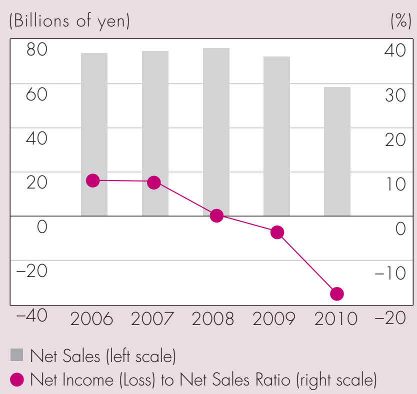
Consolidated Financial Highlights

Aderans Holdings Co., Ltd., and Consolidated Subsidiaries
For the years ended February 28, 2010 and 2009

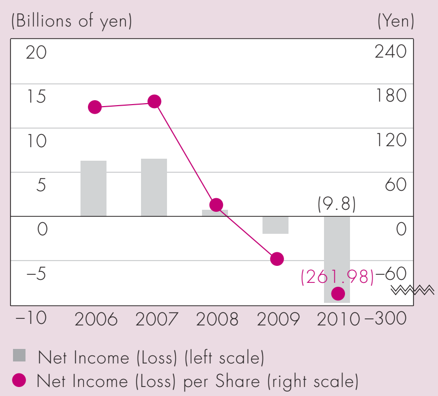
	Millions of yen			Thousands of U.S. dollars
	2010	2009	% change	2010
Net sales	¥ 57,355	¥70,463	– 18.6%	$641,349
Operating income (loss)	(5,264)	2,508	—	(58,872)
Net loss	(9,851)	(2,172)	—	(110,153)
PER COMMON SHARE AMOUNTS (yen and dollars):				
Net loss	¥(261.98)	¥(56.11)	—%	$ (2.92)
Cash dividends applicable to the year	—	20.00	– 100.0	—
Total assets	¥63,369	¥76,102	– 16.7%	$708,593
Net assets	49,418	61,344	– 19.4	552,595
Net cash provided by (used in) operating activities	(1,886)	1,963	—	(21,096)
Depreciation and amortization	2,501	2,836	– 11.8	27,972
Capital expenditures	2,536	2,375	+ 6.8	28,368
OTHER YEAR-END DATA:				
Number of shares outstanding (thousand)	36,809	38,718		
Number of employees	5,102	5,892		

Note: The U.S. dollar amounts represent the arithmetical results of translating yen into U.S. dollars at the rate of ¥89.43 to US$1.

Net Sales and Net Income (Loss) to Net Sales Ratio

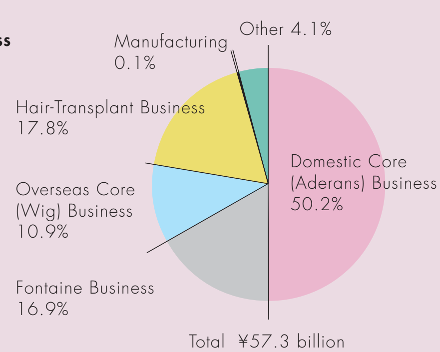


Net Income (Loss) and Net Income (Loss) per Share



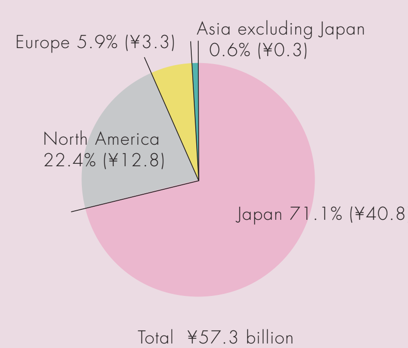
Return on Assets and Return on Equity

Sales by Business Segment 2010



Sales by Region 2010

(Billions of yen)



Note: The above figures exclude intersegment transactions.

We Have Embarked on a Process to Reinvigorate Operations, Resume Growth and Take a Position on the World Stage as the No.1 Provider of Total Hair-Related Solutions.

As this is my first printed message to stakeholders, allow me to introduce myself. My name is Tadao Otsuki, and I assumed the position of president at Aderans Holdings on December 1, 2009.

In regard to business results, I must convey disappointing progress in fiscal 2010, ended February 28, 2010. On a consolidated basis, the Company posted net sales of ¥57,355 million and a net loss of ¥9,851 million. Regrettably, this performance precluded the distribution of year-end dividends.

But the Aderans Group has been working hard to remedy the situation, and I sense that drastic management reforms designed to achieve higher corporate and shareholder values are having the desired effect.

Impact of Management Reforms

"We are beginning to see a shift toward recovery through strategies that emphasize the core business."

The Aderans Group has been stuck in a performance slump since fiscal 2002. The main reasons for this prolonged downturn were insufficient market analysis—and thus inadequate marketing strategies—as well as misguided distribution of management resources into noncore operations. Despite these issues, the technological capabilities and brand power associated with the Group's core hair-related businesses remained at a world-class level. I firmly believe that appropriately executed strategic management will lead us back to a trend of steady growth.

In fiscal 2010, we scrutinized the market situation and executed management reforms aimed at redirecting activities back to our core business and eliminating noncore assets and noncore operations. Key moves included the disposal of the unprofitable golf and beauty salon businesses. In addition, the Board of Directors decided that the Company would absorb the operations of its core domestic subsidiaries Aderans Co., Ltd., and Fontaine Co., Ltd., which focus on the sale of wigs to men and women, effective September 1, 2010.

Unihair Co., Ltd., Management Team

As of September 1, 2010

Board of Directors

Chairman
Nobuo Nemoto

President and Chief Executive Officer
Tadao Otsuki

Executive Vice President and Chief Financial Officer
Shigeru Ishiko

Director and Senior Advisor
Nobuo Watabe

Director and General Manager, Western Japan Sales Division
Senkichi Yagi

Director and General Manager, Eastern Japan Sales Division
Kunio Ie

Outside Director
Hironori Aihara
Hiroko Wada
Seitaro Ishii
Joshua Schechter

Corporate Auditors

Standing Corporate Auditor (Outside Corporate Auditor)
Masatoshi Fujisawa

Outside Corporate Auditor
Norio Omori
Masaaki Katagiri
Iwao Toigawa

Executive Officers

Executive Officer, Sales Development Division
Tsutomu Isogai

Executive Officer, Legal Affairs and Corporate Communications Office
Kosuke Mochizuki

Executive Officer, ARI Integration Project
Mutsuo Minowa

Executive Officer, Marketing Division
Yuji Hirahara

Executive Officer, Domestic Marketing Division
Yoshihiro Tsumura

Executive Officer, Corporate Planning Division
Hiroaki Matsubara

Executive Officer, Internal Audit Office
Misaki Shimada

Executive Officer, Supply Chain Management Division
Norihiko Ishiodori

Executive Officer, Human Resources Office
Hisatake Kanazawa

In preparation for this major transformation, the head office was relocated in May 2010. Meanwhile, brand logos for men's and ladies' wigs were redesigned and new marketing strategies were put in place to strengthen domestic operations. These efforts are already delivering good results, most notably an increase in new clients that is in turn supporting some improvement in sales and profits.

Overseas, in the United States we integrated Bosley and MHR, Inc., two subsidiaries involved in the hair-transplant business, and restructured local wig operations by merging five wig companies into the newly established Aderans Hairgoods, Inc.

Management Plan and Targets to Reach by 2012

"We will establish three core brands in the global market."

Over the next three years to February 2013, our goal is to rebuild businesses at home and abroad to set the stage for a solid return to growth.

To make the integration of Aderans Holdings, Aderans and Fontaine as effective as possible, we will blend respective corporate cultures, and promote understanding and acceptance of the new corporate format to achieve success. We will also strive to make management practices more efficient and we will strictly enforce new marketing strategies.

Overseas, we will create a regional headquarters structure to centralize supervision of operations in Europe and North America while seeking higher profitability from underperforming locations in Asia, particularly Taiwan, Thailand and South Korea.

From a more long-term perspective, we will selectively invest in growth markets and growth fields. Toward this end, we have embarked on full-scale efforts to establish a presence in China and eagerly await the opening of our flagship salon in Shanghai in September 2010. Meanwhile, in the United States we are eyeing commercialization of the hair-regeneration technique developed by ARI and will define a new business model for the men's market that utilizes the Bosley brand to provide one-stop solutions for men who are concerned about hair loss.

Through these measures, we anticipate a swift return to profitability no later than February 2013, targeting net sales of ¥70 billion with a ratio of net sales to operating income of 8%. Aside from these measurable targets, over the medium to long term we aim to develop operations on a worldwide scale under a global, integrated brand strategy that showcases Aderans for men's wigs, Fontaine for ladies' wigs, and Bosley for the hair-transplant business. Progress, in huge strides, will turn the Group into a truly global organization.

New Company Name

"Unihair is short for 'universal hair', in that our approach to hair transcends borders of all kinds."

As I mentioned earlier, Aderans Holdings will absorb Aderans and Fontaine, effective September 1, 2010, and begin anew as Unihair Co., Ltd.

Unihair is short for "universal hair" and embodies the idea of new hair-related products with the potential for widespread appeal to consumers regardless of gender, unrestricted by differences in culture, language and nationality, and oblivious to disability and skill set.

The books for fiscal 2011 will close under a new corporate name. For Unihair's first fiscal year, all executives under the Group umbrella will work as a single unit, implementing management reforms to build the new business model that will enable the Company and the Group it leads to become the world's No. 1 provider of total hair-related solutions,

On behalf of the Board of Directors and everyone under the Group umbrella, I ask for the continued support and understanding of shareholders, investors and business associates. As stakeholders, you play an integral part in our success.

August 2010

Tadao Otsuki
President and CEO, Aderans Holdings Co., Ltd.

Summary of Management Reform Plan

First Stage From June 2009 to February 2010	Return to core operations and dispose of noncore operations and associated assets Identify and address problem areas in Domestic Core Business Analyze the business structure that has underpinned operations for 40 years and shift toward a business model designed to boost profits. • Enhance marketing strategy • Correct deviation from established in-house practices for sales to repeat clients. • Dispose of noncore operations and noncore assets.
Second Stage From March 2010 to February 2011	Make Group management more transparent and enhance management efficiency **Primary measures executed by September 1, 2010** 1. Action plan to improve domestic core business • Integrate operations through a three-company merger (the Company, Aderans Co., Ltd, and Fontaine Co., Ltd.), and change company name to Unihair Co., Ltd., effective September 1, 2010. • Relocate head office—in May 2010—to facilitate the creation of a global headquarters and make three-company merger as effective as possible. • Introduce a new personnel evaluation system and a stock option system 2. Restructure and improve unprofitable overseas business • Bring all head offices in North America under one roof by relocating the Group's New York head office, Bosley's hair-transplant business, and local wig companies into the new Bosley head office. **Ongoing primary measures** • Improve profitability at Aderans-brand outlets in Taiwan, South Korea and Thailand. 3. Implement thorough, companywide cost-cutting projects

Issues Requiring Resolution during the current medium-term plan

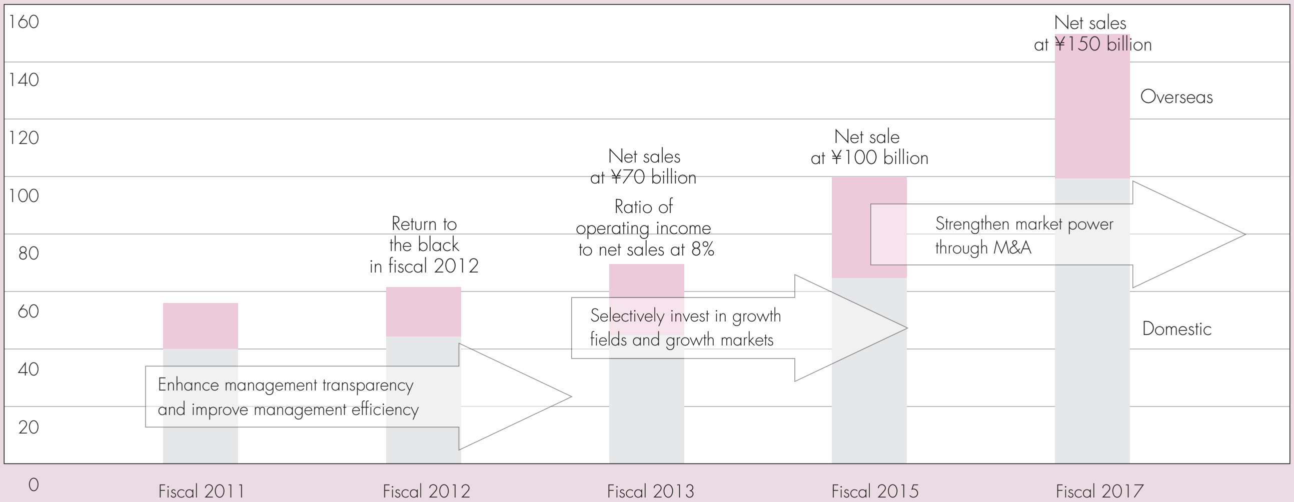
Plan Goals From March 2010 to February 2013	1. Restructure domestic operations and return the segment to growth status • Transform the corporate culture and promote personal awareness of corporate issues through integration of Aderans Holdings, Aderans and Fontaine. • Achieve a thorough improvement in management efficiency. • Strengthen brand power with continued application of new marketing strategy. 2. Restructure overseas operations and return the segment to growth status • Create supervisory function for overseas operations. • Execute business realignment in each region. 3. Establish global integrated brand strategy • Aderans for men: Halt the dwindling number of clients • Fontaine for women: Consolidate global ladies' brands without duplication • Bosley for the hair-transplant business: Promote Bosley in Japan, China and Europe

Our Targets

We aim to return to a position of profit as quickly as possible by making steady progress on key strategies.

Performance Targets for the Group

Billions of yen



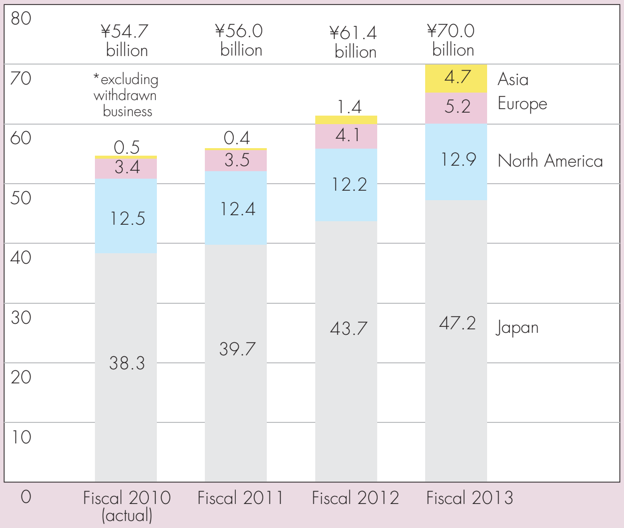
Billions of yen

		Fiscal 2010* (actual)	Fiscal 2011 (forecast)	Fiscal 2012 (forecast)	Fiscal 2013 (forecast)
Net sales	Asia	0.5	0.4	1.4	4.7
	Europe	3.4	3.5	4.1	5.2
	Unites States	12.5	12.4	12.2	12.9
	Japan	38.3	39.7	43.7	47.2
	Total	54.7	56.0	61.4	70.0
Operating Income		(5.3)	(2.9)	0.6	5.6
EBITDA		(2.9)	(0.3)	3.8	8.4
ROE (%)		—	—	1%	8%

*Excluding withdrawn business

By Region

Billions of yen



By Brand

Billions of yen

Global Integrated Brand Strategy

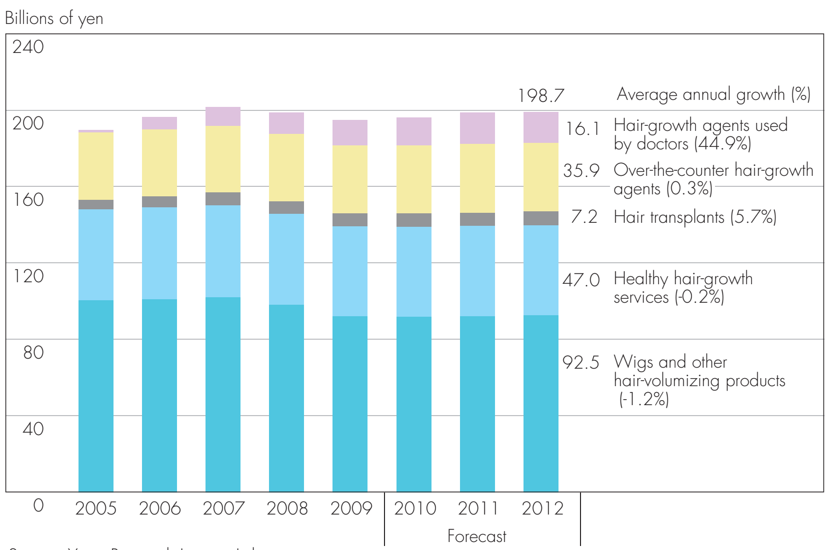
ADERANS for men

The Best Artificial Hair in the World

Respected Brand in Japan

We offer Aderans hair-volumizing products, primarily high-quality custom-made wigs, as well as services to promote hair growth and maintain healthy hair. The Aderans brand is well established in the domestic market, to the extent that the name is synonymous with men's custom-made wigs. In December 2009, the brand was redefined, with a men's-only focus, and the logo was redesigned.

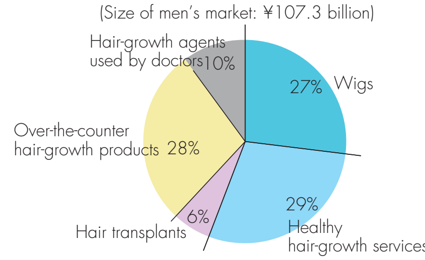
Trends in the Hair-Related Markets



Source: Yano Research Institute Ltd.

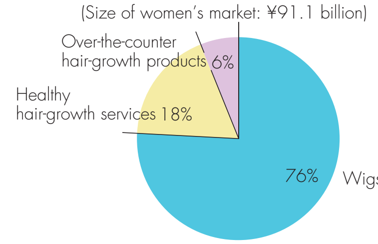
Market Composition (Men) in 2008

(Size of men's market: ¥107.3 billion)



Market Composition (Women) in 2008

(Size of women's market: ¥91.1 billion)



First-Class Quality

Aderans Vital Hair

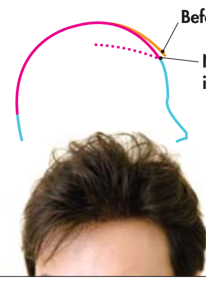
Aderans applied the latest in biomimetic technology to create a lightweight, breathable artificial hair even more like natural hair than proprietary Cyberhair, itself incredibly similar to real hair.

Aderans Hair Club RF Series

Marketed under the catchphrase "Even the professionals can't tell," Aderans Hair Club RF wigs create such a natural appearance—not only in the hair but also in the look of the hairline, scalp and hair follicles—that no one would guess the man is wearing a wig, not even up close.

Before proprietary inline curve processing

Natural-looking hairline achieved with proprietary inline curve process



Each hair strand is embedded by hand into an ultrathin base just 0.05mm thick

Regular wig netting

Skin-like netting of Aderans

Fresh Take on Conventional Ads: Who's the Aderans Guy?

Hair loss can be a devastating blow to a man's self-confidence, so direct marketing and other company-initiated sales methods may not be well received. Selling wigs to men is therefore a tricky process that tends to get off to a more favorable start when potential clients contact us for advice. For this reason, advertising and promotional campaigns, particularly television commercials, are integral to our marketing strategy, as they pique interest and encourage men to place that all-important call to us.

Aderans Hair Club: Flat-Fee Membership System in Japan

When it debuted several years ago, Aderans Hair Club was seen as a revolutionary marketing strategy—a membership system for the domestic men's wig market in which clients pay a flat annual fee for a wig and associated services. The fee, which varies by wig size, starts at ¥14,800 per month and covers wig maintenance and regular haircuts by specially trained barbers. Should a product become damaged, members may exchange the product at no charge.

The system serves two purposes. For consumers, who tend to think of custom-made wigs as an expensive investment, the flat fee structure is a financially less-stressful option for men unaccustomed to wigs and wig-wearing care and maintenance. For us, the system is a key marketing strategy because it attracts the attention of new male clients and, we hope, leads to repeat business.

FONTAINE for women,

Source of Growth for the Group

Domestic Ladies' Brands Integrated under *Fontaine*

Through 56 Fontaine Couture salons in Japan, as of July 31, 2010, we offer Fontaine hair-volumizing products, primarily high-quality custom-made and ready-made wigs, as well as services to promote hair growth and maintain healthy hair. Ready-made wigs are also available through 175 Fontaine salons in Japan.

The women's market is a strategic segment with considerable growth potential. For this reason, in November 2009, we brought our two market-leading brands for women in Japan—custom-made *Ladies' Aderans* and ready-made *Fontaine*—under the *Fontaine* banner, and redesigned the logo.

Ladies' custom-made wigs and ready-made wigs had been marketed separately, with *Ladies' Aderans* available at directly operated salons in the *Aderans* network and *Fontaine* available at directly operated salons in the *Fontaine* network as well as at department stores and beauty salons. Each brand enjoyed the No. 1 spot in its respective market category. But now, with all ladies' wigs integrated under a single brand, quality and fashion criteria are more consistent and all ladies' salons have access to the full range of custom-made and ready-made wigs. This capability ensures a better response to diverse customer requirements.

New in December 2009: Fontaine Fluffy Attracting Wider Interest Typically, sales to women aged 60 and older have accounted for a significant percentage of overall sales. But as a revitalized brand, *Fontaine* will feature a more extensive selection of wigs to suit a wider range of age groups. This diversity will cater to women who are constantly searching for fresh and stylish products to enhance their appearance.

40s 50s 60s

Reinforcing the Wig Business through Beauty Salons As part of the Company's new policy to streamline non-core operations under the Aderans Group umbrella, in February 2010, Aderans Holdings divested itself of its equity stake in Samson Co., Ltd., which operates a chain of beauty and hairdressing salons. Notwithstanding the end of the capital alliance, Samson will maintain its business alliance with the Aderans Group and continue to sell wigs and other products at its salons.

Until recently, custom-made *Ladies Aderans* were sold exclusively through directly operated salons. But greater effort will be made to utilize the marketing relationship with Samson to boost sales of custom-made wigs through beauty salons.

Domestic Salon Network

As of February 28, 2009

Aderans salons selling men's and ladies' custom-made wigs

\+

Fontaine salons selling ladies' ready-made wigs

From December 2009

Aderans salons selling men's custom-made wigs

\+

Fontaine salons selling ladies' wigs
Fontaine Couture selling ladies' custom-made and ready-made wigs
Fontaine selling ladies' ready-made wigs

New Salon Strategy, *Fontaine Couture*

All across Japan, the old salon structure for *Ladies Aderans* and *Fontaine* is being revamped. Previously, *Aderans* sold custom-made wigs for women in the same directly operated salons that catered to men in nondescript multi-tenant buildings, and *Fontaine* sold ready-made wigs at directly operated salons and department stores. But with the women's market tapped as a strategic growth segment, Aderans Holdings aims to expand the salon network over the next three years, to February 2013, with an emphasis on new-concept *Fontaine Couture* salons featuring ladies' custom-made and ready-made wigs.

Diversifying Our Customer Base in Japan

We have gradually expanded our product range and our target customer groups.

Full-Scale Entry into the Medical-Use Wig Market

The latent market for medical-use wigs is expanding everywhere, Japan included, owing to an overall increase in the number of people fighting cancer and subsequently troubled by the hair loss that typically accompanies treatment, particularly anticancer drugs and radiation therapy. In response, the Aderans Group made a full-scale entry into the domestic medical-use wig market in July 2010. The current emphasis is on ladies' wigs, with the ready-made Rafra available at Fontaine salons and the custom-made Rafra Aifit available at Fontaine Couture salons.

Previously, the Group's participation in the medical-use wig market was more philanthropic, aimed at contributing to society through provision of wigs. A prime example of our efforts is the Aderans Love Charity campaign, which was launched in 1978 as a way to donate custom-made wigs to children up to the age of 15 who had lost their hair through injury or illness. For more than 30 years, the underlying concept of this campaign has been to prevent the physical trauma of hair loss from becoming an emotional scar as well.

Appealing to Fashion-Sensitive Young Women

Girls—tweens and teenagers—and women in their 20s see ready-made wigs, such as Poste (postiches, or small hairpieces) as fashion accessories and would gladly make a purchase if the prices were within their budgets. In fiscal 2008, Fontaine opened a new salon network—Loves Change—offering lower-priced items to capitalize on latent demand. So far, four locations are in operation, in Tokyo, Osaka, Kyoto and Fukuoka.

LOVES CHANGE

(Photo by Atsutoshi Shimosaka)

Studio AD: High Reputation in Performing Arts Circles

Taking advantage of an opportunity to produce custom-made wigs for the domestic run of the popular musical *CATS* (produced by SHIKI THEATRE COMPANY), Aderans put together a specialty team—Studio AD—in 1985. Since then, we have been involved in many musicals and high-profile productions, in the areas of wigs, costume design and special makeup.

Restructuring the Overseas Wig Business

We will establish regional headquarters in Europe and the United States and accelerate efforts in growth markets.

NORIKO®

René of Paris®

VALAN®

In the United States

The Group's wig businesses in the United States distribute men's and ladies' custom-made and ready-made wigs through wholesale and retail channels.

Five consolidated subsidiaries—General Wig Manufacturers, Inc., René of Paris, International Hairgoods, Inc., New Concepts Hair Goods, Inc., and Aderans Retailing Company, Inc.—were merged and then absorbed by the newly established Aderans Hair Goods, Inc., as of November 2009. Concurrently, headquarters and warehousing divisions were brought under one roof and integrated. Efforts are now under way to streamline the selection of ladies' wig brands.

In the medium term, we are considering wider efforts in fashion wig retailing for women and one-stop solutions hinging on Bosley's hair-transplant business for men in the United States. We are also exploring the possibility of developing operations in South America.

In Europe:

France, Germany, Belgium, the Netherlands, United Kingdom, Sweden

先頭

SENTOO COLLECTION

As of July 31, 2010, eight subsidiaries marketed men's and ladies' custom-made and ready-made wigs through wholesale and retail channels in six European countries. The Sentoo Collection, a pan-European brand, has garnered a favorable response.

We are preparing to establish a European headquarters that will centralize marketing capabilities and we are promoting a review of ladies' brands and constituent products with a view toward a more streamlined selection.

In the medium term, our efforts will mirror those in the US market: an expansion of fashion wig retailing for women and an emphasis on one-stop solutions hinging on Bosley's hair-transplant business for men. We may also enter markets where we have previously not had a presence.

In Asia, excluding Japan:

Taiwan, China, Thailand, the Philippines, Singapore, Malaysia, South Korea

As of July 31, 2010, the network in Asia, excluding Japan, comprised seven companies marketing men's and ladies' custom-made and ready-made wigs through wholesale and retail channels in seven countries and territories. The Group also maintains three wig production facilities, in Thailand and the Philippines.

We are working to turn results around at unprofitable salons in Taiwan and South Korea. We are also preparing for a full-scale push into China, with a regional headquarters there, and will utilize the September 2010 opening of a flagship salon in Shanghai to launch expansion of our ladies' fashion wig business. Over the three years to February 28, 2013, we expect to establish a nationwide salon network in China.

Shanghai new store

Group Production Bases

Aderans Thai. ltd., World Quality Co., Ltd., and Aderans Philippines, Inc., are world-class facilities with aggregate production volume of 976,972 units as of February 28, 2010.

Aderans Philippines wins Clark Award 2010 Presented by President Gloria Macapagal-Arroyo

In April, 2010, Aderans Philippines, Inc., a production facility under the Group umbrella, was honored with an Overall Performance Award at the 2010 Clark Awards on April 21, 2010. This now-annual event spotlights outstanding achievements by overseas companies with a presence at the Clark Freeport Zone, a special economic zone northwest of Manila, on the island of Luzon.

Aderans Philippines was one of just six companies selected from among about 400 tenants at Clark Freeport, including business offices, service providers, commercial and industrial operations and government agencies, for overall excellence in the areas of employment, human resource management, environment practices, investment performance and health management.

Hiroaki Oshima, general manager of Aderans Philippines, accepts a trophy and certificate from Gloria Macapagal-Arroyo, president of the Philippines.

BOSLEY for the Hair-Transplant Business

Vital Component in Total Hair-Related Solutions

Merger of Bosley and MHR

The Group's hair-transplant business hinges on Bosley, which enjoys top share in the U.S. market, and No. 2-ranked MHR, which came under the Group umbrella in 2007. The two subsidiaries merged in May 2010, with Bosley the successor company. To enhance operating efficiency, call center operations have been shifted abroad and unprofitable locations have been closed.

Approaches Abroad, including Japan

Bosley will look for opportunities to tie its services to men's wigs offered by Group companies in the United States. In the future, we expect Bosley to connect its services to the hair-regeneration technique currently being tested by ARI.

This integrated effort will facilitate a new business model underpinned by Bosley—a one-stop solution structure—that provides men concerned about hair loss with easy access to a diverse menu of hair-volumizing options using wigs, hair transplants and/or hair regeneration.

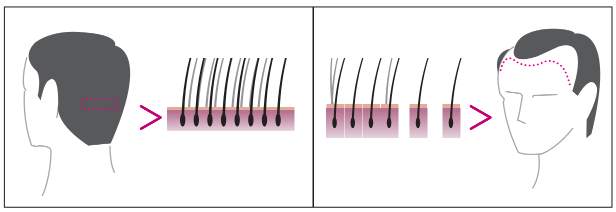
Looking to promote global development of the one-stop solution, Bosley will also pursue similar alliances with Group companies in Europe and Asia, including Japan.

R&D

What's the difference between hair transplants and hair regeneration?

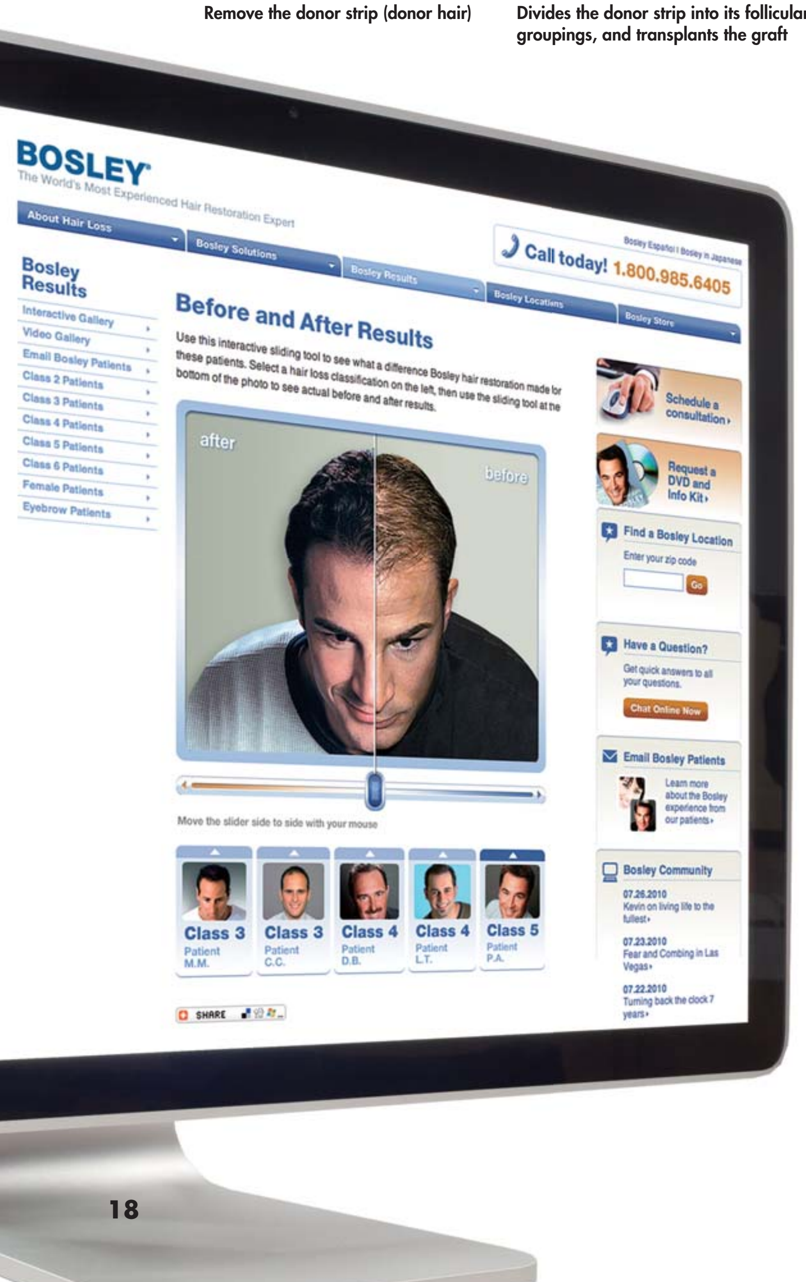
Hair Transplants

A surgical procedure whereby a doctor removes thin strips of the patient's scalp with healthy hair roots and relocates the follicle-bearing skin to areas of hair loss.



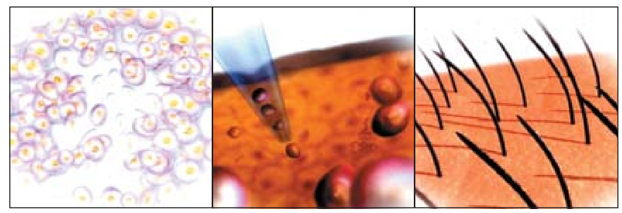
Remove the donor strip (donor hair)

Divides the donor strip into its follicular groupings, and transplants the graft



Hair Regeneration

A medical technique that involves the cultivation of a small quantity of hair follicle cells—the cells that produce hair roots—for injection into the scalp.



Culturing **Injection** **Hair regrowth**

In the past, hair restoration has been accomplished by pharmacology—essentially, medication—to promote hair growth, or by surgery—that is, hair transplants. Internally metabolized agents may slow the thinning of hair but they will not generate new growth. Meanwhile, hair transplants require donor hair with healthy roots to be removed from the patient's own scalp and relocated to areas where hair is thin or the scalp is completely bald. It is a process limited by the amount of donor hair available for redistribution, and even then, transplanted hair will not regenerate indefinitely.

ARI's hair regeneration method is different. Hair-forming cells are extracted from the patient's scalp and cultivated under controlled conditions. After enough cells have formed, they are injected back into the patient's scalp, making it possible for hair to grow again over bald or thinning areas and providing a potentially unlimited source of new hair growth.

The Potential of Hair Regeneration

- For consumers: Doctors will have access to an early treatment for patients with hair loss.
- For the Group: We will have an alternative for people who have tried cosmetic and dermatological treatments and conventional hair transplants without satisfactory results.

Source: U.S. hair-regeneration market data

By the age of 50, nearly half of all men and women in the United States—about 60 million people—are concerned about hair loss.

The market for hair loss solutions, mainly hair transplants, hair-volumizing products and oral medication, is worth about $1.3 billion annually.

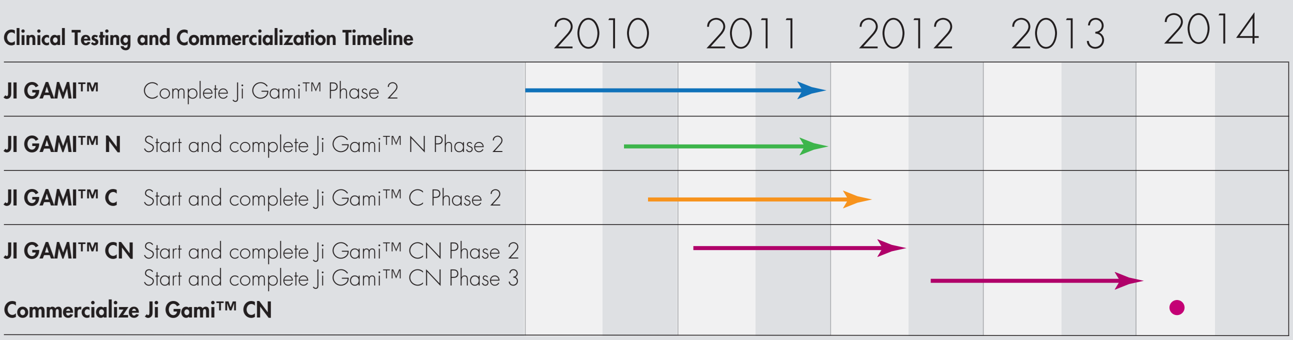
What Is Aderans Research Institute?

ARI

ARI was established in 2002 in the United States with facilities in Atlanta and Philadelphia. As a biotechnology company under the wing of Bosley, ARI pursues studies on hair regeneration through cell cultivation.

Ji Gami™, ARI's cellular hair regeneration method, takes its name from the Japanese words meaning "one's own hair." The method has been in Phase 2 clinical testing for men and women since April 2009. The company has accumulated encouraging results though Phase 2 trials and expects a marketable technique will be available after 2014.

Clinical Testing and Commercialization Timeline



Hair Regeneration: The Focus of Aderans Research

Ken Washenik, MD, PhD

Executive Vice President, Scientific and Medical Development, Aderans Research Institute

In its efforts to address hair loss, Aderans Research takes a tissue engineering approach aimed at creating new hair follicles. Two primary cell types in the hair follicle—fibroblasts and keratinocytes—are extracted and allowed to grow in the laboratory. Once multiplied, they are recombined into, essentially, a hair seed—a follicle progenitor—that can create a new hair follicle when placed back into the skin.

The Aderans Group in Society

A common thread that runs through our corporate fabric as a globally active provider of comprehensive hair-related products and services is the return of corporate value back to society.

Love Charity Campaign

An obvious example of our commitment to doing good for society is the gift of Aderans' custom-made wigs to children who have lost hair due to sickness or injury.

In October 2010, the Company will launch its 26th installment of the Love Charity Campaign for 200 children aged four to 15 who need a wig because they have lost their hair due to some sort of trauma. Custom-made wigs will be provided free of charge, and winners will be notified by Christmas card, scheduled for delivery on December 24, 2010.

Including the 2010 event, the Love Charity Campaign has been held 26 times since 1978. Through the years, the Aderans Group has seen many children who have lost hair for many reasons, including radiation and drug therapy and the circular loss of hair, known by the medical term alopecia areata. In many cases, children suffer not only physically, from whatever event caused them to lose their hair, but also emotionally because their appearance has changed. The underlying concept of the Love Charity Campaign has always been to prevent the physical trauma of hair loss from becoming an emotional scar as well.

Aderans Love Charity Campaign

Environmental protection and quality control at Aderans Thai and World Quality

Aderans Thai and World Quality were quick to tackle environmental protection and quality control issues. In 1999, the International Standards Organization certified both production facilities with ISO 14001 for environmental protection systems and ISO 9001 for quality control.

Major environmental protection efforts at Aderans Thai and World Quality

- Prevention of water pollution by factory wastewater
- Prevention of air pollution within the facility
- Ensuring safe processing of industrial waste
- Promoting effective use of available resources
- Improving working conditions within the facility

Basic Policy

Aderans Holdings actively works to enhance corporate governance. Therefore, particular effort has been directed toward the establishment of a flexible organization primed for speedy decisions on business strategies and their implementation, and the execution of clear, timely and impartial disclosure of corporate information on business activities to all stakeholders.

Status

Internal structures pertaining to the formation, execution and supervision of decisions by the executive team are described below.

Corporate Structure

Aderans Holdings maintains a corporate auditor system. Under this system, three executive teams are responsible for ensuring that business activities are undertaken in accordance with prevailing laws and the Company's Articles of Incorporation.

The transition to a holding company structure in September 2007 clarified responsibility for making decisions and implementing them.

The Company never adopted a company-with-committees structure. However, seeking to enhance the function of the Board of Directors, management established advisory committees, including the Personnel/Compensation Committee and the Compliance/Governance Committee, to underpin stronger governance capabilities.

Board of Directors

Chaired by the president, this highest decision-making authority on business strategies meets once a month to discuss key matters of business and determine responses necessary to move ahead.

The president or the director responsible for the business activity in question will ensure that appropriate steps are taken to execute proposed measures.

Board of Corporate Auditors

The Board of Auditors comprises four corporate auditors, including one full-time auditor and outside auditors, who get together on the days the Board of Directors has met to exchange opinions on progress made by directors in the execution of their duties and the status of operations under respective responsibility. At the Board of Auditors' meeting, the full-time auditor presents various updates, including reports on the content of topics explored in significant meetings other than the Board of Directors' meeting, and the results of cooperation with the Internal Audit Basic Policy Office. As a group, the Board of Auditors discusses the information brought to the table by the full-time auditor.

Group Management Committee

In addition to the Board of Directors and the Board of Auditors, the Company maintains another committee that supports multifaceted investigation of issues relevant to the execution of operations.

Chaired by the president, these committee meetings are attended by directors responsible for executing operations of the Company and its core operating companies. The full-time auditor is also present. Meetings take place regularly and provide opportunities for directors to get updates on actual business activities and to confirm the content of reports with other members. When necessary, general managers will be invited to provide progress reports on activities in their respective divisions. General managers may also be asked to clarify new business proposals, which committee members will evaluate in terms of feasibility and legality as well as potential interest to clients and acceptance to society in general. These meetings function as a barometer, gauging the level of consensus among directors in attendance on management decisions.

The Group Management Committee also meets a week before Board of Directors' meetings to select the agenda for discussion at those meetings and to engage in preliminary discussions of selected agenda items to confirm their validity under prevailing laws and Articles of Incorporation and to ensure that the Group's activities are not of an antisocial inclination.

Outside experts are called for their opinions, when specialized knowledge is required.

Personnel/Compensation Committee

The Personnel/Compensation Committee has three members: two outside directors, one of whom heads up the committee, and one director. The committee meets regularly on a monthly basis and, when necessary, invites executive officers responsible for specific operations to participate in discussions.

The committee prepares reports and other status updates on matters relating to compensation to Company directors and executive officers and subsidiaries' executives as well as matters relating to personnel systems. Suggestions and updates on any conclusions are provided to the Board of Directors.

Compliance/Governance Committee

The Compliance/Governance Committee has four members: one outside director, who heads up the committee, and three directors. The committee meets regularly on a monthly basis and, when necessary, invites executive officers responsible for specific operations to participate in discussions.

The committee ensures thorough compliance, based on the Group's code of conduct, promotes measures for early detection of risk, raises awareness of compliance issues, verifies the appropriateness and effectiveness of duties allocated and performed by the Board of Directors and the Group Management Committee, and advises the Board of Directors and the Group Management Committee on compliance and governance issues.

The committee is also responsible for reassessing the existing compliance and governance structures and inherent processes and reshaping them, and for providing the Board of Directors with suggestions and updates on the content of any conclusions.

Internal Controls

The Board of Directors determines basic policy for internal controls, in accordance with the Company's stated business philosophy and business direction. Policy content is presented below.

Ensuring that the activities of directors and staff conform to prevailing laws and the Company's Articles of Incorporation

Activities are guided by a level of ethics and values demanded by society, based on respect for the law, of course, as well as corporate philosophy and the business parameters of the Group.

Decisions on important matters pertaining to subsidiaries that impact the Company or the Group as a whole are formed through discussions by the Group Management Committee, in line with established rules governing duties and powers.

The Company relies on its directors to undertake their respective duties in good faith, but audits by corporate auditors will verify that said duties have been executed lawfully.

Custody and management of information related to directors' duties

Information relating to the execution of duties will be stored and maintained in line with rules governing the handling of information assets. The paper or electronic documents to be kept are listed below, and the custody period will be based on times set forth in the Company's rules for document management.

- Minutes from the general shareholders' meeting and related materials
- Minutes from Board of Directors' meetings and related materials
- Minutes from meetings chaired by directors and related materials
- Key documents relating to other executive duties
- Internal memos passed around to directors to obtain overall approval of a decision

Directors and general managers will provide these documents whenever an auditor, or someone working on an audit at the instruction of an auditor, asks to look at or copy a document deemed necessary to the audit.

Ensuring efficient execution of directors' duties

The president will require all directors to execute their duties, based on a division of duties and in line with the authority allocated to directors to undertake said duties.

Important matters that impact the operations of the Company or the Group as a whole will be clarified by directors or general managers at regularly scheduled Group Management Committee meetings with participating directors in attendance. If an obstacle to the efficient execution of duties exists, a solution will be presented to the appropriate executive forum.

Other measures to control risk leading to losses

To preempt the appearance of risk leading to losses that would impede sustainable corporate development, the Company has established a structure to prevent risks from turning into crises. This structure centers on the In-House Improvement Committee and an in-house hotline for reporting alleged illegal activities or socially unacceptable behavior by directors or employees.

Directors ascertain the status of risk management efforts in their respective areas of responsibility and provide updates at regularly scheduled Group Management Committee meetings. The risk of losses and measures to control such risk are always under the direct review of members of the Group Management Committee.

If information were to leak out or an emergency, such as an accident or natural disaster, were to arise, an emergency response team would convene immediately under the direction of the president to ensure a swift and accurate response to the situation.

Companies under the Group umbrella will only enter into business transactions with suppliers who have been screened and suitably satisfy established requirements. If an approved supplier is later found to be involved in antisocial activities, the business relationship will be terminated at once to ensure total disengagement from any and all transactions, now and in the future, with antisocial groups intent on pursuing economic gains through unsavory methods, such as violence, coercion or fraudulent means.

Ensuring fair business practices of listed companies and the Aderans Group (parent company and subsidiaries)

Transactions between companies under the Group umbrella must be appropriate and comply with prevailing laws, accounting principles, tax requirements, and social standards, as well as in-house management rules for affiliated companies.

At meetings for affiliates, the president will indicate the direction of Group policy and the path that should be taken in executing operations. Local executives will implement said policy and ensure that operations follow the designated path.

While respecting the autonomy of each company, the Treasury Office and the Group Management Office at Aderans Holdings' headquarters will verify budgets and the success of business plans on a quarterly basis.

To promote efficient and appropriate business activities at core companies, a horizontal structure is in place to verify the status of business activities and the suitability of such activities to Group direction and the standards in respective markets.

To expedite effective, accurate audits of the Group's consolidated businesses, standing corporate auditors, who were selected as corporate auditors of the core companies, maintain a close relationship with the Company's accounting firm, as well the Treasury Office, and the Group Management Office at Aderans Holdings' headquarters.

Matters related to the system for employees asked by auditors to assist in directors' audits and these employees' neutrality vis-à-vis directors

Auditors may ask the Internal Audit Office to provide items pertinent to the execution of an audit. In addition, depending on the importance of a specific audit, auditors may require the assistance of employees to facilitate the process, and in such cases, directors must cooperate with auditors' assistants.

Employees asked by corporate auditors to provide items pertinent to the execution of an audit shall accept neither guidance nor orders from directors or the manager of the Internal Audit Office that pertain to the execution of said audit.

Auditors will provide directors with reports on the business skills and work attitudes of the employees who assist them, and directors will include these reports in their evaluation of the employees.

System for directors and employees to report to auditors or the Board; other systems for reporting to auditors

Reports to auditors cover the following items:

- Reports on handling responses in the event risks, such as accidents or natural disasters, arise
- Status reports on audits by the Internal Audit Office
- Reports containing questions from auditors and confirmed answers
- Other items that require reports from directors and general managers

Ensuring effective execution of other audits

The Company secures cooperation between its full-time corporate auditor and its core companies to facilitate effective execution of audits—that is, audits of the holding company.

The Council of Auditors, which comprises corporate auditors from core companies, ensures a common, groupwide direction for undertaking audits.

Basic concept and status of measures to eliminate antisocial forces

Management is resolute in its stand against dealings with antisocial forces and firmly believes that confronting a situation honestly, without secret deals to conceal the truth—even if the truth is detrimental to the Company—will actually benefit both the Company and its stakeholders.

Therefore, if such a situation arises, the Company and/or the companies under its umbrella will take steps to break off any and all business relationships with suppliers who are found to engage in antisocial activities to obtain economic gains through unsavory methods, such as violence, coercion or fraudulent schemes.

The Company also collects information on antisocial forces from relevant government agencies as well as regional authorities and business associations, and makes the information available to all Group companies to ensure widespread awareness of antisocial activities.

Before certain transactions, such as first-time purchasing, may commence, the Company screens potential suppliers in line with internal rules and will then limit its dealings to those suppliers whose status has been verified through the internal screening process. If, after the business relationship commences, an approved supplier is found to be involved in antisocial activities, the business relationship will be terminated at once. The Company will also contact the relevant authorities and implement an appropriate course of action.

During orientation training, particularly for new recruits or recently promoted individuals, the Company draws on examples of actual contact situations to highlight the danger of dealing directly with antisocial elements, points out actions taken by the response consultation unit responsible for handling such situations, and underlines the importance of quickly reporting any contact by an antisocial element, should such an event take place.

If an executive or employee is approached by an antisocial element with an inappropriate request, a companywide response will be initiated and the response consultation unit will immediately call upon outside professionals and legal advisors to prepare for possible threats to the safety and well-being of the employees who are addressing or will address the situation. In addition, when the situation requires it, an alert will be issued in-house and to Group companies.

Risk Management—Information Monitoring and Disclosure

Monitoring information

At one time, directors and departments responsible for disclosure sifted through risks and highlighted pertinent data for distribution. Now, however, risks faced by operating divisions are examined in detail. A list of relevant information is prepared and each risk is graded according to importance and then monitored.

At Aderans Holdings, the Information Protection Committee safeguards information assets, including personal data.

As its name implies, this committee has a mandate to protect information collected by the Company. It is responsible for preventing leaks and, in the unlikely event that data is errantly disclosed, it will pinpoint the breach and initiate improvements to preclude a second incident.

The activities of the committee are supported by an information protection discussion group, which utilizes cross-sectional representation to identify key information in each division for safeguarding and undertakes awareness programs to prevent leaks.

If information were to leak out or an unforeseen accident or a scandal were to arise, an emergency response team, headed by the president, would convene immediately to deal with the situation and execute appropriate risk management responses. Depending on the circumstances, investors and the market at large may require explanations, and a system is in place to handle this as well.

Another priority is to enhance in-house training programs to promote greater understanding of compliance among directors and employees and make management and staff conscious of behavior conforming to all applicable laws and social standards.

Disclosing information

Aderans Holdings actively discloses business information essential to a solid reputation for management transparency. The process hinges on close ties among the Corporate Communications Office, which is responsible for disclosing information, the Legal Office, which confirms prior to disclosure that the content of business activities undertaken by the Company conforms to prevailing laws and the Company's Articles of Incorporation, and the Treasury Office, which monitors financial data for the Company and its subsidiaries.

Remuneration for Directors and Auditors

Total annual remuneration for directors	¥207 million
(Portion paid to outside directors	¥ 48 million)
Total annual remuneration for auditors	¥ 37 million
(Portion paid to outside auditors	¥ 11 million)

In accordance with Article 427, Paragraph 1 of the Corporation Law, the Company has concluded agreements with outside directors and outside auditors that limit its liability for compensation, as set forth in Article 423, Paragraph 1 of the Corporation Law, to the greater of either a predetermined amount, which will not be less than ¥3 million, or an amount established under the provisions of Article 425, Paragraph 1 of the Corporation Law, provided that the outside director or outside auditor acted in good faith in executing his or her duties and provided that such compensation does not lead to significant losses for the Company.

Structure to Ensure Efficient Execution of Other Audits by Corporate Auditors

Cooperation with accounting firm

Corporate auditors receive status updates from the Company's accounting firm at the end of the year-end audit of accounts and may ask questions of accounting firm auditors. In addition, in situations where the participation of both the accounting firm and corporate auditors is deemed necessary, they may work together.

Cooperation with Group Internal Audit Office

The Internal Audit Office is an in-house auditing department under the direct supervision of the president, and as such, it does not fall within the corporate auditors' chain of command and is not subject to direct requests from corporate auditors. The results of business audits undertaken by the Internal Audit Office are provided to the president and the full-time auditor and may be of help to corporate auditors in their own business audits.

Corporate auditors may confirm internal control-related issues and ambiguities with the Internal Audit Office and, when necessary, ask for advice. Corporate auditors' audits parallel those of the Internal Audit Office, which occur at irregular intervals, based on a yearly division schedule, to ascertain routine audit status.

Appointment of outside auditors

All of the four corporate auditors, one of whom is a lawyer and another of whom is a certified public accountant, have been appointed from outside the Company. From their respective professional perspectives, they confirm that the Company is adhering to established laws and its Articles of Incorporation, and they carefully watch to make sure that the Company maintains business activities and strategies based on the premise that a company exists only as long as it has clients.

Private, Capital and Business Relationships or Conflict of Interest Between the Company and Its Outside Directors and Outside Auditors

Aderans Holdings does not maintain private, capital or business relationships with its four outside directors or its four outside auditors nor does any other potential conflict of interest exist between the Company and these outside directors and auditors.

Accounting Firm for Aderans Holdings

Aderans Holdings maintains an audit contract with Kyobashi & Co., which undertakes audits of the Company as required under the Corporation Law and the Financial Instruments and Exchange Law. The names of the certified public accountants who participated in the audit of Aderans Holdings' books for fiscal 2010 and the number of consecutive years these accountants have audited Aderans Holdings' books as well as the composition of the team assisting these accountants in the audit are listed below.

Names of certified public accountants who undertook fiscal 2010 audit and number of consecutive years auditing Aderans and/or Aderans Holdings

Yutaka Ishihara, Representative and Managing Partner	8 years
Toshifumi Kawamura, Representative and Managing Partner	3 years
Tsukasa Komiyama, Representative and Managing Partner	7 years

Composition of team assisting accounting auditors

8 certified public accountants

One assistant accountant passed the exam to become a certified public accountant.

Number of Directors and Appointment Criteria Set Forth in Articles of Incorporation

The number of directors is no more than 12. In its Articles of Incorporation, the Company sets forth a clause stating that approval of a candidate for the Board of Directors requires a majority vote by shareholders in attendance and whose combined shareholdings represent more than one-third of total voting rights held by shareholders with the ability to exercise such rights.

Purchase of Treasury Stock

To facilitate the implementation of a flexible capital policy that reflects changes in the economic environment, the Company provides in its Articles of Incorporation a clause allowing the Board of Directors to approve the purchase of treasury stock from the market, in accordance with Article 165, Paragraph 2 of the Corporation Law.

Interim Dividends

To promote the flexible return of profits to shareholders, the Company has established a provision in its Articles of Incorporation that, in accordance with Article 454, Paragraph 5 of the Corporation Law, grants the Board of Directors the authority to approve payment of an interim dividend to registered shareholders as of August 31 each year.

Approval Criteria for Special Resolutions at the General Shareholders' Meeting

To facilitate execution of the general shareholders' meeting, the Company has established a provision in its Articles of Incorporation that allows special resolutions, as defined in Article 309, Paragraph 2 of the Corporation Law and put forward at a general shareholders' meeting, to be passed with a number of votes corresponding to more than two-thirds of the voting rights held by shareholders in attendance, whose combined shareholdings represent no less than one-third of total voting rights held by shareholders with the power to exercise such rights.

Exemption of Directors' Liabilities

To give executives the ability to fully demonstrate the respective roles they are expected to play in executing their duties, the Company has established a provision in its Articles of

Incorporation that exempts, through a resolution by the Board of Directors, directors (including former directors) and corporate auditors (including former corporate auditors) from liability arising through a failure to perform duties, as defined in Article 426, Paragraph 1 of the Corporation Law, wherein the limit is the amount stipulated by laws or regulations.

Auditors' Compensation

Compensation to Certified Public Accountants

(Millions of yen)

Category	Year ended February 28, 2009		Year ended February 28, 2010	
	Compensation for audit certification	Compensation other than for audit certification	Compensation for audit certification	Compensation other than for audit certification
The filing company	—	—	15	—
Consolidated subsidiaries	—	—	34	—
Total	—	—	49	—

Other major compensation

Not applicable.

Non-auditing services provided by the accounting firm to the Company

Not applicable.

Policy regarding compensation for audits

The Company has not established a policy regarding compensation for audits executed by certified public accountants, but the Company appropriately determines the compensation amount with reference to such factors as the type of business, prevailing business conditions and the number of days required for audits.

Consolidated Five-Year Summary

Aderans Holdings Co., Ltd. and Consolidated Subsidiaries
Years ended the last day of February

		Millions of yen				
		2010	2009	2008	2007	2006
Results of Operations	Net sales	¥ 57,355	¥ 70,463	¥ 74,998	¥ 73,498	¥ 72,690
	Cost of sales	12,867	14,881	15,465	13,726	12,690
	Gross profit	44,488	55,582	59,533	59,772	60,000
	Selling, general and administrative expenses	49,753	53,074	55,467	51,560	49,680
	Operating income (loss)	(5,264)	2,508	4,066	8,212	10,319
	Income (loss) before income taxes and minority interests	(9,609)	(1,634)	2,944	7,878	10,889
	Net income (loss)	(9,851)	(2,172)	590	6,091	6,149
	Capital expenditures	2,536	2,375	3,125	3,701	2,565
	Research and development costs	1,575	1,335	1,664	1,557	977
	Depreciation and amortization	2,501	2,836	2,678	2,084	2,012
Amounts per Share of Common Stock (in Yen)	Net income (loss)	¥ (261.98)	¥ (56.11)	¥ 15.25	¥ 156.26	¥ 150.51
	Net assets	1,339.98	1,582.09	1,816.84	1,877.95	1,760.45
	Cash dividends applicable to the year	—	20.00	80.00	75.00	44.00
Financial Position	Current assets	¥ 26,738	¥ 27,700	¥ 33,288	¥ 35,985	¥ 35,257
	Current liabilities	9,813	9,955	13,258	11,281	12,546
	Interest-bearing debt	—	1,152	1,165	2,035	—
	Equity capital	49,323	61,255	70,348	72,700	69,239
	Total assets	63,369	76,102	90,352	91,658	87,490
Key Ratios (%)	Operating income (loss) to net sales	(9.2)	3.6	5.4	11.2	14.1
	Net income (loss) to net sales	(17.2)	(3.1)	0.8	8.3	8.4
	Equity capital to total assets	77.8	80.5	77.9	79.3	79.1
	Return on equity	(17.8)	(3.3)	0.8	8.6	8.9
	Return on assets	(14.1)	(2.6)	0.6	6.8	7.2
	Interest-bearing debt ratio	—	1.5	1.3	2.2	—
Other Year-End Data	Number of shares outstanding (thousand)	36,809	38,718	38,720	38,712	39,256
	Number of employees	5,102	5,892	6,062	5,787	5,418

Consolidated Financial Review

As of February 28, 2010, the consolidated umbrella of the Aderans Group covered parent Aderans Holdings Co., Ltd. ("the Holding Company"), and 27 subsidiaries, comprising five domestic companies, including Aderans Co., Ltd. ("the Operating Company"), and 22 overseas companies.

From fiscal 2010, ended February 28, 2010, the newly established Aderans Hair Goods, Inc., is included under the scope of consolidation. Samson Co., Ltd., is excluded from the scope of consolidation, due to the transfer of stock, and International Hairgoods, Inc., René of Paris, General Wig Manufacturers, Inc., New Concepts Hair Goods, Inc., Aderans Retailing Company, Inc., Monfair Mode S.A.R.L., Monfair Moden Vertriebs G.m.b.H, and Camaflex S.A. are excluded from the scope of consolidation, due to mergers with overseas subsidiaries. Notwithstanding Samson's exclusion from the scope of consolidation, the company's statement of income has been used in the reckoning of consolidated accounts for fiscal 2010 because the company was part of the Group until February 28, 2010, the deemed date of sale.

Fiscal 2010 Summary

Operating Data	Millions of yen 2010	2009	% Change
Net sales	¥57,355	¥70,463	−18.6%
Operating income (loss)	(5,264)	2,508	—
Net loss	(9,851)	(2,172)	—
Net sales per employee	11.2	12.0	−6.0
Net loss per employee	(1.93)	(0.37)	—
Number of employees	5,102	5,892	−13.4

During fiscal 2010, the Holding Company concentrated groupwide management resources into wig-related operations in Japan—the domestic core business—and endeavored to bring about a performance recovery with a new marketing strategy. Under this strategy, corporate logos were redesigned, all ladies' wigs were integrated under the *Fontaine* brand, product development was enhanced, a new salon concept debuted, and new approaches were taken to boost client satisfaction.

Overseas, the spotlight was on the Hair-Transplant Business in the United States, where sluggish personal spending has had a particularly negative impact on segment performance. Companies in this segment maintained concerted efforts to build a solid profit platform to underpin business growth.

Despite these efforts, consolidated net sales for fiscal 2010 fell 18.6% year-on-year, to ¥57,355 million ($641 million). On the income front, red was the dominant color. Instead of operating income, at ¥2,508 million a year earlier, the Holding Company posted an operating loss of ¥5,264 million ($58 million). The Holding Company booked ¥3,065 million in impairment losses, including those on Holding Company-owned buildings intended for sale, which contributed to a net loss of ¥9,851 million ($110 million), compared with a net loss of ¥2,172 million a year earlier.

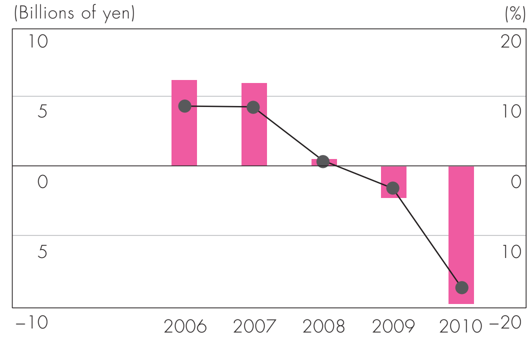
On a consolidated basis, the Holding Company was able to trim cost of sales 13.5%, to ¥12,867 million ($143 million), and cut selling, general and administrative expenses 6.3%, to ¥49,753 million ($556 million). Of note, the drop in selling, general and administrative expenses is due to such factors as a reduction in advertising expenses, especially in the first half, paralleling a review of marketing activities, as well as lower costs, achieved through the closure of unprofitable salons, and groupwide efforts to limit operating expenses.

Cost of Sales and Selling, General and Administrative Expenses	Millions of yen 2010	2009	% Change
Cost of sales	¥12,867	¥14,881	−13.5%
Selling, general and administrative expenses	49,753	53,074	−6.3
Advertising expenses	10,940	11,456	−4.5
Personnel expenses	19,411	21,320	−9.0
Other	19,401	20,296	−4.4

Cost of Sales, SGA Expenses and
Operating Income (loss) to Net Sales Ratios

	2006	2007	2008	2009	2010	
Cost of sales ratio	17.5	18.7	20.6	21.1	22.4	●
SGA expenses ratio	68.3	70.1	74.0	75.3	86.7	●
Operating income (loss) ratio	14.1	11.2	5.4	3.6	(9.2)	●

Net Income (Loss), and
Net Income (Loss) to Net Sales Ratio



	2006	2007	2008	2009	2010	
Net income (loss) (Billions of yen)	6.1	6.0	0.5	(2.1)	(9.8)	■
Net income (loss) to net sales ratio (%)	8.4	8.3	0.8	(3.1)	(17.2)	●

Exchange rates caused the cost of sales ratio to deteriorate, which contributed to the aforementioned operating loss of ¥5,264 million ($58 million). Although this was a reversal from the operating income position achieved in fiscal 2009, the fiscal 2010 operating loss was dramatically less than the ¥8,200 million deficit expected when management announced its revised performance forecast for fiscal 2010 on October 14, 2009.

The net loss turned a deeper shade of red, falling from ¥2,172 million in fiscal 2009 to ¥9,851 million ($110 million) in fiscal 2010. But again, the actual figure was much less than the predicted ¥11,900 million.

Per Share Data	Yen		
	2010	2009	% Change
Net loss	**¥ (261.98)**	¥ (56.11)	—%
Net assets	**1,339.98**	1,582.09	−15.3
Cash dividends	**—**	20.00	—

Outline of Key Business Segments

Until February 28, 2010, the Aderans Group pursued business activities in four business segments.

Domestic Core Business

Emphasis In the Domestic Core Business, which handles custom-made wigs for men and women in Japan, management's goal was to track down the root causes of this segment's sluggish performances over the past few years and execute a drastic review of the segment's marketing strategy. In the women's market, these efforts led to the integration of the domestic ladies' brand of custom-made wigs under the *Fontaine* name in November 2009 and the debut of *Fontaine Fluffy*, a new custom-made wig, in December 2009. The men's market also got a new product, *RF-1*, exclusive to the annual flat-fee membership-style Aderans Hair Club. Coinciding with the launch of *RF-1*, the Operating Company kicked off a totally different kind of advertising. In addition, the Operating Company highlighted measures to raise customer satisfaction and really drove home an internal rule relating to sales practices applied to repeat customers.

Sales and Operating Loss Sales of custom-made wigs fell on a full-year basis, compared with fiscal 2009, largely because of all-out efforts to eliminate high-pressure sales practices and also because of widespread curbs on advertising and promotional activities that persisted until November 2009 when advertising resumed in conjunction with new product introductions. However, the new marketing strategy was successful, prompting signs of recovery in sales to new clients in the second half of fiscal 2010. As a result, the Domestic Core Business posted sales of ¥28,807 million ($322 million) and while the segment suffered an operating loss, at ¥4,266 million ($47 million), the amount was much less than predicted.

Fontaine Business

Emphasis The Fontaine Business focuses on the sale of ladies' ready-made wigs in Japan. Poor business conditions for department stores led to closures, which reduced the number of sales points where *Fontaine* sold its products. However, the November 2009 integration of ladies' custom-made and ready-made wigs under the Fontaine name in Japan underpinned a huge recovery in sales through remaining department store and directly operated salon routes in January and February 2010.

Sales and Operating Income Sales in this segment reached ¥9,689 million ($108 million), and operating income settled at ¥437 million ($4 million) after booking for discarded products and evaluation losses under cost of sales.

Overseas Core Business

Emphasis The Overseas Core Business is essentially the wig business undertaken by Group companies outside Japan. In fiscal 2010, efforts were directed toward restructuring the Group's wig operations in the United States to lay the foundation for strategic marketing activities with a global perspective. Toward this end, five consolidated subsidiaries in the U.S. wig business merged and were then absorbed by the newly established Aderans Hairgoods.

Meanwhile, half a world away in China, the Holding Company moved ahead with preparations to open a salon in autumn 2010 that will mark a full-scale push into this growth market.

Sales and Operating Income The U.S. recession dampened sales of such products as the *Paris Hilton Collection*, which had sold very well in fiscal 2009. Nevertheless, in Europe, the pan-European *Sentoo Collection* and medical-use wigs continued to deliver favorable results. Yen appreciation squeezed performance amounts on a yen basis, leading to sales of ¥6,235 million ($69 million) and operating income of ¥369 million ($4 million).

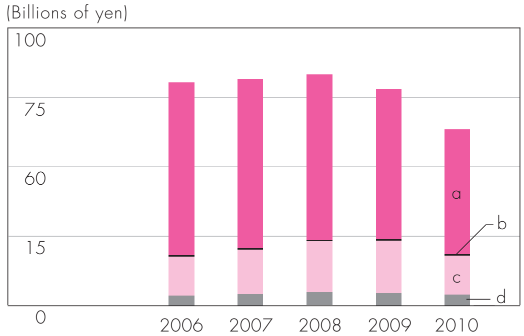
Hair-Transplant Business

Emphasis The Aderans Group has developed its hair-transplant business through Bosley and MHR, which hold No. 1 and No. 2 spots in the U.S. market, respectively. To enhance the synergy between the two companies, Bosley and MHR merged, effective May 25, 2010.

Sales and Operating Loss Sluggish consumer spending and tighter advertising budgets limited market interest in hair transplants. Segment sales reached ¥10,235 million ($114 million), more or less in line with expectations. While still in the red, the operating loss, at ¥220 million ($2 million), was much improved and considerably less than management's forecast, thanks to lower advertising and personnel expenses.

Geographical Breakdown

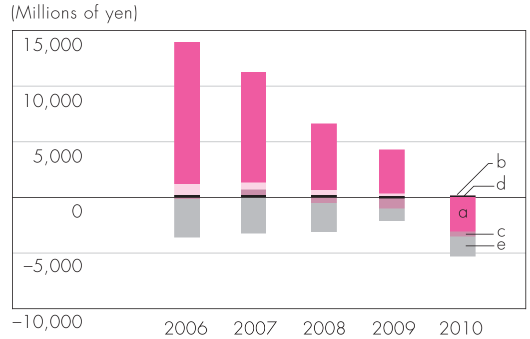
Net Sales by Region
(Billions of yen)



	2006	2007	2008	2009	2010	
Japan	56.2	54.7	53.7	48.9	40.8	a
Asia	0.4	0.4	0.4	0.4	0.3	b
North America	12.6	14.5	16.5	17.0	12.8	c
Europe	3.3	3.7	4.2	3.9	3.3	d
Total	72.6	73.4	74.9	70.4	57.3	

Note: The above figures exclude intersegment transactions.

Operating Income (Loss)
(Millions of yen)



	2006	2007	2008	2009	2010	
Japan	12,768	9,939	6,445	4,177	(3,576)	a
Asia	1,000	728	547	258	88	b
North America	(75)	528	(557)	(934)	(526)	c
Europe	218	286	291	240	140	d
Eliminations	(3,591)	(3,271)	(2,660)	(1,233)	(1,391)	e
Total	10,319	8,212	4,066	2,508	(5,264)	

Japan

Despite a drastic review of marketing strategy and steady progress on measures to boost customer satisfaction, which generated signs of recovery in the fourth quarter, sales of custom-made wigs fell 23.4%, to ¥19,240 million ($215 million). This is primarily because significantly reduced advertising and promotional activities prevented the Operating Company and Fontaine from elevating respective corporate profiles—a situation that persisted until November 2009 when advertising efforts resumed in conjunction with new product introductions.

Sales of ready-made wigs have been looking up since the November 2009 consolidation of ladies' wig brands under the *Fontaine* name, but sales for fiscal 2010 decreased 8.5% over fiscal 2009, to ¥8,808 million ($98 million). This is largely due to poor replacement demand, as the recession forced consumers to restrict personal spending and reversed the upward trend in sales that characterized the previous year. In addition, fewer sales points were in operation, paralleling the closure of department stores at which *Aderans* and *Fontaine* products were sold.

Sales of other hair-related products decreased 11.8%, to ¥3,555 million ($39 million). Service revenues shrank 9.8%, to ¥8,792 million ($98 million). Revenue from other business fell 12.6%, to ¥409 million ($4 million). Intersegment sales dropped 19.8%, to ¥223 million ($2 million).

Given this downward pressure, aggregate net sales from operations in Japan were held to ¥41,029 million ($458 million), down 16.7%, or ¥8,231 million, from fiscal 2009. Efforts to reduce costs associated with the closing of unprofitable locations and to limit selling, general and administrative expenses, particularly advertising and promotional costs, were insufficient to offset the drop in net sales, and the lower starting point inevitably led to an operating loss of ¥3,576 million ($39 million). In fiscal 2009, the operating profit was ¥4,177 million.

Asia (Excluding Japan)

In Taiwan, where demand from clients outside the Aderans Group is key to higher sales, a lawsuit related to healthy hair growth services was brought against a competitor in that market. This situation tarnished the entire market, adversely impacting the activities of all participants, including Aderans' local subsidiary. As a result, sales of custom-made wigs slipped 18.1% over the corresponding period a year ago, to ¥190 million ($2 million). Sales of ready-made wigs tumbled 42.1%, to ¥33 million ($379 thousand). Sales of other hair-related products decreased 32.5%, to ¥27 million ($311 thousand). Service revenues retreated 28.0%, to ¥72 million ($808 thousand). Intersegment sales dropped 32.4%, to ¥2,949 million ($32 million).

Overall, aggregate net sales from operations in Asia, excluding Japan, settled at ¥3,274 million ($36 million), down 31.7%, or ¥1,516 million ($16 million), from fiscal 2009. Operating income shrank 65.9%, or ¥170 million, to ¥88 million ($985 thousand).

North America

The Overseas Core Business is essentially the wig business abroad. Demand for products that had contributed nicely to sales in fiscal 2009 faltered, reflecting a slowdown in order activity through some marketing channels in fiscal 2010. In addition, sluggish business conditions dampened interest in newly introduced products, squeezing potential sales. In this environment, sales of ready-made wigs decreased 13.2%, to ¥2,096 million ($23 million), and sales of custom-made wigs fell 13.1%, to ¥245 million ($2 million).

Service revenues from the Hair-Transplant Business reached ¥9,501 million ($106 million), down 25.5%, owing to the recession, which caused people to cut back on personal spending, and also owing to reduced advertising budgets.

Sales of other hair-related products tumbled 39.0%, to ¥1,008 million ($11 million). Intersegment sales grew 18.2%, to ¥1,718 million ($19 million).

Aggregate net sales from operations in North America amounted to ¥14,570 million ($162 million), down ¥3,984 million, or 21.5%, from the corresponding period a year ago. Profitability improved through a review of selling, general and administrative expenses, with an emphasis on securing a firmer profit base hinging on the Hair-Transplant Business. While still in the red, the operating loss for fiscal 2010, at ¥526 million ($5 million), was ¥408 million less than in fiscal 2009.

Europe

Demand for the Aderans Group's integrated collection of wigs for Europe was solid, complemented by favorable interest in wigs for medical use. On a euro basis, sales remained on a par with the amount recorded a year ago. But yen appreciation squeezed results on a yen basis, pulling sales of custom-made wigs down 16.4%, to ¥428 million ($4 million). Sales of ready-made wigs fell 15.6%, to ¥2,217 million ($24 million). Sales of other hair-related products slipped 10.1%, to ¥616 million ($6 million). Service revenues decreased 12.0%, to ¥110 million ($1 million).

Consequently, aggregate net sales from operations in Europe amounted to ¥3,373 million ($37 million), down ¥578 million, or 14.6%, compared with the corresponding period a year ago. Operating income came to ¥140 million ($1 million), down ¥100 million, or 41.7%.

Cash Flow Status

As of February 28, 2010, cash and cash equivalents stood at ¥15,115 million ($169 million), up ¥3,241 million or 27.3%, from a year earlier.

The Holding Company marked a turnaround in cash flow from operating activities, with a net cash used position of ¥1,886 million ($21 million), compared with ¥1,963 million in net cash provided by operating activities a year earlier. The ¥3,849 million change reflects a loss of ¥9,609 million before income taxes and minority interests, or ¥7,975 million deeper than the loss recorded in fiscal 2009, as well as ¥3,065 million in impairment losses and ¥2,501 million in depreciation and amortization. This cash outflow completely negated the benefits of a ¥3,212 million decrease in income taxes, which were just ¥619 million.

The Holding Company recorded ¥4,293 million in proceeds from the sale of marketable securities, ¥4,469 million in proceeds from the sale of investment securities, and ¥2.0 billion in proceeds from the cancellation of long-term time deposits. The Holding Company applied ¥1,995 million toward the purchase of marketable securities and ¥1,264 million toward the purchase of property, plant and equipment. The difference between proceeds and purchases amounted to a positive ¥7,945 million, culminating in net cash provided by investing activities of ¥7,610 million ($85 million), compared with ¥335 million used in investing activities in fiscal 2009.

The Holding Company used ¥2.5 billion to purchase treasury stock and ¥580 million to pay dividends. Net cash used in financing activities came to ¥3,064 million ($34 million), up ¥887 million from a year earlier.

Summary of Cash Flows Statements	Millions of yen		
	2010	2009	% Change
Net cash provided by (used in) operating activities	**¥ (1,886)**	¥ 1,963	—%
Net cash provided by (used in) investing activities	**7,610**	(335)	—
Net cash used in financing activities	**(3,064)**	(2,177)	+40.7
Net change in cash and cash equivalents	**3,241**	(3,105)	—
Cash and cash equivalents at the beginning of year	**11,873**	14,979	−20.7
Cash and cash equivalents at the end of year	**15,115**	11,873	+27.3

Financial Position

As of February 28, 2010, total assets stood at ¥63,369 million ($708 million), down 16.7% from February 28, 2009. Total liabilities, as of the same date, were ¥13,950 million ($155 million), down 5.5%.

Current assets came to ¥26,738 million ($298 million), down 3.5% from February 28, 2009. This change is largely due to decreases in marketable securities and notes and accounts receivable, which overshadowed an increase in cash and deposits.

Fixed assets amounted to ¥36,631 million ($409 million), down 24.3%.

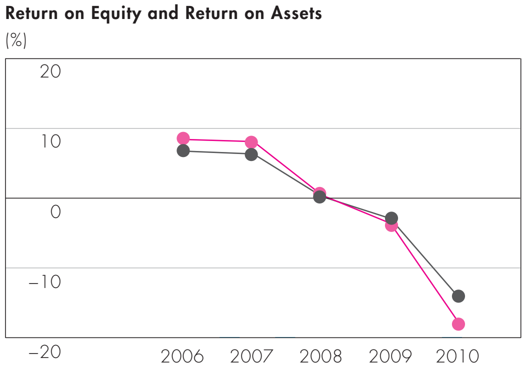
Current liabilities came to ¥9,813 million ($109 million), down 1.8%. This change reflects increases in deferred tax liabilities and allowance for business restructuring losses, against decreases in advances received, short-term debt and notes and accounts payable. As a result, the current ratio (ratio of current assets to current liabilities) fell 4.6 percentage points, to 272.5%.

Net assets settled at ¥49,418 million ($552 million), down 19.4% from February 28, 2009. This change is primarily due to a decrease in retained earnings, which completely cancelled out increases in foreign currency transaction adjustments and unrealized gain on available-for-sale securities. Equity capital reached ¥49,323 million, down 19.5%, and the equity ratio slipped 2.7 percentage points, to 77.8%.

Notes: 1. Equity capital = Net assets — Minority interests
2. Equity ratio = Equity capital / Total assets

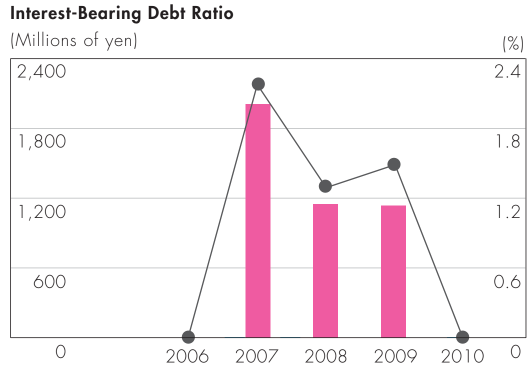
	Millions of yen		
Summary of Financial Position	2010	2009	% Change
Total assets	**¥63,369**	¥76,102	−16.7%
Total liabilities	**13,950**	14,758	−5.5
Equity capital	**49,323**	61,255	−19.5
Equity capital to total assets (%)	**77.8**	80.5	−2.7 points

Return on Equity and Return on Assets



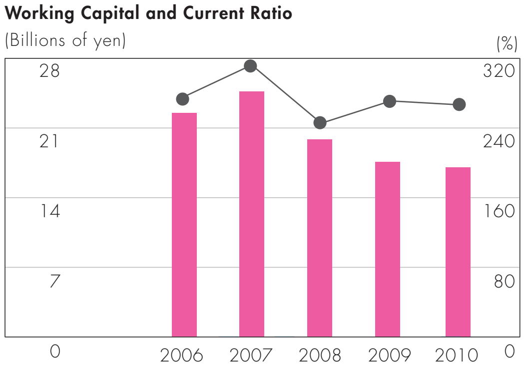
	2006	2007	2008	2009	2010
Return on equity	8.9	8.6	0.8	(3.3)	(17.8)
Return on assets	7.2	6.8	0.6	(2.6)	(14.1)

Interest-Bearing Debt Ratio



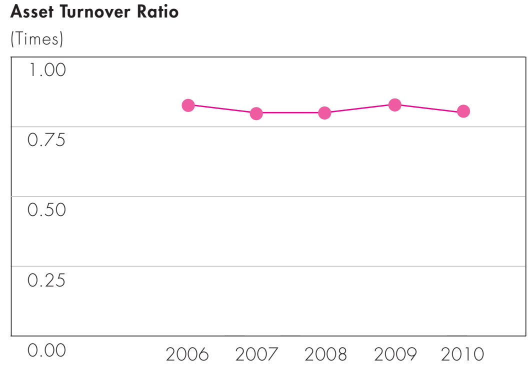
	2006	2007	2008	2009	2010
Interest-bearing debt (Millions of yen)	—	2,035	1,165	1,152	—
Interest-bearing debt ratio	—	2.2	1.3	1.5	—

Working Capital and Current Ratio



	2006	2007	2008	2009	2010
Current assets	35.2	35.9	33.2	27.7	26.7
Current liabilities	12.5	11.2	13.2	9.9	9.8
Working capital	22.7	24.7	20.0	17.7	16.9
Current ratio (%)	281.0	319.0	251.1	277.1	272.5

Asset Turnover Ratio



	2006	2007	2008	2009	2010
Asset turnover ratio	0.85	0.82	0.82	0.85	0.82

Dividend Policy

One of the Holding Company's top management priorities is the return of profits to shareholders. The primary objective is, of course, to sustain dividends at a high level as well as to return profits to shareholders through the repurchase of treasury stock. Targets are a payout ratio of 50% and a shareholder return ratio of 100%, based on consolidated net income.

It is with regret that management has decided to refrain from distributing year-end dividends for fiscal 2010. The decision was made in view of declining net sales, which reflects the prolonged business downturn, as well as a net loss, owing to the booking of extraordinary expenses paralleling business restructuring.

The operating environment is likely to remain challenging in fiscal 2011, and management has not made a decision on possible resumption in dividend distribution yet. An announcement will be made as soon as management has considered all factors, especially performance and financial standing.

* Shareholder return ratio (%) = [Total shareholder returns (treasury stock buybacks + dividends) / Consolidated net income] x 100

** Treasury stock buybacks = Acquisition of treasury stock - Disposal of treasury stock

Risk Information

1. Products

In its efforts to address concerns that clients have about their hair, the Aderans Group concentrates its activities into two principal segments of the comprehensive hair-related products and services industry: the wig business, which encompasses two core companies in Japan and a solid presence in the United States, Europe and Asia, excluding Japan; and the hair-transplant business, undertaken by five companies, including Bosley and MHR in the United States.

Therefore, the Group's fiscal results could be severely eroded if other companies were to discover hair loss treatments, such as a revolutionary hair-growth wonder drug or an innovative hair-volumizing technique, which eliminate the need for wigs, and bring these approaches to market, or if other companies were to engineer and commercialize medical techniques superior to existing hair transplant procedures.

In addition, demographic trends in Japan still indicate a shrinking level of young people within the national population. This is of particular consequence to the Operating Company because men in their 20s and 30s represent a key segment of its target client base in the domestic men's market, and fewer potential clients could streamline demand for its products and services. This situation could have a material impact that transcends the fiscal results of the Operating Company and affect the Group as a whole.

2. Production and distribution bases

i) The production of wigs is executed at the Holding Company's subsidiaries in Thailand and the Philippines. These facilities utilize proprietary know-how in manufacturing the Group's products, so it would be difficult for them to complete orders for wigs and other hair-replacement products with alternative materials and components, such as those used in competitors' products.

Consequently, certain events—primarily, the two scenarios described below—could prevent the delivery of products to clients and seriously erode fiscal results.

a) If fire, natural disaster, labor unrest, outbreak of disease or some other obstacle to normal operations undermines production capabilities.

b) If a change in the political or economic environment in Thailand or the Philippines interrupts the procurement of necessary materials or disrupts the supply of finished products.

ii) To enhance the efficiency of domestic distribution, the Operating Company and Fontaine share a single distribution center in Tainai, Niigata Prefecture. If a large-scale natural disaster or some other catastrophic event were to sever transportation routes and/or completely destroy the distribution center, the situation could hinder the receipt and shipment of wigs and other hair-replacement products as well as upset distribution processes linking domestic salons and production subsidiaries. Such situations could hurt the Group's fiscal results.

3. Impact of legal regulations and ability to secure talented staff

i) The operations of the Operating Company are subject to several laws, including the Barbers Law and the Beauticians Law—both related to the Environmental Sanitation Law—as well as the Consumer Contract Law, the Specified Products Trading Law, the Installment Sales Law, and the Law for Preventing Unjustifiable Lagniappes and Misleading Representation.

Legislative revisions to the aforementioned laws or the creation of new laws and ordinances might have an impact on Group results, depending on the content of such amendments and additions.

Of note, in the course of its business activities, the Operating Company employs approximately 1,200 barbers and hair stylists licensed according to the Barbers Law and the Beauticians Law to provide services at its salons. If the Operating Company's ability to hire and retain qualified staff is restricted by the introduction and/or enforcement of new rules, the resulting shortage of essential personnel could undercut the provision of services to clients and create operating difficulties at salons. This could erode business performance.

ii) The hair-transplant business in the United States requires that the Group companies engaged in this business secure the services of physicians to perform the necessary procedures.

However, in the United States, each state grants licenses to eligible physicians to practice in that state, so visiting physicians must acquire the requisite medical license(s) from the state(s) in which they plan to provide treatment. If regulations were to be newly established that hinder the assignment of physicians across state lines, the fiscal results of the two Group companies involved in the hair-transplant business might be adversely affected.

4. Information management (personal information leaks)

i) The business activities of the Operating Company and Fontaine—the two core domestic companies under the Group umbrella—address the hair-related concerns of ordinary people. If client information were to leak outside corporate systems, the disclosure could cause the affected clients significant psychological or emotional distress. Client dissatisfaction could impair the companies' future marketing results.

The two companies are highly reliant upon computer network systems for maintaining and utilizing client information. The loss of server-stored data, through either manmade or natural disaster, could also adversely impact business results.

ii) Unauthorized disclosure of personal information about clients who undergo hair-transplant procedures in the United States could hamper the business activities of subsidiaries providing medical services. This could hurt the Group's fiscal results.

5. Research and development

A considerable amount of money has been invested in the study of hair-regeneration at Aderans Research Institute, Inc., in the quest to eliminate concerns that clients have about hair loss.

However, this study carries elements of uncertainty, namely the potential of research results to contribute to future profit, because it is impossible at the current time to predict how much time will be spent in this pursuit.

Consolidated Balance Sheets

Aderans Holdings Co., Ltd. and Consolidated Subsidiaries
For the years ended February 28, 2010 and 2009

Assets

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Current assets:			
Cash and time deposits (Note 4)	¥ 15,381	¥ 9,941	$ 171,994
Marketable securities (Note 6)	—	4,392	—
Notes and accounts receivable	4,120	5,471	46,072
Allowance for doubtful accounts	(57)	(48)	(637)
Inventories (Note 5)	3,902	4,513	43,634
Deferred tax assets (Note 8)	1,209	1,268	13,525
Other current assets	2,181	2,161	24,398
Total current assets	26,738	27,700	298,987
Investments and long-term loans:			
Long-term loans receivable	419	213	4,686
Allowance for doubtful accounts	(400)	(107)	(4,472)
Investment securities (Note 6)	1,269	5,493	14,199
Total investments and long-term loans	1,288	5,598	14,412
Property, plant and equipment, at cost:			
Land	10,211	11,133	114,180
Buildings and structures	27,753	30,936	310,340
Machinery and equipment	7,358	7,630	82,285
Construction in progress	0	37	0
Other	78	219	874
Total	45,401	49,957	507,681
Less accumulated depreciation	(23,488)	(23,991)	(262,647)
Property, plant and equipment, net	21,913	25,966	245,033
Intangible assets	4,363	4,932	48,792
Security deposits	3,541	3,982	39,596
Deferred tax assets (Note 8)	4,982	4,458	55,715
Other assets	605	3,514	6,769
Allowance for doubtful accounts	(63)	(50)	(715)
Total assets	¥ 63,369	¥ 76,102	$ 708,593

See Notes to the Consolidated Financial Statements.

Liabilities and Net Assets

	Millions of yen 2010	Millions of yen 2009	Thousands of U.S. dollars 2010
Current liabilities:			
Short-term bank borrowings	¥ —	¥ 977	$ —
Long-term debt due within one year	—	130	—
Notes and accounts payable	473	1,236	5,291
Accrued income taxes (Note 8)	362	406	4,055
Accrued expenses	1,675	1,102	18,738
Deferred tax liabilities (Note 8)	138	2	1,552
Other current liabilities	7,163	6,140	80,097
Total current liabilities	9,813	9,995	109,734
Long-term liabilities:			
Long-term bank borrowings	—	44	—
Accrued severance and retirement benefits—employees (Note 7)	2,817	3,058	31,508
Accrued severance and retirement benefits—directors and corporate auditors	9	57	108
Deferred tax liabilities	5	6	67
Other long-term liabilities	1,303	1,595	14,578
Total long-term liabilities	4,137	4,763	46,263
Total liabilities	13,950	14,758	155,997
Net assets:			
Common stock, no par value			
Authorized—138,000 thousand shares for 2010 and 2009			
Issued—40,213 thousand shares for 2010 and 41,713 thousand shares for 2009	12,944	12,944	144,739
Additional paid-in capital	13,193	13,157	147,530
Retained earnings	33,035	48,225	369,404
Unrealized gain on available-for-sale securities	0	(145)	8
Foreign currency translation adjustments	(2,864)	(3,891)	(32,025)
Treasury stock, at cost	(6,986)	(9,034)	(78,124)
Minority interests	95	88	1,062
Total net assets	49,418	61,344	552,595
Total liabilities and net assets	¥63,369	¥76,102	$708,593

See Notes to the Consolidated Financial Statements.

Consolidated Statements of Income

Aderans Holdings Co., Ltd. and Consolidated Subsidiaries
For the years ended February 28, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Net sales	¥ 57,355	¥70,463	$ 641,349
Cost of sales	12,867	14,881	143,881
Gross profit	44,488	55,582	497,468
Selling, general and administrative expenses (Note 10)	49,753	53,074	556,341
Operating income (loss)	(5,264)	2,508	(58,872)
Other income (expenses):			
Interest and dividend income	151	295	1,696
Interest expenses	(66)	(81)	(743)
Impairment losses	(3,065)	(2,138)	(34,280)
Loss on sales of marketable and investment securities	(650)	—	(7,272)
Unrealized loss on investment securities	—	(1,504)	—
Exchange loss on foreign currency translation	(192)	(220)	(2,155)
Loss on disposal of property, plant and equipment	(378)	(330)	(4,233)
Other income and expenses, net	(142)	(162)	(1,588)
Total other income (expenses)	(4,344)	(4,142)	(48,576)
Loss before income taxes and minority interests	(9,609)	(1,634)	(107,448)
Income taxes (Note 8):			
Current	549	2,069	6,144
Deferred	(299)	(1,514)	(3,349)
Minority interests	8	16	90
Net loss	¥ (9,851)	¥ (2,172)	$(110,153)
Net loss per common share (Note 11) (yen and dollars)	¥(261.98)	¥ (56.11)	$(2.92)

See Notes to the Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

Aderans Holdings Co., Ltd. and Consolidated Subsidiaries
For the years ended February 28, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Common stock:			
Balance, beginning of year	¥12,944	¥12,944	$ 144,739
Balance, end of year			
(2010—40,213,388 shares; 2009—41,713,388 shares)	¥12,944	¥12,944	$ 144,739
Additional paid-in capital:			
Balance, beginning of year	¥13,157	¥13,157	$ 147,124
Recognized cost of share based payment stock option	36	—	406
Balance, end of year	¥13,193	¥13,157	$ 147,530
Retained earnings:			
Balance, beginning of year	¥48,225	¥52,528	$ 539,252
Increase (decrease) due to the change of accounting treatment of overseas subsidiaries	(209)	—	(2,345)
Increase in retained earnings:			
Net loss	(9,851)	(2,172)	(110,153)
Decrease in retained earnings:			
Cash dividends	580	2,129	6,494
Cancellation of treasury stock	4,547	—	50,854
Loss on exchange of treasury stock	0	0	0
Balance, end of year	¥33,035	¥48,225	$ 369,404
Unrealized gain (loss) on available-for-sale securities:			
Balance, beginning of year	¥ (145)	¥ 9	$ (1,630)
Net change	146	(155)	1,638
Balance, end of year	¥ 0	¥ (145)	$ 8
Foreign currency translation adjustments:			
Balance, beginning of year	¥ (3,891)	¥ 740	$ (43,511)
Net change	1,027	(4,631)	11,485
Balance, end of year	¥ (2,864)	¥ (3,891)	$ (32,025)
Treasury stock:			
Balance, beginning of year	¥ (9,034)	¥ (9,030)	$(101,019)
Net change	2,047	(3)	22,894
Balance, end of year			
(2010—3,404,124 shares; 2009—2,995,260 shares)	¥ (6,986)	¥ (9,034)	$ (78,124)
Stock acquisition rights:			
Balance, beginning of year	¥ —	¥ 0	$ —
Net change	—	(0)	—
Balance, end of year	¥ —	¥ —	$ —

See Notes to the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Aderans Holdings Co., Ltd. and Consolidated Subsidiaries
For the years ended February 28, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Cash flows from operating activities:			
Loss before income taxes and minority interests	¥(9,609)	¥ (1,634)	$(107,448)
Depreciation and amortization	2,501	2,836	27,972
Impairment losses	3,065	2,138	34,280
Loss on retirement of fixed assets	560	469	6,267
Amortization of consolidation difference	389	646	4,360
Change in allowance for employees' bonuses	3	(197)	39
Change in allowance for directors' and corporate auditors' bonuses	—	(10)	—
Change in accrued severance benefits for employees	(196)	(218)	(2,199)
Unrealized loss on investment securities	—	1,504	—
Interest and dividend income	(151)	(295)	(1,696)
Interest expenses	66	81	743
Change in notes and accounts receivable	1,841	162	20,591
Change in inventories	669	(260)	7,490
Change in notes and accounts payable	(902)	109	(10,096)
Change in guarantee deposits	309	1	3,459
Other	98	222	1,096
Subtotal	(1,353)	5,556	(15,139)
Proceeds from interest and dividend income	150	319	1,679
Payment of interest	(63)	(81)	(705)
Payment of income taxes	(619)	(3,831)	(6,930)
Net cash provided by (used in) operating activities	(1,886)	1,963	(21,096)
Cash flows from investing activities:			
Change in time deposits	(104)	(103)	(1,170)
Payment for purchase of marketable securities	(1,995)	(1,993)	(22,313)
Proceeds from sales of marketable securities	4,293	4,489	48,009
Payment for purchase of property, plant and equipment	(1,264)	(3,681)	(14,140)
Payment for purchase of intangible assets	(230)	(181)	(2,574)
Payment for purchase of investment securities	(4)	(303)	(46)
Proceeds from sales of investment securities	4,469	1,003	49,981
Payment for sales of subsidiaries' stock due to change of scope of consolidation	(48)	—	(541)
Proceeds from withdrawals of long-term deposits	2,000	—	22,363
Other	494	434	5,533
Net cash provided by (used in) investing activities	7,610	(335)	85,100
Cash flows from financing activities:			
Payment to acquire treasury stock	(2,500)	(4)	(27,960)
Proceeds from disposal of treasury stock	0	0	0
Cash dividends paid	(580)	(2,130)	(6,495)
Other	16	(43)	186
Net cash used in financing activities	(3,064)	(2,177)	(34,268)
Effects of exchange rate changes on cash and cash equivalents	582	(2,555)	6,514
Net change in cash and cash equivalents	3,241	(3,105)	36,250
Cash and cash equivalents at the beginning of year	11,873	14,979	132,769
Cash and cash equivalents at the end of year	¥15,115	¥11,873	$ 169,020

See Notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

Aderans Holdings Co., Ltd. and Consolidated Subsidiaries
For the years ended February 28, 2010 and 2009

Note 1.

Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Aderans Holdings Co., Ltd. (the "Company"), and its consolidated subsidiaries have been prepared in accordance with accounting principles generally accepted in Japan, and from consolidated financial statements filed with the Minister of Finance, as required by the Financial Instruments and Exchange Law of Japan.

Certain items presented in the original financial statements have been reclassified for the convenience of readers outside Japan.

As permitted under the Financial Instruments and Exchange Law of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying financial statements (both in yen and in dollars) do not necessarily agree with the sum of the individual amounts.

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries.

Note 2.

Summary of Significant Accounting Policies

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries (the "Companies").

All significant intercompany transactions and unrealized profits among the Companies have been eliminated in consolidation. The difference between the cost and underlying net equity of investments in consolidated subsidiaries is deferred and amortized within 10 years.

Investments in remaining non-consolidated subsidiaries are not accounted for by the equity method because of the immaterial effect on the consolidated financial statements. The fiscal year end of three domestic consolidated subsidiaries and all overseas consolidated subsidiaries is December 31, which differs from that of the Company; however, the accounts of these subsidiaries have been consolidated with appropriate adjustments for the intercompany transactions and events to the end of the fiscal year.

Samson Co., Ltd., is excluded from the scope of consolidation due to the transfer of stock. As to Samson Co., Ltd., only profit and loss on statements of income of the company was included in the current consolidated figures, because deemed purchased date of the company was February 28, 2010.

(b) Cash and cash equivalents

For the purpose of consolidated statements of cash flows, the Companies consider all highly liquid low-risk investments with maturities of three months or less when purchased to be cash equivalents.

(c) Marketable and investment securities

Marketable and investment securities are classified and accounted for, depending on management intent. Based on the examination of the intent of holding, the Company classified those securities as held-to-maturity debt securities, equity securities issued by non-consolidated subsidiaries and available-for-sale securities.

Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by nonconsolidated subsidiaries are stated at cost by the moving-average method.

Available-for-sale securities with available fair market values are stated at market value. Unrealized gains or losses on those securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on sale of such securities are computed by the moving-average method. Available-for-sale securities without available fair market value are stated at cost by the moving-average method.

(d) Allowance for doubtful accounts

Allowances for doubtful accounts are stated at an amount considered to be appropriate based on the Companies' past credit loss experience and an evaluation of potential losses from the receivables outstanding. Overseas consolidated subsidiaries provide for doubtful accounts at the estimated amount of uncollectible receivables.

(e) Inventories

Custom-made goods are stated at the lower of cost (the specific identification method) or net realizable value.

Ready-made goods are stated at the lower of cost (the average method) or net realizable value.

Raw materials and work in process are stated at the lower of cost (first-in, first-out method or moving-average method) or market.

Supplies are principally stated at the lower of cost (the specific identification method) or net realizable value.

(f) Property, plant and equipment (except for leased properties)

Property, plant and equipment of the Companies' have been depreciated principally by the declining-balance method, at rates based on the estimated useful lives of the assets.

However, the straight-line method has been applied to buildings, excluding building fixtures, acquired after April 1, 1998, at rates based on the estimated useful lives of assets. The straight-line method is used for some domestic consolidated subsidiaries.

The straight-line method is used principally for overseas consolidated subsidiaries. Expenditures for maintenance and repairs are charged to operating expenses as incurred. Upon the disposal of property, plant and equipment, the cost and accumulated depreciation are removed from the accounts and any gain or loss is recorded as income or expenses.

(g) Intangible assets (except for leased properties)

Intangible assets are carried at cost less accumulated amortization, which is calculated by the straight-line method over the estimated useful lives (five years for software).

(h) Lease properties

Lease assets relate to finance lease transactions other than those deemed to transfer ownership.

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

Lease transactions for which start dates preceded the application of "Accounting Standard for Lease Transactions" (ASBJ Statement No.13, March 30, 2007) and "Implementation Guidance on the Accounting Standard for Lease Transactions" (ASBJ Guidance No. 16, March 30, 2007) will be accounted for in accordance with the method for operating leases.

(i) Allowance for employees' bonuses

The Company and its domestic consolidated subsidiaries provide allowance for employees' bonuses using the estimated-amount method based on the bonuses to be paid subsequent to the balance sheet dates. This allowance amounted to ¥1,255 million ($14,041 thousand) at February 28, 2010, and ¥1,252 million at February 28, 2009, and was included in other current liabilities in the consolidated balance sheets.

(j) Warranty reserve

A warranty reserve is provided based upon prior actual experience, while the Companies provide warranty on their goods. This reserve amounted to ¥103 million ($1,156 thousand) at February 28, 2010, and ¥145 million at February 28, 2009, and was included in other current liabilities in the consolidated balance sheets.

(k) Allowance for returned goods

One of the Japanese subsidiaries, Fontaine Co., Ltd., sets aside an allowance for returned goods. This allowance is provided based on accounts receivable multiplied by an average of the sales returns rate referring to the current and previous year and the gross profit rate of the current year, and amounted to ¥95 million ($1,066 thousand) at February 28, 2010, and ¥91 million at February 28, 2009, and was included in other current liabilities in the consolidated balance sheets.

(l) Accrued severance and retirement benefits—employees

The Company and some of its consolidated subsidiaries accounted for retirement benefit liabilities based on the projected benefit obligations and plan assets at the balance sheet date.

Past benefit liabilities are amortized from the time they accrue by the straight-line method for a given number of years (five years) within employees' average remaining years of service.

The actuarial difference is amortized using the straight-line method from the fiscal year subsequent to that in which the cost was incurred for the average remaining service periods of employees at the time the cost was incurred, which is five years in the case of the Group.

(m) Allowance for losses on liquidation of affiliates

An allowance for losses on liquidation of affiliates was provided by one of the Japanese subsidiaries, Samson Co., Ltd., to discontinue business.

This allowance amounted to ¥— million ($— thousand) at February 28, 2010, and ¥0 million at February 28, 2009, and was included in other current liabilities in the consolidated balance sheets.

(n) Allowance for losses on debt guarantees of affiliates

Samson Co., Ltd. records an allowance for an estimated amount of loss based on the financial conditions of affiliates to provide for loss on guarantees to its affiliates.

This allowance amounted to ¥— million ($— thousand) at February 28, 2010, and ¥24 million at February 28, 2009, and was included in other current liabilities in the consolidated balance sheets.

(o) Translation of foreign currency accounts

Balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at the rate current at the end of year except for net assets accounts, which are translated at historical rates. Statements of income of consolidated overseas subsidiaries are translated at the average rate. Differences arising from such translation are disclosed under "Foreign currency translation adjustments" on consolidated statements of changes in net assets and accumulated in the net assets section of the consolidated balance sheet.

(p) Research and development costs

Research and development costs are charged to income when incurred.

Note 3.

U.S. Dollar Amounts

The financial statements are stated in Japanese yen. The U.S. dollar amounts included in the financial statements and notes thereto represent the arithmetical results of translating yen into U.S. dollars at the rate of ¥89.43 to US$1. This is the approximate rate of exchange in effect on February 28, 2010.

Note 4.

Cash and Cash Equivalents

Reconciliation of cash and time deposits in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows at February 28, 2010 and 2009, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Cash and time deposits	¥15,381	¥ 9,941	$171,994
Cash equivalents included in marketable securities	—	2,093	—
Time deposits with maturities more than three months	(265)	(160)	(2,974)
Cash and cash equivalents	¥15,115	¥11,873	$169,020

Note 5.

Inventories

At February 28, 2010 and 2009, inventories consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Finished goods	¥2,486	¥3,103	$27,804
Work in process	156	174	1,753
Raw materials and supplies	1,258	1,235	14,077
Total	¥3,902	¥4,513	$43,634

Note 6.

Marketable and Investment Securities

(1) The following tables summarize acquisition costs, book values and fair value of securities at February 28, 2010 and 2009.

(a) Held-to-maturity debt securities

	Millions of yen			Thousands of U.S. dollars		
February 28, 2010	Book value	Fair value	Difference	Book value	Fair value	Difference
Securities with available fair values exceeding book values						
Bonds	¥1,000	¥1,000	¥ 0	$11,181	$11,184	$ 3
Subtotal	1,000	1,000	0	11,181	11,184	3
Securities other than the above						
Bonds	—	—	—	—	—	—
Subtotal	—	—	—	—	—	—
Total	¥ —	¥ —	¥—	$ —	$ —	$—

	Millions of yen		
February 28, 2009	Book value	Fair value	Difference
Securities with available fair values exceeding book values			
Bonds	¥ —	¥ —	¥ —
Subtotal	—	—	—
Securities other than the above			
Bonds	4,300	4,261	(39)
Subtotal	4,300	4,261	(39)
Total	¥4,300	¥4,261	¥(39)

(b) Available-for-sale securities

February 28, 2010	Millions of yen Acquisition cost	Book value	Difference	Thousands of U.S. dollars Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs						
Equity securities	¥30	¥38	¥ 8	$344	$435	$ 91
Subtotal	30	38	8	344	435	91
Securities other than the above						
Equity securities	¥27	¥20	¥(6)	$306	$229	$(77)
Subtotal	27	20	(6)	306	229	(77)
Total	¥58	¥59	¥ 1	$651	$665	$ 13

February 28, 2009	Millions of yen Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs			
Equity securities	¥ 533	¥ 633	¥ 100
Subtotal	533	633	100
Securities other than the above			
Equity securities	¥2,282	¥1,936	¥(345)
Subtotal	2,282	1,936	(345)
Total	¥2,816	¥2,570	¥(245)

(2) Total sales of available-for-sale securities sold for the year ended February 28, 2010, amounted to ¥2,714 million ($30,348 thousand) and in February 28, 2009, amounted to ¥— million. The related gains and losses for the year ending 2010 amounted to ¥260 million ($2,907 thousand) and ¥638 million ($7,144 thousand), respectively.

(3) The following tables summarize book values of securities with no available fair values at February 28, 2010 and 2009.

	Millions of yen 2010	2009	Thousands of U.S. dollars 2010
Held-to-maturity debt securities			
Commercial paper	¥—	¥1,497	$—
Available-for-sale securities			
Unlisted stocks	—	193	—
Other securities	¥—	¥1,001	$—

(4) Available-for-sale securities with maturities and held-to-maturity debt securities were as follows:

February 28, 2010	Millions of yen Within one year	Within five years	Within 10 years	Over 10 years	Thousands of U.S. dollars Within one year	Within five years	Within 10 years	Over 10 years
Bonds	¥—	¥—	¥1,000	¥—	$—	$—	$11,181	$—
Others	—	—	—	—	—	—	—	—
Total	¥—	¥—	¥1,000	¥—	$—	$—	$11,181	$—

February 28, 2009	Millions of yen Within one year	Within five years	Within 10 years	Over 10 years
Bonds	¥1,800	¥—	¥2,000	¥500
Others	1,497	—	—	—
Total	¥3,297	¥—	¥2,000	¥500

Note 7.

Accrued Severance and Retirement Benefits—Employees

Employees who terminate their service with the Company or one of the domestic consolidated subsidiaries are entitled to defined benefit pension plans, i.e., tax-qualified pension plans and lump-sum payment plans determined by reference to basic rates of pay, length of service and conditions under which the termination occurs.

Other domestic subsidiaries have maintained unfunded lump-sum payment plans, whereas certain overseas subsidiaries have defined contribution pension plans or nonfunded lump-sum payment plans.

The following table sets forth the funded and accrued status of the retirement benefits, and the amounts recognized in the consolidated balance sheets as of February 28, 2010 and 2009:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
(a) Projected retirement benefit obligation	¥(5,885)	¥(5,727)	$(65,812)
(b) Pension assets at fair value	3,148	2,998	35,211
(c) Unfunded retirement benefit obligation (a)+(b)	(2,736)	(2,728)	(30,601)
(d) Unrecognized actuarial differences	(81)	(218)	(907)
(e) Unrecognized past benefit liabilities	(0)	(111)	(0)
(f) Accrued employees' severance and retirement benefits (c)+(d)+(e)	¥(2,817)	¥(3,058)	$(31,508)

The components of retirement benefit costs for the years ended February 28, 2010 and 2009, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
(a) Service cost	¥ 377	¥ 401	$ 4,221
(b) Interest cost	109	106	1,223
(c) Expected return on plan assets	(29)	(28)	(335)
(d) Amortization of actuarial difference	(94)	(104)	(1,058)
(e) Amortization of past benefit liabilities	(111)	(111)	(1,244)
Total	¥ 251	¥ 264	$ 2,807

The assumptions used to calculate amounts relating to retirement benefit liabilities are as follows:

(a) Method of allocation of estimated retirement benefits	straight-line method
(b) Discount rate	2%
(c) Expected rate of return on pension assets	1%
(d) Amortization period of actuarial difference	5 years
(e) Amortization period of past benefit liabilities	5 years

Note 8.

Income Taxes

The Company and domestic consolidated subsidiaries are subject to a number of taxes based on income, which in the aggregate amount to statutory tax rates of approximately 40.7% for the year of 2010 and 2009. Foreign consolidated subsidiaries are subject to income taxes of countries in which they operate.

However, income taxes as shown in the accompanying consolidated statements of income differ from the amounts computed by applying the above-mentioned statutory tax rates to "income before income taxes".

The principal reason for this difference is the effect of timing differences in the recognition of certain expenses for tax and financial reporting purposes and the effect of permanent nondeductible expenses.

Significant components of the deferred tax assets and liabilities held by the Company and its consolidated subsidiaries as of February 28, 2010 and 2009, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Deferred tax assets:			
Unrealized profits on inventories	¥ 70	¥ 108	$ 783
Excess of retirement allowance	1,104	1,204	12,354
Accrued severance benefits for directors	3	23	44
Excess of allowance for employees' bonuses	509	506	5,693
Warranty reserve	42	59	470
Allowance for returned goods	38	37	433
Excess of depreciation	745	848	8,335
Unrealized loss on golf club memberships	13	115	147
Accumulated impairment losses	2,758	1,585	30,844
Net loss carried forward	5,198	2,768	58,124
Devaluation of securities	202	520	2,261
Allowance for restructuring losses	112	—	1,262
Other	1,063	928	11,886
Total deferred tax assets	11,862	8,707	132,642
Valuation allowance	(5,618)	(2,953)	(62,830)
Net deferred tax assets	6,243	5,753	69,811
Deferred tax liabilities:			
Reserve for special depreciation	13	14	153
Dividends from subsidiaries	136	—	1,521
Other	46	20	516
Total deferred tax liabilities	195	35	2,190
Net deferred tax assets	¥ 6,047	¥ 5,718	$ 67,621

An analysis of the difference between the statutory tax rate and the Company's effective tax rate for the years ended February 28, 2010 and 2009, have been omitted as losses before income taxes and minority interests were recorded.

Note 9.

Leases

(1) Finance Leases

Future lease payments and lease payments under finance leases at February 28, 2010 and 2009, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Outstanding finance lease payments			
Within one year	¥ 86	¥182	$ 971
Over one year	56	164	628
Total	143	347	1,599
Lease payments	¥181	¥144	$2,031

A summary of assumed amounts of acquisition cost, accumulated depreciation and net book value at February 28, 2010 and 2009, were as follows:

	Millions of yen			
February 28, 2010	Acquisition cost	Accumulated depreciation	Accumulated derogation	Net book value
Buildings	¥ —	¥ —	¥—	¥ —
Equipment	304	198	—	106
Vehicles	6	5	—	0
Software	127	91	—	36
Total	¥438	¥295	¥—	¥143

	Thousands of U.S. dollars			
February 28, 2010	Acquisition cost	Accumulated depreciation	Accumulated derogation	Net book value
Buildings	$ —	$ —	$—	$ —
Equipment	3,409	2,222	—	1,186
Vehicles	71	65	—	5
Software	1,425	1,018	—	407
Total	$4,906	$3,306	$—	$1,599

	Millions of yen			
February 28, 2009	Acquisition cost	Accumulated depreciation	Accumulated derogation	Net book value
Buildings	¥ 99	¥ 32	¥ —	¥ 67
Equipment	493	262	40	191
Vehicles	6	4	—	1
Software	157	82	13	62
Total	¥757	¥381	¥53	¥322

(2) Operating Leases

Future lease payments under operating leases at February 28, 2010 and 2009, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Outstanding lease payments			
Within one year	¥ 715	¥ 816	$ 7,995
Over one year	2,479	2,948	27,730
Total	¥3,194	¥3,764	$35,725

Note 10.

Research and Development Costs

Research and development costs included in selling, general and administrative expenses for the years ended February 28, 2010 and 2009, amounted to ¥1,575 million ($17,620 thousand) and ¥1,335 million, respectively.

Note 11.

Net Income per Common Share

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common stock shares outstanding for the period.

Reconciliation of the difference between basic and diluted net income per share for the years ended February 28, 2010 and 2009, were as follows:

Note 12.

Segment Information

(1) Business Segments

As the contribution of the Hair-related business towards total sales, operating income and assets in all segments exceeded 90%, information by business segment is not prepared or disclosed.

(2) Geographical Segments

	Millions of yen						
Year ended February 28, 2010	Japan	North America	Europe	Asia	Total	Elimination	Consolidated
Sales							
Outside customers	¥40,806	¥12,852	¥3,373	¥ 324	¥57,355	¥ —	¥57,355
Intersegment	223	1,718	0	2,949	4,892	(4,892)	—
Total	41,029	14,570	3,373	3,274	62,247	(4,892)	57,355
Operating expenses	44,605	15,097	3,232	3,185	66,121	(3,500)	62,620
Operating income	(3,576)	(526)	140	88	(3,873)	(1,391)	(5,264)
Total assets	¥48,560	¥ 4,494	¥2,514	¥4,586	¥60,156	¥ 3,213	¥63,369

	Thousands of U.S. dollars						
Year ended February 28, 2010	Japan	North America	Europe	Asia	Total	Elimination	Consolidated
Sales							
Outside customers	$456,291	$143,715	$37,717	$ 3,625	$641,349	$ —	$641,349
Intersegment	2,497	19,212	7	32,985	54,702	(54,702)	—
Total	458,789	162,927	37,724	36,610	696,052	(54,702)	641,349
Operating expenses	498,776	168,817	36,150	35,625	739,370	(39,147)	700,222
Operating income	(39,987)	(5,889)	1,574	985	(43,318)	(15,554)	(58,872)
Total assets	$542,998	$ 50,257	$28,120	$51,286	$672,662	$ 35,930	$708,593

	Millions of yen						
Year ended February 28, 2009	Japan	North America	Europe	Asia	Total	Elimination	Consolidated
Sales							
Outside customers	¥48,981	¥17,099	¥3,950	¥ 431	¥70,463	¥ —	¥70,463
Intersegment	278	1,454	0	4,359	6,093	(6,093)	—
Total	49,260	18,554	3,951	4,790	76,557	(6,093)	70,463
Operating expenses	45,082	19,488	3,711	4,532	72,815	(4,859)	67,955
Operating income	4,177	(934)	240	258	3,741	(1,233)	2,508
Total assets	¥53,170	¥7,338	¥3,315	¥5,373	¥69,198	¥ 6,903	¥76,102

(3) Overseas Sales

Year ended February 28, 2010	North America	Europe	Asia	Others	Total
	Millions of yen				
Overseas sales	¥12,639	¥3,397	¥330	¥89	¥16,456
Consolidated net sales	—	—	—	—	57,355
Share of overseas sales	22.0%	5.9%	0.6%	0.2%	28.7%

Year ended February 28, 2010	North America	Europe	Asia	Others	Total
	Thousands of U.S. dollars				
Overseas sales	$141,336	$37,988	$3,693	$998	$184,017
Consolidated net sales	—	—	—	—	641,349
Share of overseas sales	22.0%	5.9%	0.6%	0.2%	28.7%

Year ended February 29, 2009	North America	Europe	Asia	Others	Total
	Millions of yen				
Overseas sales	¥16,856	¥3,949	¥446	¥114	¥21,367
Consolidated net sales	—	—	—	—	70,463
Share of overseas sales	23.9%	5.6%	0.6%	0.2%	30.3%

Note 13.

Subsequent Events

Dissolution of subsidiary

(1) Reason for dissolution and special liquidation

The main businesses of ADN Co., Ltd., a consolidated subsidiary, were ad agency and golf course management, with the ad agency division supporting the sales promotion activities of companies under the Aderans Group umbrella and the golf course management division emphasizing regional development and social contribution activities in Niigata Prefecture. Unfortunately, ADN was plagued by poor fiscal results and a recovery in the short term was deemed highly unlikely. Seeking to concentrate management resources in Group operations with solid growth potential, the Company's Board of Directors approved a recommendation at its meeting on October 14, 2009, for dissolution and special liquidation of ADN.

At AND's regular general meeting of shareholders on March 13, 2010, shareholders voted to dissolve the company and an application for special liquidation was filed with the Tokyo District Court on March 18, 2010.

Such events often have an impact on consolidated profits, but management expects the dissolution and special liquidation of ADN to be minimal.

Significant merger

(1) Purpose

The Company's Board of Directors resolved at a meeting on March 18, 2010, that the best way to enhance operating efficiency within the Aderans Group would be for Aderans Holdings to absorb the operations of Aderans Co., Ltd., which markets custom-made wigs to men and women at directly operating salons, and Fontaine Co., Ltd., which markets ready-made wigs to women through such sales points as department stores.

(2) Names of companies to be absorbed by Aderans Holdings.

Aderans Co., Ltd.
Fontaine Co., Ltd.

(3) Method

This will be an absorption-type merger wherein Aderans and Fontaine are absorbed into the Company and dissolved, with the Company as the surviving company.

(4) Share issue and allocation

Because the Company holds all shares in Aderans and in Fontaine, no new shares will be issued in conjunction with the merger.

(5) Size and principal operations of companies to be absorbed in the merger

(1)	Name	Aderans Co., Ltd.	Fontaine Co., Ltd.
(2)	Address	6-3, Shinjuku 1-chome, Shinjuku-ku, Tokyo	5-3, Shinjuku 5-chome, Shinjuku-ku, Tokyo
(3)	Representative	Senkichi Yagi, President	Kunio Ie, President
(4)	Principal line of business	Sale of hair-related products	Sale of hair-related products
(5)	Paid-in capital	¥2,000 million	¥1,539 million
(6)	Established	September 2007	January 1979
(7)	Number of shares issued	2,000 shares	8,070,000 shares
(8)	Fiscal period	March to February	March to February
(9)	Number of employees	1,795	881
(10)	Major shareholder and shareholding ratio	Aderans Holdings Co., Ltd (100%)	Aderans Holdings Co., Ltd (100%)
(11)	Most recent fiscal results	Fiscal year ended February 28, 2010	Fiscal year ended February 28, 2010
	(Millions of yen)		
	Net sales	¥28,981	¥9,834
	Net income (loss)	(6,127)	169
	Total assets	18,331	7,565
	Total liabilities	11,315	2,006
	Net assets	7,015	5,558

Appropriation of retained earnings

On May 27, 2010, the shareholders of the Company approved no payment of a year-end cash dividend.

Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of Aderans Holdings Co., Ltd. (the "Company"), and its consolidated subsidiaries as of February 28, 2010 and 2009, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards, procedures and practices require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries at February 28, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended February 28, 2010 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

Kyobashi & Co.

Tokyo, Japan
May 27, 2010

Subsidiaries (Consolidated Companies)

As of August 31, 2010

Aderans Holdings Co., Ltd.

Japan

● **Aderans Co., Ltd.**
(a) September 3, 2007
(Newly established through holding structure)
(b) 100%

● **FONTAINE Co., Ltd.**
(a) January 5, 1979
(Became a wholly owned subsidiary as of December 1, 2003)
(b) 100%

North America

■ **Aderans America Holding, Inc.**
(a) November 23, 1994
(b) 100%

- ● **Bosley, Inc.**
  (a) August 3, 1989 *(Acquired August 1, 2001)*
  (b) 96.2% *(Indirect)*
  - ■ **Bosley International Holdings, LLC.**
    (a) March 15, 2007
  - ● **Bosley Mexico, S.R.L.**
    (a) May 14, 2007
  - ● **HT Support Services S.R.L.**
    (a) February 1, 2008
  - ● **Bosley Medical Institute of Canada, Inc.**
    (a) March 25, 1997
    (Acquired August 1, 2001)
  - ▼ **Sterling Accommodations, Inc.**
    (a) November 8, 1990
    (Acquired August 1, 2001)
- ● **Aderans Hairgoods, Inc.**
  (a) November 2009
- ▼ **Aderans Research Institute, Inc.**
  (a) June 25, 2002

Europe

■ **Aderans Europe B.V.**
(The Netherlands)
(a) January 9, 1992
(b) 100%

- ■ **Aderans France SAS** (France)
  (a) March 1, 1980 *(Acquired March 1, 1992)*
  (b) 100% *(Indirect)*
  - ● ● **Camaflex Société Européenne de Distribution S.A.** (France)
    (a) December 5, 1956 (*Acquired March 1, 1992)*
    (b) 100% *(Indirect)*
- ● **Création de Paris Camaflex Vertriebs G.m.b.H.** (Germany)
  (a) July 26, 1966 *(Acquired March 1, 1992)*
  (b) 100% *(Indirect)*
- ● ● **D. van Nooijen B.V.** (The Netherlands)
  (a) January 1, 1984 *(Acquired March 1, 1994)*
  (b) 100% *(Indirect)*
- ● ● **Trend Hair Supplies Co., Ltd.** (United Kingdom)
  (a) March 26, 1973 *(Acquired May 13, 2002)*
  (b) 100% *(Indirect)*
- ● ● **Carl M Lundh AB** (Sweden)
  (a) 1852 *(Acquired January 7, 2005)*
  (b) 100% *(Indirect)*

Asia (excluding Japan)

● **Aderans Inc.** (Taiwan)
(a) January 12, 1990
(b) 100%

● **Aderans (Shanghai) Co., Ltd.** (China)
(a) December 2005
(b) 100%

● **Aderans (Shanghai) Trading Co., Ltd.** (China)
(a) December 2005
(b) 100%

■ **Aderans Thai. Ltd.** (Thailand)
(a) October 17, 1986
(b) 100%

- ■ **World Quality Co., Ltd.** (Thailand)
  (a) September 3, 1992
  (b) 100% *(Indirect)*

■ **Aderans Philippines, Inc.**
(Philippines)
(a) January 31, 2002
(b) 100%

■ Regional Holding Company
● Wholesale Business
● Retail and Related Services
▼ Other Business
■ Manufacturing Company

(a) Established
(b) Percentage of parent company's ownership

Note: Consolidated subsidiaries under liquidation are not shown.

Corporate Data

Aderans Holdings Co., Ltd.
As of February 28, 2010

Head Office (As of August 31, 2010)
6th and 7th Floor, Sumitomo Fudosan Yotsuya Building,
13-4 Araki-cho, Shinjuku-ku, Tokyo 160–0007

Founded
March 1, 1969

Paid-in Capital
¥12,944 million

Number of Shares Authorized
138,000,000

Number of Shares Issued
40,213,388

Number of Shareholders
7,693

Principal Shareholders

Name	Number of Shares and Percentage of Voting Rights: Thousands of Shares	%
Steel Partners Japan Strategic Fund (Offshore) LP	11,155	30.4
State Street Bank and Trust Company	5,675	15.4
Nobuo Nemoto	3,882	10.6
Japan Trustee Services Bank, Limited (Trust Account)	1,123	3.1
The Master Trust Bank of Japan, Limited (Trust Account)	835	2.3
The Dai-Ichi Mutual Life Insurance Company	726	2.0
Aderans Holdings employees' association	441	1.2
Oei Shoji	376	1.0
The Bank of New York Treaty JASDEC ACCOUNT	326	0.9
The Bank of New York Non-Treaty JASDEC ACCOUNT	295	0.8

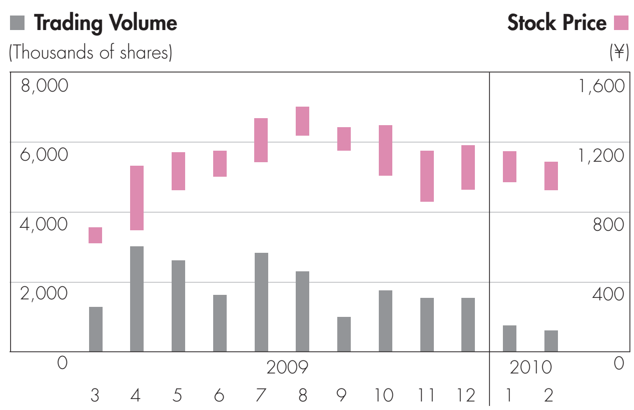
Note: The Company holds 3,404 thousand shares of its own shares in treasury stock.

Stock Listings
First Section of Tokyo Stock Exchange

Transfer Agent and Registrar
The Chuo Mitsui Trust and Banking Company, Limited,
Securities Department
8-4, Izumi 2-chome, Suginami-ku, Tokyo 168-0063

Number of Employees (Consolidated Basis)
5,102

Stock Price Range



Aderans Holdings Co., Ltd.

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