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A d e r a n s

ANNUAL REPORT

Growing as a comprehensive hair-related company
on the world stage



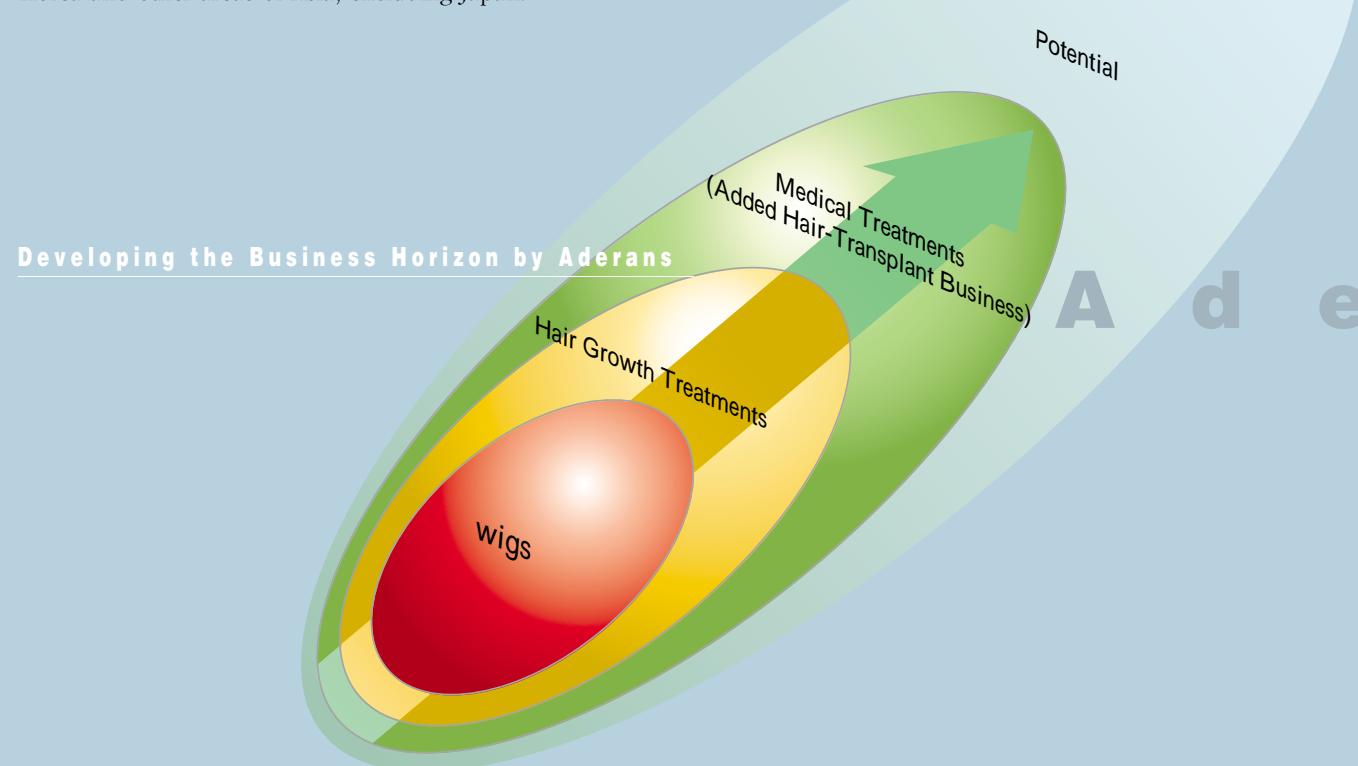
Aderans Group

Solid Brand Reputation

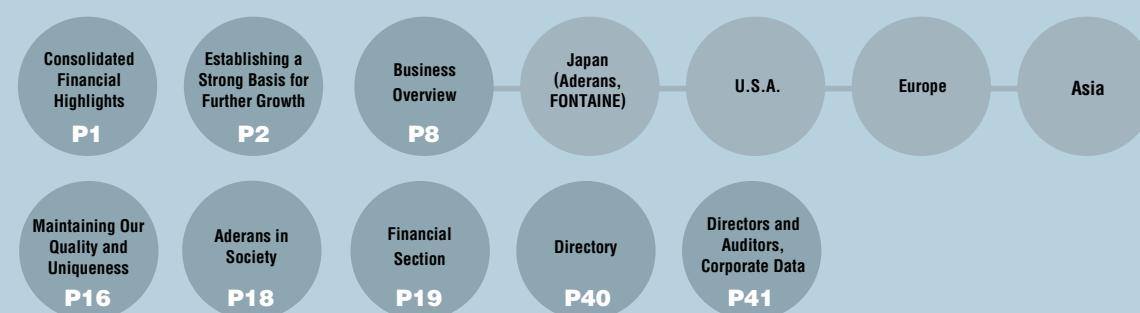
Established in 1969, Aderans Co., Ltd., is a comprehensive provider of hair replacement products and hair-related services for men and women. The Company lays claim to Japan's leading brand of custom-made hair-replacement products for men and women, and has also built a solid presence in the women's fashion wig market through Fontaine Co., Ltd., a domestic subsidiary.

Global Presence

Aderans heads a group of 25 consolidated companies—three operating in Japan and 22 overseas—with a groupwide workforce exceeding 5,100 people. Members of the Group in the United States and Europe have captured high market shares, especially in women's fashion wig wholesaling. This achievement is complemented by brisk sales of men's wigs in Taiwan, South Korea and other areas of Asia, excluding Japan.



CONTENTS



Comprehensive Products and Services

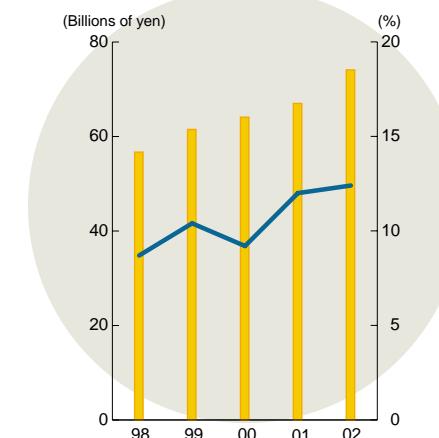
We augment our mainstay custom-made wigs for men and women with a rich selection of products and services. We seek to cement our position as the leader of a comprehensive hair-related business group active in the three sectors of wigs, hair-transplant and hair growth. Toward this end, on August 1, 2001, we acquired U.S.-based Bosley Medical Institute, Inc., and added the hair-transplant business to our corporate résumé.

Mission and Goals

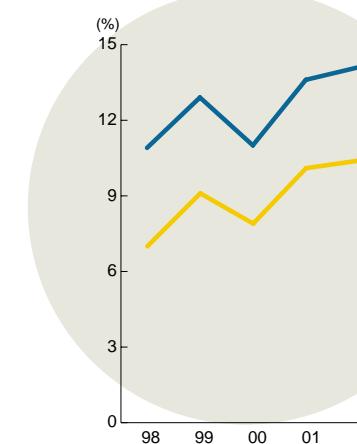
Our mission is to alleviate whatever concerns people may have about hair loss, regardless of the cause or degree. Our corporate slogan—Wellness—represents concerted efforts to contribute to people's health and happiness through an enhanced physical appearance and a positive state of mind. For investors, we strive to achieve long-term growth and higher shareholder value.

Aderans

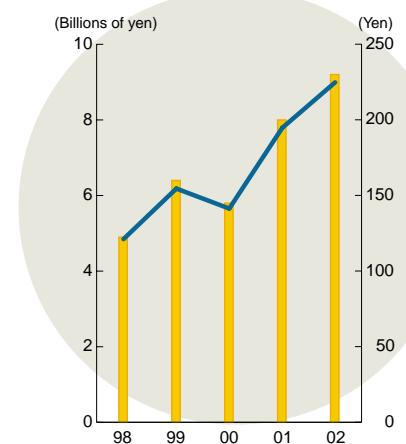
Net Sales (Left scale)
Net Income to Net Sales Ratio (Right scale)



Return on Assets
Return on Equity



Net Income (Left scale)
Net Income per Share (Right scale)



Consolidated Financial Highlights

	2002	2001	Thousands of U.S. dollars
Net sales	¥74,181	¥67,022	10.7
Operating income	16,659	15,925	4.6
Net income	9,200	8,020	14.7
Per share amounts (yen and dollars):			
Net income	224.76	194.63	15.5
Cash dividends applicable to the year	28.00	26.00	7.7
Total assets	92,284	83,890	10.0
Shareholders' equity	68,577	62,126	10.4
Net cash provided by operating activities	9,438	12,018	-21.5
Depreciation and amortization	2,721	2,209	23.2
Capital expenditures	2,429	2,537	-4.3
Other year-end data:			
Number of shares outstanding (thousand)	41,713	41,713	—
Number of employees	5,172	4,544	13.8

Note: The U.S. dollar amounts represent the arithmetical results of translating yen into U.S. dollars at the rate of ¥134.35 to US\$1.



Establishing a Strong Basis for

For the fiscal year ended February 28, 2002, Aderans posted ¥55.2 billion in non-consolidated net sales and ¥74.1 billion on a consolidated basis. Both figures are close to the respective forecasts initially disclosed by the Company and indicate that management is on the right track with its strategies.

In the interview below, Takayoshi Okamoto, President of Aderans, describes the Company's future direction, based on a revised medium-term management plan introduced in March 2002.



Takayoshi Okamoto
President

The new medium-term management plan

Targets

	Billions of yen		
	2003 (plan)	2004 (plan)	2005 (plan)
Consolidated			
Net sales	¥83.5	¥87.2	¥91.5
Recurring profit	16.8	17.4	18.6
Recurring profit to net sales ratio	20.1%	19.9%	20.3%
Non-consolidated			
Net sales	55.2	57.0	58.8
Recurring profit	14.8	15.2	15.6
Recurring profit to net sales ratio	26.8%	26.6%	26.5%

Note : Consolidated figures are calculated using exchange rate of ¥130.00 to US\$ 1.00, and ¥115.00 to Euro (€) 1.00.

Further Growth

What are your strategies for restoring the performance of the men's market?

Q 2 A

We expect lower birthrates in Japan to gradually streamline the latent market of men in their 20s—our new client target group—by about two million over the next decade or so. Our priority, therefore, will be to acquire a higher share of the available market. To do this, we will carefully track the needs of each age group, create distinctive products that separate us from the competition, and implement advertising and promotional campaigns that attract more attention to our various brands.

The prerequisite for corporate growth in the medium term is to revitalize our lineup of hair-replacement products and secure demand from complementary age

groups—that is, men over 30. One approach toward this end is the debut of the Aderans Father's Club, a membership sales system. After a year of test marketing wigs and hair-replacement products among specific groups in certain areas to identify trends and promising marketing routes, we initiated full-scale access to the Club in major urban centers such as Tokyo and Osaka from March 2002.

The Aderans Father's Club is just the beginning. We aim to reshape the men's wig market of the 21st century with new products and utilize innovative marketing processes, including via the Internet, to catch the purchasing attention of consumers. Ultimately, rising demand from new male clients should contribute ¥10 billion to non-consolidated net sales in three years' time.

Goal 1

Revitalize the men's market and attract more male clients

- Capture market share through new marketing methods
- Promote a steady increase in client numbers
- Cultivate demand for wigs and hair-replacement products

Strategy for the domestic market

What is happening in the domestic women's market?

Q 3 A

Women over 50 are our main target market today. We estimate that the number of clients from this segment of the buying public could rise by about two million by 2010. Theoretically, then, latent demand will expand. Our basic strategy is to capitalize on emerging trends with a timely assortment of stylishly appealing products and engaging promotions that win women in this target demographic to our brands.

The patterns of wig use between men and women are quite different, in both frequency and purpose of use. Therefore,

our marketing approaches must also be different from those applied to the men's market. In particular, we need to encourage female clients to utilize our products and services more than just now and then.

Goal 2

Further expand the women's market and secure a stable share of this client segment

- Implement strategies to capture interest of primary target group
- Promote strategies that expand the target client base
- Concentrate on appealing feminine characteristics when developing products and services

We also aim to develop haircare systems for young women and broaden interest for such systems among all segments of the female population. These systems have already won favor among male clients.

Guided by these signposts, we will arrive at our ultimate destination: consolidated net sales of ¥91.5 billion and recurring profit of ¥18.6 billion by February 28, 2005.

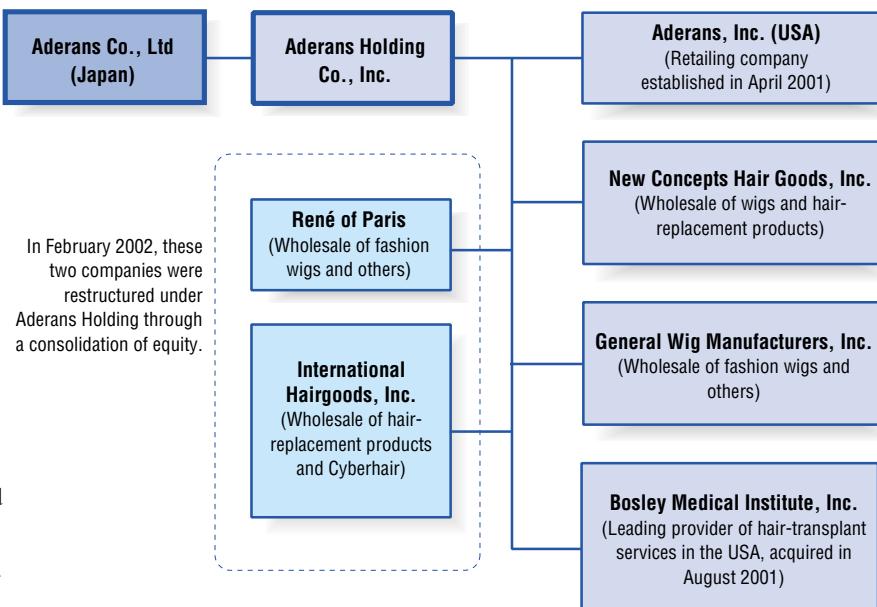
Globalization and comprehensive hair-related businesses

Q 4 How has Aderans strengthened its operating structure in the United States?

A Actually, there were three different ways during the last fiscal year.

First, we wrapped up the first stage of capital and distribution network restructuring and, in the process, consolidated our local subsidiaries under Aderans Holding Co., Inc. Second, we completed a network of local wholesaling and retailing companies. And third, we brought Bosley Medical under our business umbrella, thus establishing a structure for providing comprehensive hair-related businesses in the region.

Our next step is for existing wholesaling operations to secure a wider market share and further enhance profitability. The development of retailing operations was delayed slightly by the September 11 terrorist attacks in the United States, but we still plan to open a few stores in the second half of calendar 2002.



Q 5 How is Aderans doing in the hair-transplant business?

A Aderans' participation in the hair-transplant business is through Bosley Medical.

Bosley Medical had braced for lower sales in the wake of the terrorist attacks in the United States. However, the institute's results for the January–March first quarter of 2002 were better than anticipated and indicate a faster-than-expected recovery to pre-September 11 levels. Consequently, we have started discussions regarding a resumption of the institute's plans to expand its consultation and surgical office network. The proposals had initially been broached as a means to boost Bosley Medical's share of the local market above its current 10% but were put on hold after September 11.

Plans are also in the works for Bosley Medical to set up consultation offices and other client-oriented access points in Mexico and Canada. In addition, we hope to make the institute's hair-transplant procedures available to clients in Japan and have engaged market research companies in the United States and Japan to conduct a feasibility study toward this end. Utilizing a sharp competitive edge in the domestic market, we are confident that we can bring institute's style hair-transplant procedures to Japan. Our familiarity with the relevant legal procedures and our understanding of distinctly Japanese market characteristics should expedite their successful introduction.



Establishing a Strong Basis for Further Growth

What are the Company's plans for Europe and the rest of Asia?

Q

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In Europe, we will concentrate on a reorganization and consolidation of unprofitable corners within department stores and an expansion of directly operated outlets. Paralleling this effort, we may also implement a reorganization and consolidation of affiliates' capital and distribution networks, similar to what we accomplished in the United States. Meanwhile, in Asia, excluding our home base of Japan, we will continue to apply the business model that has been so successful in Taiwan to retailing operations in South Korea and Thailand.

Our basic policy for overseas development remains unchanged. In the United States, Europe and other geographical segments where the wig industry is already well established, we will enhance the Group's market share through local acquisitions. In markets where the wig industry is not yet well established—such as promising markets in Asia—we will invest people, products and money directly to build a strong local presence. We are also studying the business potential in Singapore, Hong Kong and Australia.

Strengthening Group Capabilities in the U.K.

On May 13, 2002, Aderans acquired Trend Hair Supplies Company Limited, a leading wig and hair-replacement product marketing company in the U.K. Trend Hair Supplies has 37-year history, during which it has built up a variety of sales channels, including wholesaling and exports, two direct retailing locations and mail-order. We expect the company to have a strategic role for us in European markets.

Cultivating and maintaining a high profile abroad

How is Aderans reinforcing its overseas production capabilities?

Q

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A

Construction of a new factory in the Philippines is well under way, and is expected to be completed by the end of this calendar year, with full-scale production scheduled for summer of year 2003.

Our factory in Thailand is already a world-caliber facility. As a point for integrated product development, manufacturing and marketing, it is a vital component of the Aderans Group. The introduction of advanced equipment at our operations in the Philippines will not only augment existing capabilities there, it will also dramatically enhance overall production scale and capacity.

Does the new medium-term management plan include a numerical goal for overseas operations?

Q

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A

Reinforced by the stronger overseas operating foundation we expect to build through the strategies outlined above, aggregate net sales from activities abroad should reach an amount equivalent to ¥50 billion.



Q

9

A

What's next for the new-concept salon?

I must preface my answer to that question with a few words about our satellite salon network.

We achieved our initial goal of 50 satellite salons as of February 28, 2002. Through this network, our products and services have become more accessible to people in areas outside major urban centers. Over the next three years, we aim to offer all 50 locations to independent operators through a profit-sharing system. At the end of February 2002, 18 satellite salons had already been handed over.

Now we can turn our attention to new-concept salons, which combine the expertise of barbers and hairdressers with the products and services of the Aderans Group. As of February 28, 2002, we had four such salons in operation. Their atmosphere and design reflect the characteristics of the neighborhood in which they are located. Each salon has its own ambience, created by a unique décor, which caters to the predominant age group in the locality.

As each salon turns a profit on its barber and hairdressing business, we will gradually augment these operations with full-scale promotion and provision of high-value-added items from the Group's service menu. Over the next three years we will verify the business know-how of salon managers from several angles and determine the viability of national network development.

Is Aderans considering any new distribution channels?

Q

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A

We've secured one new route already. In July 2001, we tied up with Seven-Eleven Japan Co., Ltd., to distribute shampoo, rinse and hair-growth treatments developed jointly with the convenience store operator for sale at its stores.

We will continue to study the market and capitalize on promising complementary routes that facilitate wider distribution of Aderans Group products.



Aderans Group Products including Posté, a hair accessory.



New concept salon, JACQUES DARCEL.

Our mission and goals**Q** *How will Aderans build a stronger corporate structure?*

11 **A** The new medium-term management plan highlights four goals that Aderans must address in building a stronger corporate structure:

- Enhance the skills of personnel;
- Reinforce crisis management capabilities;
- Strengthen investor relations activities; and
- Clarify the Company's social responsibility.

We are working resourcefully to achieve these goals.

If a stronger corporate structure were to be reflected in a number, it would be higher profits. This emphasis has yielded commendable results so far, substantiated by a non-consolidated recurring profit ratio of 25% or more over the past few years.

Another measure of a solid business foundation is the buyback of treasury stock, a motion that was approved at the most recent General Shareholders' Meeting. We will apply various mechanisms to steadily expand our operations, pegged to a stable net worth, and we will seek policies that provide stable dividends for our shareholders.

In addition to our own activities, we participated in the December 2001 establishment of the Japan Hair Industry

Council, a major development in the domestic industry. The council, which comprises representatives from 11 major Japanese corporations, including Aderans, provides a venue for tackling issues from several perspectives, particularly the consumer's, which should help ensure a viable future for this industry.

Over the three years of the new medium-term management plan and beyond, the Aderans headquarters, as well as Fontaine and all the domestic and overseas subsidiaries in the Aderans Group, will work as one, all equally committed to achieving our stated goals.

I believe Aderans' mission is to fill a social need and to be a company of permanence.

Success requires that the entire Group contributes to higher corporate value.

Shareholders and clients are also integral to our success. Look at the Group from various angles and do not hesitate to comment candidly on what you see.

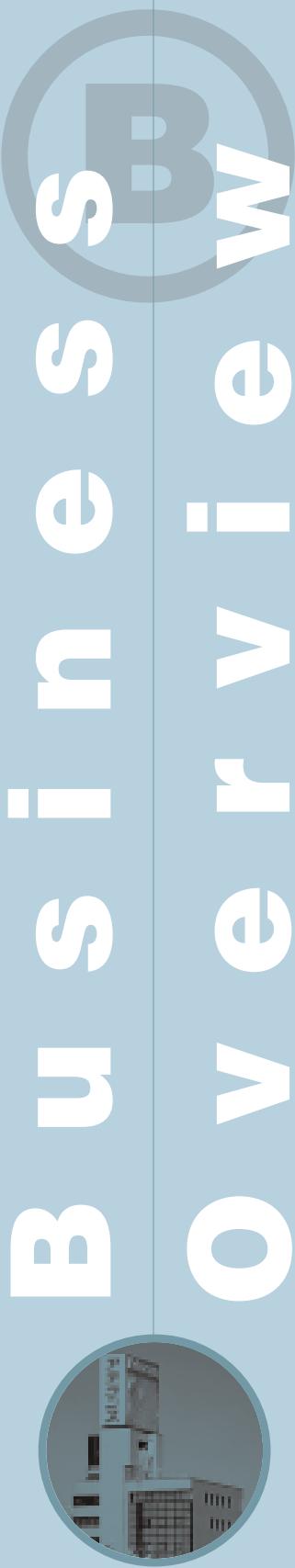
On behalf of the Board of Directors, I wish to thank you for your encouragement and ask for your continued support of our efforts.

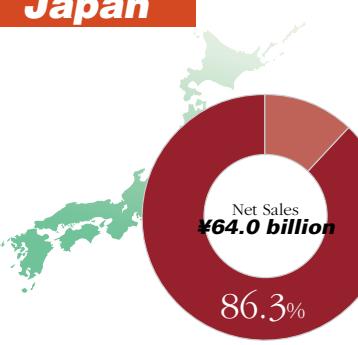
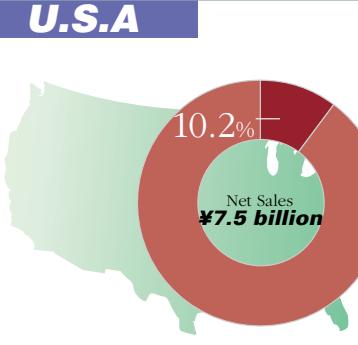
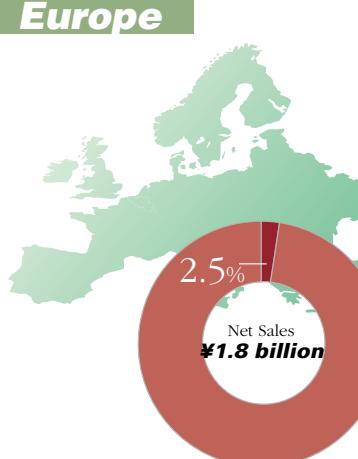


June 2002

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Takayoshi Okamoto
President



Market & Strengths	Sales Composition (As of February 28, 2002)	Consolidated Companies
<ul style="list-style-type: none"> Clients have access to an assortment of products and services through a nationwide network of more than 200 Aderans salons staffed by fully trained professionals who also underpin the Company's solid reputation for aftercare services. Aderans is the largest provider of hair-replacement products in Japan. With advanced research and development capabilities—exemplified by Cyberhair, an artificial hair engineered in-house—the Company offers a rich selection of products and services geared to men and women of different age groups. 	 <p>Japan Net Sales ¥64.0 billion 86.3%</p>	<p>Aderans Co., Ltd.</p> <ul style="list-style-type: none"> FONTAINE Co., Ltd.: <ul style="list-style-type: none"> Leader in the domestic market for women's fashion wigs. Wholesales women's fashion wigs and hair-related products to department stores, and merchandise to beauty salons; retails through 29 directly operated boutiques.
<ul style="list-style-type: none"> Wholesale operations have captured between 40% and 50% of the local market for women's fashion wigs and hairpieces. In April 2001, the Company established Aderans, Inc., in Los Angeles, to conduct retail activities in the United States. Operations should begin in the second half of calendar 2002. Bosley Medical has secured the leading share—10%—in the U.S. hair-transplant market. 	 <p>U.S.A Net Sales ¥7.5 billion 10.2%</p>	<ul style="list-style-type: none"> Aderans Holding Co., Inc.: Holding company controlling U.S. subsidiaries and operations. International Hairgoods, Inc.: <ul style="list-style-type: none"> Leader in wholesaling of men's hair-replacement products. Promotes existing artificial-hair products, including Cyberhair created by Aderans, throughout the United States. Aderans, Inc. <USA>: <ul style="list-style-type: none"> A retailing company of hair replacement products. Bosley Medical Institute, Inc.: <ul style="list-style-type: none"> A leading company of hair-transplant business in the United States. New Concepts Hair Goods, Inc.: <ul style="list-style-type: none"> Boasts solid reputation in the human-hair products.
<ul style="list-style-type: none"> Eight Aderans Group companies, including Camaflex, with operations in France, Germany, Belgium and the Netherlands, have achieved aggregate sales of about ¥1.8 billion and command high shares of the men's custom-made wig and women's fashion wig markets in Europe. We will aggressively capitalize on direct retailing opportunities and restructure the distribution network, while tracking the profitability of existing wholesale companies. 	 <p>Europe Net Sales ¥1.8 billion 2.5%</p>	<ul style="list-style-type: none"> Aderans Europe B.V. <the Netherlands>: Holding company for Group companies in Europe. Gesmofra S.A. <France>: Holding company for Camaflex S.A. and Monfair Mode S.A.R.L. Camaflex S.A. <France>: <ul style="list-style-type: none"> Largest distributor of wigs and hair-replacement products in France. Wholesales women's fashion wigs and hair accessories, as well as men's hair-replacement products, particularly Cyberhair products, to wig shops and beauty salons. Retails fashion wigs and hair accessories at department stores and directly operated boutiques. Monopolies sales of fashion wigs through department stores in France. Exports hair accessories to Spain, Italy, the United Kingdom and the Middle East. Créations de Paris Camaflex Vertriebs G.m.b.H. <Germany>: <ul style="list-style-type: none"> Wholesales women's fashion wigs and hair accessories, as well as men's hair-replacement products, to wig shops and beauty salons. Exports to such countries as Sweden, Switzerland, Austria and parts of Eastern Europe.
<ul style="list-style-type: none"> We intend to expand operations in Taiwan, South Korea and Thailand by applying the business model used in Japan and by directing personnel, equipment and capital from Group companies to each country. In Taiwan, we seek to attract new clients by marketing men's wigs through direct retailing outlets and by fostering demand for women's fashion wigs through department stores. Manufacturing facilities in Thailand and the Philippines, which produce items distributed by Group companies worldwide, function as vital, strategic planning points for the Group as a whole. They have world-class equipment and possess excellent product development and marketing capabilities. 	 <p>Asia (excluding Japan) Net Sales ¥726 million 1.0%</p>	<ul style="list-style-type: none"> Aderans Inc. <Taiwan>: <ul style="list-style-type: none"> Sells custom-made wigs and provides related services. Uses the Aderans' business model to promote sales at five directly operated salons. Has successfully used television commercials to achieve higher sales. Aderans Thai., Ltd. <Thailand>: <ul style="list-style-type: none"> Implants hairs into custom-made wig and hairpiece foundations. Manufactures fashion wigs and hair-replacement products. World Quality Co., Ltd. <Thailand>: <ul style="list-style-type: none"> Manufactures the foundations of custom-made wigs and hairpieces. Implants hairs into wig foundations. Dyes and otherwise processes human hair. Produces Cyberhair. Allen Arthur (Manila), Inc. <the Philippines>: <ul style="list-style-type: none"> Manufactures the foundations of custom-made wigs and hairpieces. Implants hair into wig foundations.

Note: On May 13, 2002, Aderans acquired Trend Hair Supplies Company Limited in the U.K. and make it as a consolidated company.

● Holding Company ● Marketing Company ● Manufacturing Company ● Other Business

Service System

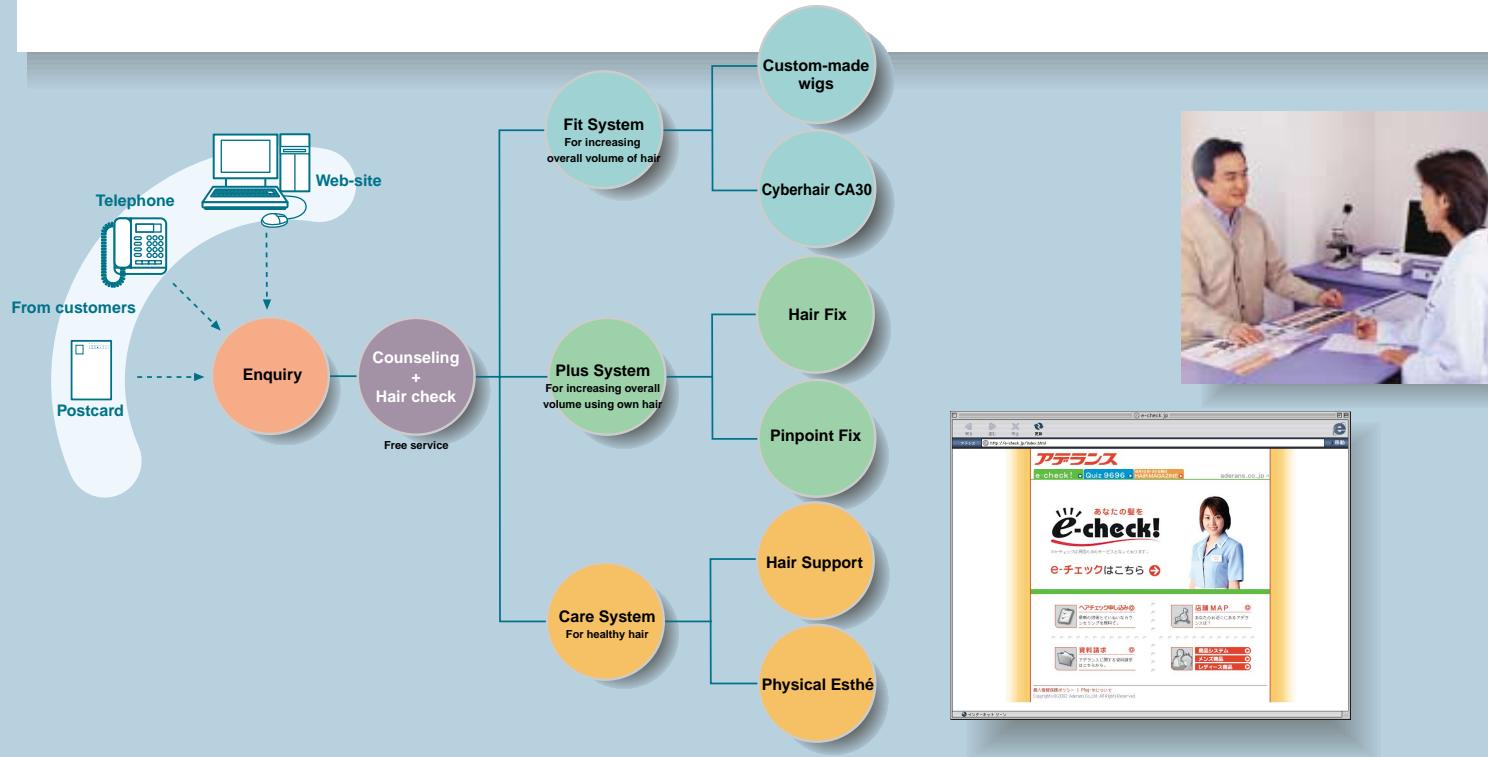
Diversified Channels

Since communication between Aderans and its clients begins with counseling, the Company seeks to provide potential clients with easy access to these services. Inquiries can be made by phone, postcard or online. Clients have the option of meeting with one of our specially trained professionals at salons, counseling rooms or in the privacy of their own home.

In recent years, Aderans has recognized the potential of its web site as a marketing channel with particular promise.

Network

Aderans boasts a network featuring three different yet complementary types of salon that enable the Company to fully address the diverse needs of its client groups. This nationwide network comprises 168 regular salons, including ladies' salons and counseling rooms, which operate in large urban centers; 50 satellite salons, which cater to clients outside major cities; and four new-concept salons, which debuted in December 2000. These high-value-added new-concept salons combine barber and hairdressing services with access to products marketed by the Aderans Group.



Each new-concept salon embodies a distinct character that reflects the neighborhood in which it is located as well as the age group of the target market, but they all function as portals to high-value-added services. Clients have access to the haircutting services found at conventional barber shops and beauty salons in addition to Aderans' extensive service menus, including Hair Support and Physical Esth  .

In a bid to support local operators who seek to run a location independently, we introduced a profit-sharing system into our satellite salon business.

Marketing Strategies

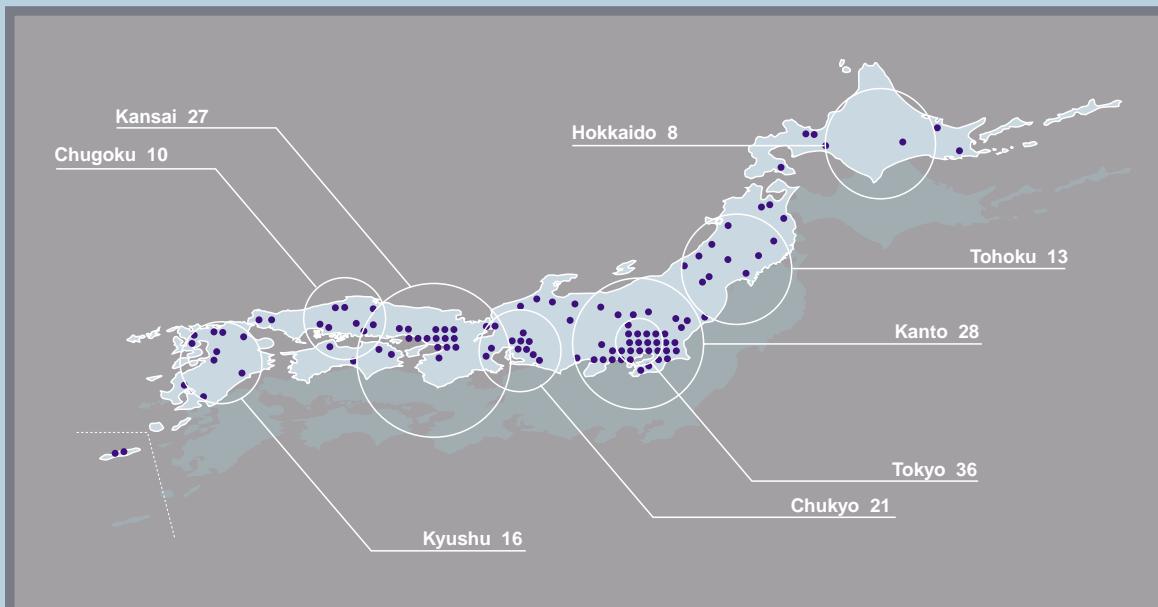
Aderans has successfully expanded its client base through strategic advertising campaigns that zero in on target markets by gender and age group. This effort is augmented by multifaceted marketing approaches.

One new marketing strategy is the Aderans Father's Club, our first membership sales system to promote sales of custom-made wigs for men over 30. We launched the Club in September 2001 on a trial basis in a select area and implemented full-scale system access throughout Japan from March 2002.

The Club focuses on custom-made wigs for middle-aged men who are concerned about receding hairlines. Advertising, pricing and marketing methods are all fine-tuned to the needs of this client group, and marketing plans have been strengthened accordingly to generate the best results.

In our new-concept salons, we apply knowledge gained through the operation of satellite salons to attract new clients without resorting to costly advertising.

Regular salon network, excluding counseling room



Main Products & Services

Custom-made Wigs

All of Aderans' wigs and hair-replacement products are custom-made to the specific requirements of each client. We strive to reproduce natural-looking color and texture, whether or not the product features Cyberhair, an artificial hair developed by the Company and patented in 11 countries.

Custom-made wigs are divided into two categories: the Fit System, for men and women who want to increase overall hair coverage, and the Plus System, for men and women who want more volume in certain areas. The Pinpoint Fix creates volume by attaching Cyberhair to some of the client's own hair.

Sales of custom-made wigs account for more than 70% of Aderans' net sales. Custom-made wigs for middle-aged men in particular have been a mainstay product category for the Company since its establishment. This year, however, sales of the Eve series, a collection of custom-made wigs for middle-aged women, have propelled the contribution from women's custom-made wigs ahead of that from men's custom-made wigs for the first time.

Care System

In addition to wigs and partial hair-replacement products, we offer Hair Support, which promotes healthy hair by improving hair quality and preventing hair loss, and Physical Esthé, which restores the health of hair damaged by sunlight, chemical treatments and other factors. Aderans has earned high praise for these services, especially from younger men.

Aftercare Service

The Company's growth is underpinned by a rich selection of high-quality products and services and comprehensive aftercare service. Our commitment to clients following a purchase or procedure is shown in the fact that some 60% of our employees are involved in service-related activities.

All our locations are connected online so a client can visit any location within our domestic network to obtain aftercare services, to make inquiries, to get a haircut or just to look at what is available.



After care services room



Hair support



Business Overview

Strategy & Business Profile

Overview

Fontaine, a 62.5%-owned subsidiary listed on the Second Section of the Tokyo Stock Exchange, commands about 30% of the domestic women's fashion wig market and boasts the best results of any women's fashion wig marketer in Japan. Fontaine has established a high profile in Japan through extensive marketing channels, including 169 corners in domestic department stores, which form the primary distribution route. In addition, Fontaine supplies wholesale to about 100,000 beauty salons and quality-brand cosmetics shops, and retails at 27 directly operated boutiques as well as through mail-order.

Emerging social trends are expected to foster demand for fashion wigs in Japan. For example, an increasing number of women are entering the workforce in Japan, which gives them more disposable income and encourages a greater interest in fashion and the purchase of apparel and accessories. Looking at fashion trends, hair accessories are increasingly viewed as everyday items. This development parallels changing preferences among the younger generation and a larger pool of middle-aged consumers generated by the graying of society.

Fontaine consolidates and analyzes sales data from its National Net Operating System. The information collected through this system is used in formulating strategies that cover new product concepts, names, development, advertising and promotions, marketing and aftercare services. It also helps the company anticipate potentially popular products.

Main Products and Services

Fontaine's product list features about 200 items categorized into three groups: wigs; Top Piece, a hairpiece; and Posté, a hair accessory. The company offers fashion wigs under three brands—Fontaine, made from the highest-quality synthetic fibers; Valan, a luxurious blend of natural and synthetic fibers; and Roloc, which features two-toned strands created with a proprietary technique—all of which have won top marks for design and fashionability.

Fontaine utilizes the overseas network of the Aderans Group to keep track of new developments in wig markets abroad and to further expand its lineup of products with merchandise and materials made and marketed by other Group members.



FONTAINE



ROLOC



VALAN



Strategy & Business Profile

Overview

Aderans established a foothold in the United States in 1979. Today, the Company's presence is underpinned by nine subsidiaries under the Aderans Holding Co., Inc., umbrella: four companies that wholesale men's and women's wigs, as well as Aderans, Inc., a retailing company, and Bosley Medical, which is engaged in the hair-transplant business.

Solid efforts by local Aderans Group members have secured the top share—between 40% and 50%—of the wholesale market for women's fashion wigs and hairpieces in the United States. This achievement reflects the success of a preliminary strategy to create wholesaling subsidiaries as well as the development of the right high-quality products for the local market.

Our marketing companies have acquired notable positions in their own right. International Hairgoods, Inc., is a leader in the wholesaling of men's hair-replacement products made with Cyberhair. René of Paris has generated considerable market interest for its modish high-quality wigs and hair accessories, especially the luxury fashion wigs in the Noriko and Amore collections. General Wig Manufacturers concentrates on the sale of women's fashion wigs under several brand names through an extensive

International Hairgoods, Inc.



A fashion wig from the Noriko Collection



marketing network that includes retailers, beauty salons and mail-order. New Concepts Hair Goods is known for its high-quality hair extension products for women.

Topics

In April 2001, we established Aderans, Inc. (USA), under the Group umbrella. Based in Los Angeles, this new retailing company functions as the strategic building block of a highly effective distribution structure in the United States by integrating local marketing efforts, from retailing to wholesaling, and helping Aderans' brands permeate the market.

In August 2001, Aderans acquired Bosley Medical, the leader of hair-transplant business in the United States. We envision a broader business scope for the company that will include the sale of medicinal hair growth agents, which require a doctor's prescription.

In the future, our operations in the United States will service three market sectors—wigs, hair-transplant and hair growth—and will become pivotal in our worldwide development of comprehensive hair-related businesses.



Surgical office of Bosley Medical

Europe

Strategy & Business Profile

Aderans maintains a strong presence on the continent through eight group companies with operations in France, Germany, Belgium and the Netherlands. Camaflex Group is a particularly valuable European member of the Aderans Group. This group company commands a high share of the women's fashion wig market by distributing high-quality products through various channels, such as wig shops, beauty salons and directly operated boutiques, as well as a sales network of about 100 major department store locations in France, Germany and Belgium.

Camaflex and other operations in Europe will be instrumental in achieving our goal of developing a presence throughout the continent. To further improve profitability we will expand our network of directly operated boutiques and develop a distribution system that integrates everything from retailing to wholesaling. In this regard, we will be resourceful in our efforts to enter new markets, including the United Kingdom and Scandinavia, through mergers and acquisitions. Paralleling a similar objective in the United States, we will strive to be a comprehensive hair-related business in Europe catering to the three market sectors of wigs, hair-transplant and hair growth.



Directly operated boutique in KÖLN, Germany



Salon operated by Camaflex S.A. in Belgium

Asia

Strategy & Business Profile

In Asia, excluding our home base of Japan, we have sales subsidiaries in Taiwan, South Korea and Thailand, as well as three manufacturing and product development facilities in Thailand and one in the Philippines. To further enhance our profile, we apply the business model used in Japan to other markets in Asia and pursue direct investment opportunities to create demand for wigs and hair-replacement products in new markets.

Aderans (Taiwan) expanded its network of directly operated men's wig salons to five locations as of February 28, 2002. This subsidiary has recorded a steady increase in sales, thanks to television commercials that effectively raised consumer awareness of Aderans' brands and products under those brand names. In October 2001, Aderans (Taiwan) began using department stores as a distribution channel for women's fashion wigs to capitalize on a wider base of potential customers.

In May 2000, we established Aderans Korea, non-consolidated company, in Seoul. This subsidiary maintains energetic marketing activities with a focus on custom-made men's wigs, hairpieces and hair-replacement products.

Our product development and manufacturing facilities in Thailand and the Philippines are the world's largest wig factories. These facilities produce and supply members of the Aderans Group with men's and women's custom-made wigs as well as high quality of women's fashion wigs.



The women's fashion wig shop at local shopping mall in Taiwan

Maintaining Our Quality and Uniqueness

Research & Development

High-Technology Products

Aderans' access to technologically advanced products hinges on the research and development division in Niigata Prefecture.

The item that best represents our product development capabilities is the custom-made wig. Various technologies are indispensable in the fabrication of a high-quality wig. Molding technology, for example, ensures the perfect fit of a custom-made wig through careful reproduction of head shape, flow of hair, whorls, receding hairline and other characteristics unique to each client. The polyurethane foundation into which real and synthetic hairs are implanted is extremely close to real skin in texture as well as being safe and hygienic.

But behind the custom-made wig is a marvelous R&D result—Cyberhair. This artificial hair possesses properties incredibly similar to real hair, with excellent durability, heat resistance, water absorption and stable light-refraction qualities, in addition to natural luster and texture. Aderans has acquired patents for Cyberhair in 11 countries, including the United States and parts of Europe



The skilled hands of technicians implant hairs into an artificial skin foundation.



R&D facility in Niigata



Patent certificates for Cyberhair

and Asia. Researchers are currently working on an improved version of Cyberhair.

We resourcefully apply R&D results to enhance the functionality of our products and thereby meet the vast hair-related concerns of our clients. Cyberhair CA30, for example, allows a wig to be worn continuously. Pinpoint Fix and Hair Fix add volume to specific areas.

New Products

In September 2001, we launched the Aderans Father's Club, a membership sales system designed especially for middle-aged male clients. For an annual fee, members are provided with custom-made wigs with advanced features and related maintenance services.

The wigs are notable for two reasons. First, we use a foundation only about half as thick as previous models. Second, we apply breakthrough materials and techniques, including color gradation that reproduces the texture of the scalp and a curved hairline, instead of the conventional perpendicular hairline, to design a wig that allows the front hair to be swept back. This style is the most difficult type of wig to make look natural.

We will use feedback from men in the Club to improve this wig still further.



An ultrathin base for Aderans Father's Club just 0.1mm thick helps to create a natural-looking hairline.

Production System

Worldwide Strategic Basis

Aderans has manufacturing facilities in Thailand and the Philippines which make and supply men's and women's custom-made wigs and women's fashion wigs to Group companies worldwide.

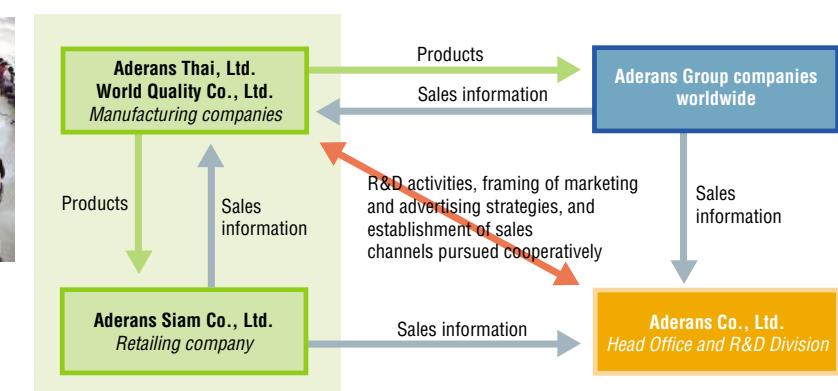
Two manufacturing companies in Thailand—Aderans Thai and World Quality—together employ more than 4,000 people and have a combined monthly output capacity of about 56,000 units. These world-caliber production facilities represent the most strategically vital points within the Aderans Group because activities there have been successfully integrated, from information gathering by retail shops operated by Aderans Siam Co., Ltd., and sales companies abroad to research, product development and production through to local and international marketing and distribution.

Aderans at our Thai facilities have also added to our list of hit products. The Noriko Collection of women's fashion wigs, which contributes steadily higher sales in the United States, was created through a feedback process by a wig designer at the local factory.

In the Philippines, construction of a new factory is scheduled to start operation in summer 2003. To date, production of women's fashion wigs for U.S. and European markets has been the sole responsibility of Aderans Thai, but with the installation of new equipment



The factory of Aderans Thai, Ltd.



in the Philippines to handle this wig type, we will be able to dramatically expand the Group's production capacity.

Quality and Efficiency

The products and services offered through the Aderans Group would not be complete without the integration of three components: the design strengths of the R&D division, the expertise of manufacturing companies and the abilities of salon personnel. Our products and services embody the latest scientific developments as well as the skilled hands of professionals.

We have instituted a production system that stresses quality control and minimal impact on the environment, a stand substantiated by ISO 9002 and ISO 14001 accreditation achieved by Aderans Thai and World Quality from the International Standards Organization in 1999. Also, in the pursuit of ever-higher quality in our manufacturing operations, we seek to integrate R&D activities and technical staff structures.

The Aderans Group is noted for a manufacturing and marketing structure that connects all components of its worldwide network. This aspect of our operations will not change. We will continue to integrate existing production lines and augment equipment as necessary, particularly in Asia, to hedge country risk and minimize labor costs.



Aderans Love Charity

The Aderans Love Charity campaign was set up in 1978 as a way for the Company to donate custom-made wigs to children up to age 15 who have lost their hair through accident, injury, hair-related illness or as a side-effect of medical treatment, such as radiation and chemotherapy. During the most recent campaign, which ran from December 2001 to January 2002, 200 children were randomly selected to receive wigs.



Medical-Use Wigs

Aderans endeavors to contribute to society by applying accumulated expertise to the creation of wigs for people who have incurred some deformation of the head or loss of hair through accident or injury. Aderans from Biobrain, for example, is a wig that features improved artificial skin for burn victims. We have participated in the shows for medical professionals to elevate the profile of relevant products among doctors.



Studio AD

Superior technical capabilities put Aderans in the spotlight during the domestic run of the popular musical *Cats*. This experience marked the beginning of our involvement in the production of wigs and costume designs to facilitate special effects in movies and stage plays.



Tokyo Hair Beauty College

Established in April 2000, the Tokyo Hair Beauty College is geared to the development of hair artists. The college is regarded as a highly specialized technical school, excelling in wig technology, an area in which Aderans boasts more than 30 years of experience, as well as makeup technology, a field of increasing importance in the performing arts, particularly movies, music and the stage.

The first graduates of the college received their diplomas in 2002. Aderans will employ many of these trained professionals at its new-concept salons.



Fore! Aderans Wellness Open

Aderans has become the sponsor of an event—the Aderans Wellness Open—on the Senior Professional Golf Association Tour schedule. The inaugural event, which will take place in July at a golf course in Niigata operated by ADN, a member of the Aderans Group, should attract 90 senior professionals who will compete for a share of prize money totaling ¥60 million.

Since the event will be broadcast throughout Japan, it offers a great opportunity for Aderans to elevate its corporate profile. But the Company also sees the event as a chance to contribute to regional society by encouraging seniors to be more active.



FINANCIAL SECTION

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Consolidated Five-Year Summary

Aderans Company Limited and Consolidated Subsidiaries
Years ended the last day of February

	Millions of yen				
	2002	2001	2000	1999	1998
Results of Operations:					
Net sales	¥74,181	¥67,022	¥64,187	¥61,570	¥56,765
Cost of sales	13,324	11,522	10,333	10,119	8,500
Gross profit	60,856	55,499	53,854	51,451	48,265
Selling, general and administrative expenses	44,197	39,574	38,593	36,312	34,067
Operating income	16,659	15,925	15,261	15,139	14,198
Income before income taxes	15,788	14,523	13,047	13,918	10,716
Net income	9,200	8,020	5,887	6,434	4,922
Capital expenditures	2,429	2,537	3,756	7,632	2,781
Research and development expenses	315	372	214	206	277
Depreciation and amortization	2,721	2,209	1,841	1,612	1,455
Amounts per Share of Common Stock (in yen):					
Net income	¥ 224.76	¥ 194.63	¥ 141.30	¥154.51	¥121.08
Shareholders' equity	1,678.28	1,509.60	1,344.16	1,264.09	1,162.42
Cash dividends applicable to the year	28.00	26.00	25.00	24.00	23.00
Financial Position:					
Current assets	¥ 33,830	¥37,979	¥28,829	¥28,759	¥30,996
Current liabilities	14,966	13,462	12,383	13,808	15,277
Interest-bearing debt	145	749	851	1,262	3,596
Shareholders' equity	68,577	62,126	55,648	52,805	47,251
Total assets	92,284	83,890	75,101	74,010	66,612
Key Ratios (%):					
Operating income to net sales	22.5	23.8	23.8	24.6	25.0
Net income to net sales	12.4	12.0	9.1	10.5	8.7
Shareholders' equity to total assets	74.3	74.1	74.1	71.3	70.9
Return on equity	14.1	13.6	10.9	12.9	11.0
Return on assets	10.4	10.1	7.9	9.1	7.0
Interest-bearing debt ratio	0.2	0.9	1.1	1.7	5.4
Other Year-End Data:					
Number of shares outstanding (thousand)	41,713	41,713	41,713	42,036	41,532
Number of employees	5,172	4,544	4,504	4,553	4,532

Consolidated Financial Review

The scope of consolidation for this review for the year ended February 28, 2002, covers Aderans Co., Ltd.—the Company—and 25 consolidated subsidiaries—three domestic subsidiaries, including Fontaine Co., Ltd., and 22 overseas subsidiaries, including the recently added Bosley Medical Institute, Inc.—Bosley—, a leader in the field of hair-transplants in the United States, and two companies under the institute's umbrella.

Net Sales, Expenses and Profitability

Consolidated net sales rose 10.7%, to ¥74,181 million (\$552 million), supported chiefly by solid domestic performances from the Company and Fontaine, continued growth in demand for women's wigs in overseas markets, and inclusion of Bosley's net sales.

Operating Data

	Millions of yen	
	2001	2002
Net sales	¥67,022	¥74,181
Operating income	15,925	16,659
Net income	8,020	9,200
Net sales per employee	14.8	14.3
Net income per employee	1.77	1.78
Number of employees	4,544	5,172
		+10.7%
		+4.6
		+14.7
		-2.8
		+0.78
		+13.8

Cost of sales expanded 15.6%, to ¥13,324 million (\$99 million). The ratio of cost of sales to net sales shifted 0.8 percentage point, from 17.2% to 18.0%, primarily because of higher cost of service revenues by the Company, devaluation of inventories at European subsidiaries, and an increase in sales of other products handled by Fontaine. Selling, general and administrative (SGA) expenses jumped 11.7%, to ¥44,197 million (\$328 million). The change is due largely to the acquisition of Bosley, including a five-month portion of amortized

Cost of Sales and Selling, General and Administrative Expenses

	2001	2002	Millions of yen
Cost of sales	¥11,522	¥13,324	+15.6%
Selling, general and administrative expenses	39,574	44,197	+11.7
Advertising expenses	10,542	11,859	+12.5
Personnel expenses	14,567	16,502	+13.3
Other	14,464	15,835	+9.5

goodwill amounting to ¥445 million (\$3 million) in the consolidation difference account.

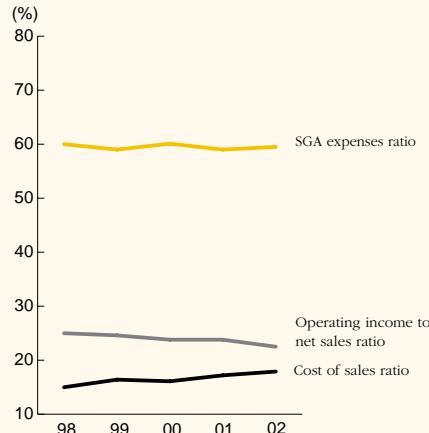
Consequently, operating income climbed 4.6%, to ¥16,659 million (\$123 million). A notable component of other income was ¥317 million in one-time amortization of net transition obligation, while in other expenses ¥546 million in unrealized losses of golf club memberships and ¥688 million in unrealized losses of investment securities.

Net income thus grew 14.7%, to ¥9,200 million (\$68 million). This sizable improvement is attributed to the fact that the Company's payment of taxes accompanying organizational restructuring in the United States was disregarded in the preparation of consolidated accounts. Net income per share reached ¥224.76 (\$1.67).

Per Share Data

	2001	2002	Yen
Net income per share	¥ 194.63	¥ 224.76	+15.5%
Shareholders' equity per share	1,509.60	1,678.28	+11.2
Cash dividends per share	26.0	28.0	+7.7

Ratio of Operating Expenses and Operating Income to Net Sales



	Percent				
	1998	1999	2000	2001	2002
Cost of sales ratio	15.0	16.4	16.1	17.2	18.0
SGA expenses ratio	60.0	59.0	60.1	59.0	59.6
Operating income to net sales ratio	25.0	24.6	23.8	23.8	22.5

Ratio of Net Income to Net Sales



	Millions of yen				
	1998	1999	2000	2001	2002
Net income	4,922	6,434	5,887	8,020	9,200
Ratio of net income to net sales (%)	8.7	10.5	9.1	12.0	12.4



Consolidated Financial Review

Net Sales by Region

Key Ratios by Geographic Area

	Japan		U.S.A., Europe and Asia		Average/Total	
	2001	2002	2001	2002	2001	2002
Sales growth ratio	4.4%	5.0%	4.5%	67.9%	4.4%	10.7%
Operating profit margin	30.1%	30.8%	19.8%	9.0%	29.1%	27.8%
Operating income	¥18,331	¥19,696	¥1,197	¥915	¥19,529	¥20,611
Asset turnover ratio(times)	1.16	1.11	0.76	0.64	1.11	1.00
Return on assets	35.0%	34.0%	15.1%	5.7%	32.4%	27.9%

The figures above except sales growth rate represent those before adjustments for and eliminations of unallocated corporate expenses and assets.

Japan

Domestic sales improved 5.0% over the previous fiscal year, to ¥66,051 million (\$491 million), and accounted for largest part—89.0%—of consolidated net sales. A breakdown of sales in Japan by product category shows that brisk demand for custom-made wigs, a mainstay for the Company and Fontaine, generated ¥36,807 million. Sales of ready-made wigs achieved by Fontaine contributed ¥9,095 million, while sales of other hair-related products provided ¥7,080 million and service revenues added ¥10,597 million. Other business income came to ¥458 million. Intersegment sales accounted for ¥2,013 million. Operating income rose 7.4%, to ¥19,696 million (\$146 million).

The Company reported non-consolidated net sales of ¥55,275 million, up 4.8%, as a dramatic increase in sales to women more than compensated for slower sales to men. Specifically, sales to men slipped 4.7%, to ¥21,485 million, while sales to women accelerated 16.1%, to ¥23,168 million.

Cost of sales rose 10.2%, to ¥10,642 million. The ratio of cost of sales to net sales inched up 1.0 percentage point, to 19.3%, primarily because of an increase in the cost of service revenues and the effect of a lower yen against the U.S. dollar. Selling, general and administrative expenses rose 2.5%, to ¥30,601 million.

As a result, operating income settled at ¥14,031 million (\$104 million), a 6.3% year-on-year gain. A notable component of other income was ¥369 million in one-time amortization of net transition obligation, while significant components of other expenses included ¥321 million in loss on sales of investment securities sold, ¥688 million in evaluation losses on investment securities, and ¥1,979 million on the reorganization of operations in the United States.

Non-consolidated net income thus declined 2.8%, to ¥6,952 million (\$51 million).

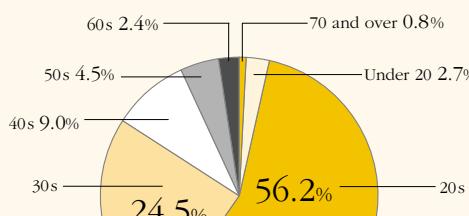
Capital expenditures were down 1.6%, to ¥1,979 million (\$143 million). Depreciation and amortization inched up 1.0%, to ¥1,553 million (\$11 million).

Fontaine posted net sales of ¥10,172 million (\$75 million), up 6.3%. This achievement was supported by a 7.2% increase in sales through department stores, thanks in part to on-site demonstrations, which underpinned a 20% improvement in sales of Valan, a brand of high-quality fashion wigs. Sales at beauty salons advanced 6.7%, mirroring greater application of the Beauty Support System. Sales of Lesson Wig were brisk, climbing 19.5% over the previous fiscal year. The company's concerted marketing efforts were rewarded with a 22.0% surge in net income, to ¥949 million (\$7 million).

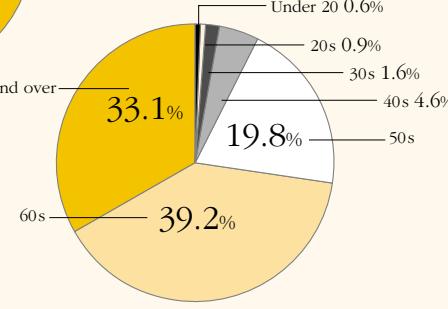
Net Sales of Aderans by Product Category

	Millions of yen				
	1998	1999	2000	2001	2002
Custom-made wigs	¥28,341	¥30,453	¥31,328	¥31,096	¥33,435
Hair Fix	—	338	551	399	233
Pinpoint	3,100	2,778	2,354	3,562	3,010
Hair Support	5,695	6,125	6,079	6,321	6,460
Physical Esth�	—	—	453	1,122	1,513
Subtotal	37,136	39,694	40,765	42,501	44,653
Other custom-made wigs	76	68	58	80	67
Ready-made wigs	1,389	1,157	1,624	1,690	1,899
Other sales	5,144	5,738	5,666	5,983	6,064
Service revenues	2,316	2,614	2,632	2,469	2,590
Total	¥46,061	¥49,272	¥50,746	¥52,726	¥55,275

Aderans' New Customers by Age (Male)



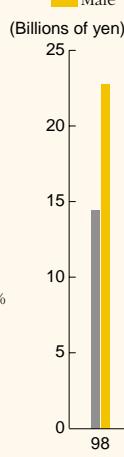
Aderans' New Customers by Age (Female)



Aderans' Sales of Principal Products by Gender

Female
Male

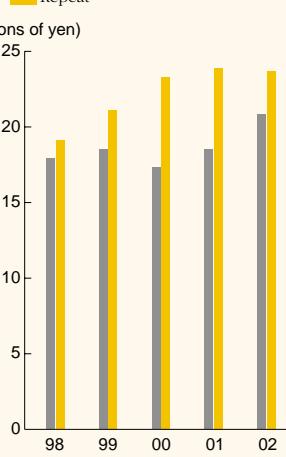
(Billions of yen)



Aderans' Sales of Principal Products to New and Repeat Customers

New
Repeat

(Billions of yen)



U.S.A.

Operations in the United States accounted for ¥7,687 million (\$57 million) of consolidated net sales, more than double the region's contribution in the previous fiscal year. This commendable performance reflects the inclusion of hair-transplant business revenues from Bosley, which the Company acquired in August 2001, in overall service revenues of ¥2,955 million. Augmenting these results were ¥463 million from sales of custom-made wigs, ¥3,897 million from sales of ready-made wigs, ¥247 million from sales of other hair-related products, and ¥122 million in intersegment sales.

René of Paris and General Wig Manufacturers, Inc., had success with the development of new brands of fashion wigs, which translated into favorable sales and income.

International Hairgoods, Inc., which markets men's hair-replacement products, saw sales cool from September 2001, following the September 11th attack in the United States.

Bosley's business was also hurt by the effects of September 11 but experienced a faster-than-anticipated recovery as the Company's fiscal year came to a close.

Despite positive developments in this region, the Company showed an operating loss of ¥450 million (\$3 million), owing to an amount related to Bosley's goodwill recorded in the consolidation difference account under selling, general and administrative expenses.

Europe

Combined net sales in Europe settled at ¥1,852 million (\$13 million), up 13.5%, and comprised ¥81 million from custom-made wigs, ¥1,532 million from ready-made wigs, ¥237 million from other hair-related items, and ¥1 million from intersegment sales. However, a review of the evaluation standard for inventories led to a one-time unrealized loss that manifested itself as lower profits. An operating loss of ¥68 million (\$51 thousand) was therefore recorded on the books.

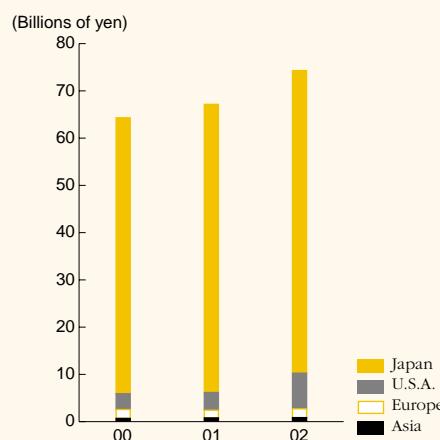
In France, although sales in wholesale divisions and direct retailing outlets succeeded good performance, total net sales decreased due to tough trading conditions encountered by department store outlets.

Stable sales and operating income were also achieved in Belgium, again thanks to the successes of wholesale divisions and direct retailing outlets. Another factor contributing to this favorable result was the transition of department store outlets, which had not been performing very strongly, to direct retailing outlets.

In Germany, although two subsidiaries increased their sales, they nevertheless returned an operating loss. The main reason for this was the effect of a one-time unrealized loss from revaluation of inventories at year-end and the consequent upturn of the cost of sales to net sales ratio.

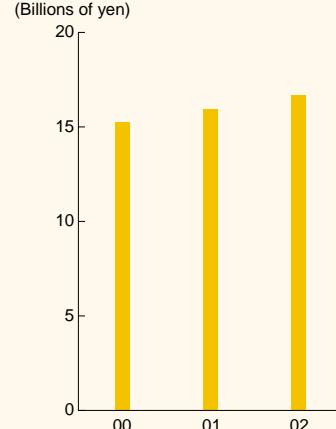
In the Netherlands, sales of men's products were good, but operating income decreased owing to an ordinary loss.

Net Sales by Region



Operating Income

Operating Income



	Millions of yen		
	2000	2001	2002
Japan	¥58,402	¥60,981	¥64,038
U.S.A.	3,348	3,752	7,564
Europe	1,883	1,629	1,851
Asia	552	657	726
Total	¥64,187	¥67,022	¥74,181

Operating Income

	2000	2001	2002
Japan	¥17,543	¥18,331	¥19,696
U.S.A.	(22)	65	(450)
Europe	3	(12)	(68)
Asia	1,080	1,142	1,433
Eliminations	(3,344)	(3,601)	(3,952)
Total	¥15,261	¥15,925	¥16,659

Consolidated Financial Review

Asia (excluding Japan)

Aggregate net sales from subsidiaries in Asia, excluding those in Japan, jumped 15.1%, to ¥4,432 million (\$32 million). By product, custom-made wigs contributed ¥383 million, ready-made wigs, ¥111 million, other hair-related products, ¥95 million, service revenues, ¥137 million, and intersegment sales, ¥3,705 million.

Of operations in this region, Aderans Inc., a sales subsidiary in Taiwan, merits special mention. This company has steadily expanded sales through successful advertising activities. However, costs associated with the company's entry into the fashion wig market edged up slightly, causing the company to turn in lower profits.

Production subsidiaries in Thailand and the Philippines presented considerably better sales and profits. One of the primary factors contributing to the enhanced performances of these facilities stems from output volume, which parallels greater demand for custom-made women's wigs sold by the Company as well as items offered by Fontaine.

Another factor is linked to exchange rate. The baht fell about 9.7% against the U.S. dollar, and the peso dropped as much as 14.5%, which elevated the value of sales by each subsidiary in their respective Asian currencies.

Note that nearly the entire combined sales figure from these-production subsidiaries is regarded as an internal transaction amount and eliminate from consolidation.

Operating income surged 25.5%, to ¥1,433 million (\$10 million).

Cash Flow, Capital Expenditures and Funding

Cash and cash equivalents at February 28, 2002, stood at ¥16,435 million (\$122 million), up 13.8%, from the end of the year 2001.

Net cash provided by operating activities settled at ¥9,438 million (\$70 million), down 21.5% from a year earlier, reflecting increases of ¥15,788 million in income before income taxes, ¥2,201 million to depreciation and amortization, and ¥2,628 million in retirement benefit allowance, as well as a decrease of ¥2,820 million in accrued severance benefits.

Net cash used in investing activities amounted to ¥4,744 million (\$35 million), down 38.8%. Major changes included ¥5,687 million in

payments to acquire stock in subsidiaries, which largely neutralized ¥6,339 million in proceeds from the sale of marketable securities.

Net cash used in financing activities hit ¥2,358 million (\$17 million), down 2.8%. Primary applications of funds included ¥3,654 million to retire short-term debt and ¥1,365 million to acquire treasury stock for the stock option program. These applications offset ¥3,703 million in proceeds from short-term debt.

Summary of Cash Flows Statements

	2001	2002	% Change
Net cash provided by operating activities	¥12,018	¥9,438	-21.5%
Net cash used in investing activities	(7,749)	(4,744)	-38.8
Net cash used in financing activities	(2,427)	(2,358)	-2.8
Net increase (decrease) in cash and cash equivalents	1,845	1,994	+8.1
Cash and cash equivalents at the beginning of year	12,596	14,441	+14.6
Cash and cash equivalents at the end of year	14,441	16,435	+13.8

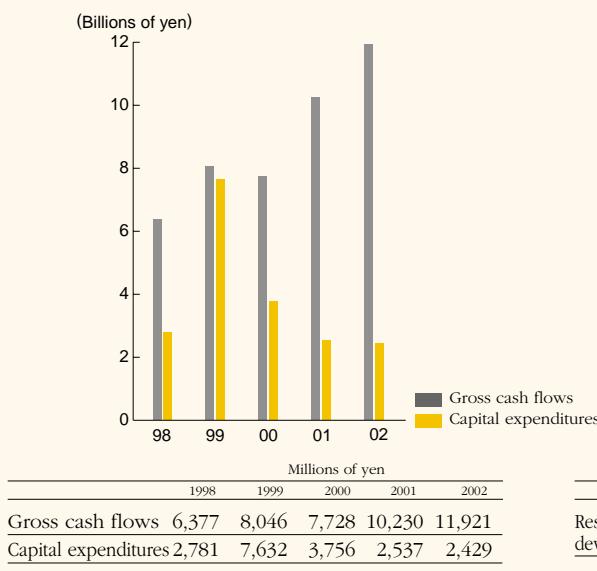
Financial Position

At February 28, 2002, total assets stood at ¥92,284 million (\$686 million), up 10.0% from the year ended February 28, 2001. Total liabilities were ¥20,365 million (\$151 million), up 7.9%.

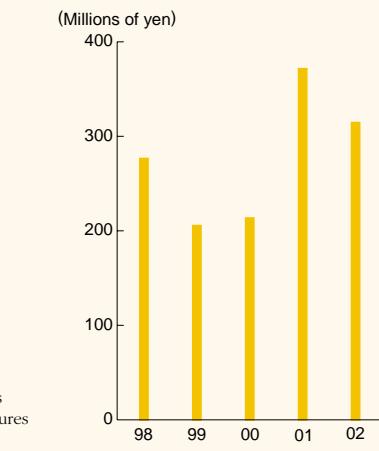
Current assets fell 10.9%, to ¥33,830 million (\$251 million), as a major decrease in marketable securities overshadowed higher cash

	Millions of yen				
	1998	1999	2000	2001	2002
Total assets	¥66,612	¥74,010	¥75,101	¥83,890	¥92,284
Total liabilities	17,168	18,693	16,772	18,866	20,365
Shareholders' equity	47,251	52,805	55,648	62,126	68,577
Equity ratio(%)	70.9	71.3	74.1	74.1	74.3

Gross Cash Flows and Capital Expenditures



Research and Development Expenses



	1998	1999	2000	2001	2002
Research and development expenses	277	206	214	372	315

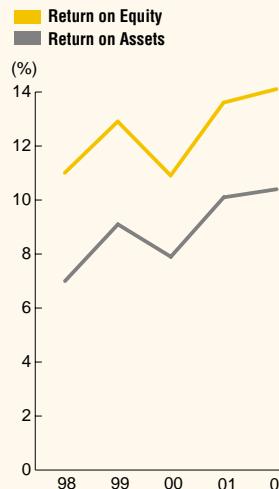
Gross cash flows = Net income + Depreciation and amortization

and time deposits. Current liabilities expanded 11.2%, to ¥14,966 million (\$111 million). The current ratio (ratio of current assets to current liabilities) dropped to 226%, down 56.1 percentage points.

Intangible assets includes \$69 million, or about ¥9,033 million, in amortization of goodwill in Bosley under the consolidation difference account.

The interest-bearing debt ratio continued to shrink, moving 0.7 percentage point down, from 0.9% to 0.2%.

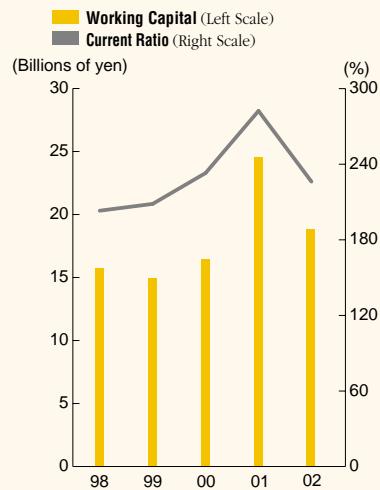
Total shareholders' equity expanded 10.4%, to ¥68,577 million (\$510 million), owing to an increase in retained earnings. The equity ratio improved 0.2 percentage point, to 74.3%.



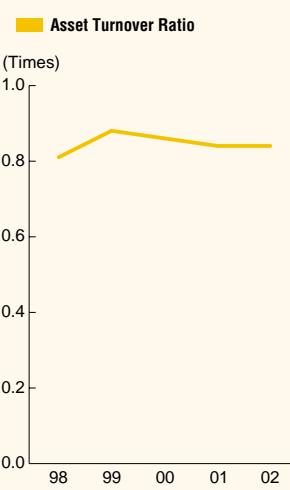
	Percent				
	1998	1999	2000	2001	2002
Return on equity	11.0	12.9	10.9	13.6	14.1
Return on assets	7.0	9.1	7.9	10.1	10.4



	Millions of yen				
	1998	1999	2000	2001	2002
Interest-bearing debt	¥3,596	¥1,262	¥851	¥749	¥145
Interest-bearing debt ratio (%)	5.4	1.7	1.1	0.9	0.2
Debt to equity ratio (%)	7.6	2.4	1.5	1.2	0.2



	Millions of yen				
	1998	1999	2000	2001	2002
Current assets	¥30,996	¥28,759	¥28,829	¥37,979	¥33,830
Current liabilities	15,277	13,808	12,383	13,462	14,966
Working capital	15,718	14,951	16,445	24,517	18,864
Current ratio (%)	202.9	208.3	232.8	282.1	226.0



	Times				
	1998	1999	2000	2001	2002
Asset turnover ratio	0.81	0.88	0.86	0.84	0.84

Consolidated Balance Sheets

Aderans Company Limited and Consolidated Subsidiaries
February 28, 2002 and 2001

ASSETS	Millions of yen		Thousands of U.S. dollars 2002
	2002	2001	
<i>Current assets:</i>			
Cash and time deposits	¥11,385	¥ 7,166	\$ 84,747
Marketable securities (Note 4)	10,030	19,741	74,662
Notes and accounts receivable	5,753	5,344	42,823
Allowance for doubtful accounts	(58)	(55)	(439)
Inventories (Note 5)	4,672	3,878	34,780
Deferred tax assets (Note 10)	898	879	6,690
Other current assets	1,147	1,024	8,542
Total current assets	33,830	37,979	251,808
<i>Investments and long-term loans:</i>			
Long-term loans	192	16	1,431
Investment securities (Note 4)	8,154	3,773	60,696
Allowance for doubtful accounts	(43)	(30)	(324)
Total investments and long-term loans	8,303	3,758	61,803
<i>Property, plant and equipment, at cost:</i>			
Land	13,230	13,097	98,478
Buildings and structures	28,718	26,988	213,760
Machinery and equipment	5,269	4,011	39,220
Construction in progress	300	74	2,236
Other	1,007	969	7,501
	48,526	45,141	361,197
Less accumulated depreciation	(18,607)	(16,214)	(138,497)
Total property, plant and equipment	29,919	28,926	222,700
<i>Intangible assets</i>			
Intangible assets	13,590	4,481	101,160
Guarantee deposits	4,099	4,019	30,515
Deferred tax assets (Note 10)	1,234	1,080	9,187
Other assets	1,306	2,083	9,724
<i>Foreign currency translation adjustments</i>			
Foreign currency translation adjustments	—	1,562	—
Total assets	¥92,284	¥83,890	\$686,899

See Notes to the Consolidated Financial Statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
<i>Current liabilities:</i>			
Short-term borrowings (Note 6)	¥ 145	¥ 743	\$ 1,081
Accounts payable	2,052	1,159	15,277
Accrued income taxes (Note 10)	3,023	3,789	22,502
Accrued expenses	2,542	666	18,921
Other current liabilities	7,202	7,102	53,613
Total current liabilities	14,966	13,462	111,395
<i>Long-term liabilities:</i>			
Long-term debt	—	5	—
Accrued severance benefits (Note 9)	3,393	3,568	25,258
Deferred tax liabilities (Note 10)	11	9	83
Other long-term liabilities	1,994	1,820	14,846
Total long-term liabilities	5,399	5,404	40,188
Total liabilities	20,365	18,866	151,584
Minority interests	3,342	2,897	24,878
<i>Contingent liabilities</i> (Note 12)			
<i>Shareholders' equity</i> (Note 11):			
Common stock, no par value			
Authorized-138,033 thousand shares for 2002 and 2001			
Issued-41,713 thousand shares for 2002 and 2001	12,944	12,944	96,345
Additional paid-in capital	13,157	13,157	97,933
Retained earnings	46,120	38,201	343,287
Unrealized gains on investment securities	(46)	—	(344)
Foreign currency translation adjustments	(172)	—	(1,282)
Treasury stock	(3,426)	(2,176)	(25,503)
Total shareholders' equity	68,577	62,126	510,436
Total liabilities and shareholders' equity	¥92,284	¥83,890	\$686,899

See Notes to the Consolidated Financial Statements.

Consolidated Statements of Income and Retained Earnings

Aderans Company Limited and Consolidated Subsidiaries
For the years ended February 28, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Net sales	¥74,181	¥67,022	\$552,150
Cost of sales	13,324	11,522	99,180
Gross profit	60,856	55,499	452,969
Selling, general and administrative expenses	44,197	39,574	328,971
Operating income	16,659	15,925	123,998
Other income (expenses):			
Interest and dividend income	228	213	1,702
Interest expenses	(33)	(24)	(246)
Loss on sales of marketable and investment securities	(433)	(128)	(3,223)
Unrealized loss for marketable securities, investments in non-consolidated subsidiaries and investment securities	(688)	(189)	(5,127)
Unrealized loss for golf club membership	(546)	—	(4,068)
Exchange gain (loss) on foreign currency translation	249	77	1,858
Loss on disposal of property, plant and equipment	(49)	(96)	(370)
Provision for severance benefits for prior periods	—	(1,447)	—
Other income	402	194	2,993
	(870)	(1,401)	(6,482)
Income before income taxes	15,788	14,523	117,516
Income taxes (Note 10)			
Current	6,385	7,193	47,532
Deferred	(118)	(923)	(885)
Minority interests	(321)	(233)	(2,390)
Net income	¥ 9,200	¥ 8,020	\$ 68,479
Retained earnings:			
Retained earnings	¥38,201	¥30,487	\$284,345
Tax allocation adjustments for prior periods	—	907	—
At the beginning of year	38,201	31,395	284,345
Increase in retained earnings:			
Increase due to merger of consolidated subsidiaries	12	—	91
Increase due to investment in consolidated subsidiaries	2	—	17
	14	—	109
Decrease in other retained earnings:			
Cash dividends	1,106	1,031	8,239
Bonuses to directors and statutory auditors	188	182	1,406
	1,295	1,214	9,646
At the end of year	¥46,120	¥38,201	\$343,287
Net income per share (in the whole yen)	¥224.76	¥194.63	\$ 1.67

See Notes to the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Aderans Company Limited and Consolidated Subsidiaries
For the years ended February 28, 2002 and 2001

	Millions of yen	Thousands of U.S. dollars	
	2002	2001	2002
<i>Cash Flows from Operating Activities:</i>			
Income before income taxes	¥15,788	¥14,523	\$117,516
Depreciation and amortization	2,201	2,134	16,384
Loss on retirement of fixed assets	103	367	772
Amortization for consolidation difference	520	74	3,874
Change in allowance for bonuses to employees	75	55	565
Change in accrued severance benefits	(2,820)	1,766	(20,990)
Increase in retirement benefit allowance	2,628	—	19,563
Unrealized loss of golf club memberships	546	—	4,067
Unrealized loss of investment securities	688	190	5,127
Interest and dividend income	(228)	(211)	(1,702)
Interest expenses	33	24	246
Change in notes and accounts receivable	(297)	(91)	(2,214)
Change in inventories	(522)	(325)	(3,891)
Change in accounts payable	859	(128)	6,398
Payment of guarantee deposits	(323)	(268)	(2,408)
Proceeds from guarantee deposits	251	90	1,868
Bonuses to directors and statutory auditors	(206)	(194)	(1,533)
Other	(2,769)	788	(20,616)
Sub total	16,528	18,798	123,025
Proceeds from interest and dividend income	194	212	1,449
Payment of interest	(33)	(23)	(246)
Payment of income taxes	(7,251)	(6,969)	(53,975)
Net cash provided by operating activities	9,438	12,018	70,254
<i>Cash Flows from Investing Activities:</i>			
Payment for purchase of marketable securities	(4,261)	(6,621)	(31,716)
Proceeds from sales of marketable securities	6,339	547	47,189
Payment for purchase of property, plant and equipment	(2,392)	(2,347)	(17,804)
Payment for purchase of intangible assets	(37)	(190)	(275)
Payment for purchase of investment securities	(1,601)	—	(11,919)
Proceeds from sales of investment securities	3,296	795	24,535
Payment for purchase of share of subsidiaries	(5,687)	—	(42,333)
Other	(401)	66	(2,988)
Net cash used in investing activities	(4,744)	(7,749)	(35,313)
<i>Cash Flows from Financing Activities:</i>			
Proceeds from short-term debt	3,703	—	27,568
Payments of short-term debt	(3,654)	—	(27,202)
Payments of long-term debt	—	(120)	—
Payment to acquire treasury stock for retirement/granting stock options	(1,365)	(1,475)	(10,167)
Proceeds from sales of treasury stocks upon exercise of stock options	19	229	142
Cash dividends paid	(1,106)	(1,029)	(8,235)
Other	45	(31)	336
Net cash used in financing activities	(2,358)	(2,427)	(17,558)
<i>Effects of exchange rate changes on cash and cash equivalents</i>			
Net increase in cash and cash equivalents	(341)	3	(2,538)
Cash and cash equivalents at the beginning of year	1,994	1,845	14,844
Cash and cash equivalents at the end of year	14,441	12,596	107,489
	¥16,435	¥14,441	\$122,333
Note: Description of "Cash and cash equivalents" at February 28, 2002 and 2001 was as follows:			
Cash and time deposits	¥ 11,385	¥ 7,166	\$ 84,747
Cash equivalents included in marketable securities	6,195	8,111	46,114
Time deposits saved more than three months	(1,145)	(836)	(8,528)
Total	¥16,435	¥14,441	\$122,333

See Notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

Aderans Company Limited and Consolidated Subsidiaries

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Aderans Company Limited (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 Securities 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 Securities 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.

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 ten 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.

Fiscal year end of three domestic consolidated subsidiaries and all overseas consolidated subsidiaries is December 31, which differ from that of the Company; however, the accounts of these subsidiaries have been consolidated with appropriate adjustments for the intervening transactions and events to the end of fiscal year.

(b) Cash and cash equivalents

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

(c) Securities

In fiscal 2002, the Company and its domestic subsidiaries adopted the "Opinion on Establishing Accounting Standard for Financial Instruments," issued by the Business Accounting Deliberative Council on January 22, 1999.

The Company changed its valuation methods for securities, membership of golf club to conform to this standard.

As a result of this change, income before income taxes decreased by ¥433 million (\$3,227 thousand) compared with what would have been recorded under the previous accounting standard.

The company also reviewed its marketable securities at the beginning of the fiscal year under review. As a result of this review, money management funds, medium-term government bond funds and those securities to be held until maturity which were due to mature within a year were classified as marketable securities. All others were recorded as investment securities under investments and other assets. Marketable securities fell by 7,207 million yen as a result, with investment securities rising by the same amount.

Methods of valuation of securities are as follows

Bonds intended to be held to maturity:

Amortized cost method

Other securities:

Securities quoted on exchanges:

Fair value method, with any unrecognized holding gains or losses, net of the applicable taxes, reported as a separate component of shareholders' equity.

Securities not quoted on exchanges:

Cost recorded using the moving average method

Investments in subsidiaries:

Cost on the moving average method

(d) Allowance for doubtful accounts

Allowance 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 in 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 cost on the basis of specific identification method. Ready-made goods are stated at cost on the basis of average method. Raw materials and work in process are stated at lower of cost (first-in, first-out) or market, or lower of moving average cost or market. Supplies are principally stated at cost on the basis of specific identification method.

(f) Property, plant and equipment

Property, plant and equipment of the Companies have been principally depreciated 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 principally used 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) Software

The Companies classified software as intangible assets, which was previously included in other assets, and amortized it using the straight-line method over the estimated useful lives (five years).

(h) Allowance for employees' bonuses

The Company and its domestic consolidated subsidiaries provide allowance for employees' bonuses at the estimated-amount-method based on the bonuses to be paid subsequent to the balance sheet dates.

(i) Warranty reserve

A warranty reserve is provided based upon prior actual experience, while the Companies provide a warranty on its goods. This reserve amounted to ¥129 million (\$962 thousand) at February 28, 2002 and ¥108 million (\$809 thousand) at February 28, 2001 and was included in other current liabilities in the accompanying balance sheets.

(j) Accrued severance benefits

(1) Employees:

Employees who terminate their service with the Company and domestic consolidated subsidiaries are entitled to lump-sum severance benefits determined by reference to basic rates of pay, length of

service and conditions under which the termination occurs.

The Company and its domestic consolidated subsidiaries changed the provision for this liability from 40% to 100% of the amount assuming that all employees had voluntarily terminated their service at the balance sheet date. This change was made in order to reflect a more accurate presentation of the financial condition on the Companies.

As a result of this change, selling, general and administrative expenses increased by ¥169 million (\$1,263 thousand), other expenses as provision for severance benefits for prior periods increased by ¥1,447 million (\$10,772 thousand), operating income decreased by ¥169 million (\$1,263 thousand) and income before income taxes decreased by ¥1,616 million (\$12,035 thousand) for the year ended February 28, 2001. The effect on segment information is shown on "Segment Information".

Effective April 1, 2000, the Company and domestic consolidated subsidiaries adopted a new accounting standard "Accounting Standard for Retirement Benefits" issued by the Business Accounting Deliberation Council and accounted for retirement benefits based on the projected obligations and plan assets at the balance sheet date. The net transition obligation at the adoption of the new accounting standard amounting to ¥317 million (\$2,364 thousand) was recognized as a gain in the year ended February 28, 2002.

As a result of the adoption of the new accounting standard, in the year ended February 28, 2002, severance and retirement benefit expenses decreased by ¥197 million (\$1,468 thousand) and income before income taxes increased by ¥515 million (\$3,833 thousand) compared with what would have been recorded under the previous accounting standard.

(2) Directors and statutory auditors:

The Company, one domestic consolidated subsidiary and some overseas consolidated subsidiaries have recorded severance benefits for directors and statutory auditors accruing the full amount of the liability of directors' and statutory auditors' severance benefits at the balance sheet date.

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 ¥134.35 to U.S.\$1.

(k) Translation of foreign currency accounts

Short-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the current rate at the end of the year. Prior to March 1, 2001, long-term receivables and payable denominated in foreign currencies were translated at historical rates.

Effective March 1, 2001, the Company and its consolidated subsidiaries in Japan adopted the revised accounting standard for foreign currency translation, "Opinion Concerning Revision of Accounting Standard for Foreign Currency Translation," issued by the Business Accounting Deliberation Council on October 22, 1999 (the "Revised Accounting Standard").

Under the Revised Accounting Standard, long-term receivables and payables denominated in foreign currencies are also translated into Japanese yen at the current rate at the end of the year.

This change had no effect on income.

Balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at the current rate at the end of the year except for shareholders' equity accounts, which are translated at the historical rates. Statements of income of consolidated overseas subsidiaries are translated at average rates.

Due to the adoption of the Revised Accounting Standard, the Company and its domestic subsidiaries report foreign currency translation adjustments in the shareholders' equity and minority interests. The prior year's amount, which is included in assets, has not been reclassified.

(l) Net income per share

Net income per share is based on the weighted average number of shares of common stock in issue during the respective year (less the treasury stock).

This translation should not be construed as a representation that the yen amount actually represent, or have been or could be converted into U.S.dollars at this rate or any other rate.

4. Securities

(1) The following tables summarize acquisition costs, book values and fair value of securities at February 28, 2002

(a) Held-to-maturity debt securities

Securities with available fair values exceeding book values	Millions of yen			Thousands of U.S. dollars		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Bonds	¥ 1,437	¥ 1,439	¥ 2	\$10,698	\$10,717	\$ 19
Discount bank debenture	299	299	0	2,232	2,232	0
Sub total	¥ 1,737	¥ 1,739	¥ 2	\$12,930	\$12,950	\$ 19

Securities other than the above

Bonds	¥ 100	¥ 99	¥ (0)	\$ 744	\$ 742	\$ (1)
Discount bank debenture	998	996	(2)	7,433	7,416	(16)
Sub total	¥ 1,098	¥ 1,096	¥ (2)	\$ 8,177	\$ 8,159	\$ (18)
Total	¥ 2,835	¥ 2,836	¥ 0	\$21,108	\$21,109	\$ 1



Notes to the Consolidated Financial Statements

(b) Available-for-sale securities

Securities with book values exceeding acquisition costs	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 300	¥ 332	¥ 31	\$ 2,235	\$ 2,471	\$ 236
Others	6,100	6,177	77	45,403	45,982	579
Sub total	¥ 6,400	¥ 6,509	¥ 109	\$47,639	\$48,454	\$ 815
Others						
Equity securities	¥ 1,497	¥ 1,301	¥ (196)	\$11,143	\$ 9,684	\$ (1,458)
Others	—	—	—	—	—	—
Sub total	¥ 1,497	¥ 1,301	¥ (196)	\$11,143	\$ 9,684	\$ (1,458)
Total	¥ 7,897	¥ 7,811	¥ (86)	\$58,782	\$58,139	\$ (643)

(2) Total sales of available-for-sale securities sold in the year ended February 28, 2002 amounted to ¥2,795 million (\$20,806 thousand) and the related gains and losses amounted to ¥102 million (\$761 thousand) and ¥535 million (\$3,984 thousand), respectively.

(3) The following tables summarize book values of securities with no available fair values at February 28, 2002

	Millions of yen	Thousands of U.S. dollars
Held-to-maturity debt securities		
Commercial paper	¥ 999	\$ 7,440
Available-for-sale securities		
Money management funds	¥ 3,700	\$ 27,546
Free financial funds	¥ 2,000	\$ 14,888
Medium-term government bond funds	¥ 494	\$ 3,679

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

	Millions of yen				Thousands of U.S. dollars			
	Within One year	Within five years	Within ten years	Over ten years	Within One year	Within five years	Within ten years	Over ten years
Bonds	¥ 1,537	—	—	—	\$ 11,442	—	—	—
Discount bank debenture	¥ 1,298	—	—	—	\$ 9,665	—	—	—
Others	¥ 999	—	—	—	\$ 7,440	—	—	—
Total	¥ 3,835	—	—	—	\$ 28,548	—	—	—

5. Inventories

At February 28, 2002 and 2001, inventories consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Finished goods	¥ 3,522	¥ 2,650	\$ 26,216
Work in process	126	125	942
Raw materials and supplies	1,024	1,102	7,622
	¥ 4,672	¥ 3,878	\$ 34,780

6. Short-term Borrowings

Short-term borrowings represent from banks. The annual interest rates applicable to the short-term borrowings at February 28, 2002 was 5.75%.

At February 28, 2002 amount of short-term Borrowings was ¥145 million (\$1,081 thousand).

7. Finance Leases

Finance leases which do not transfer ownership to lessees (and do not have bargain purchase provisions) are accounted for in the same manner as operating leases under accounting principles generally

accepted in Japan. Future lease payments at February 28, 2002 and lease payment under the finance lease for the year ended February 28, 2002 were as follows:

	Millions of yen	Thousands of U.S. dollars
Finance lease payments		
Due one year	¥ 163	\$ 1,220
Due after one year	¥ 235	\$ 1,749
Total	¥ 399	\$ 2,970
Lease payments	¥ 204	\$ 1,525

A summary of assumed amounts of acquisition cost, accumulated depreciation and net book value at February 28, 2002 was as follows:

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Equipment	¥ 791	¥ 418	¥ 372	\$ 5,892	\$ 3,116	\$ 2,775
Vehicle	40	15	24	299	115	184
Software	5	4	1	41	31	10
Total	¥ 837	¥ 438	¥ 399	\$ 6,232	\$ 3,262	\$ 2,970

8. Operating Leases

	Millions of Yen	Thousands of U.S. dollars
Outstanding lease fees		
Within one year	¥ 483	\$ 3,598
Over one year	¥ 1,351	\$ 10,062
Total	¥ 1,835	\$ 13,661

9. Employees' Severance and Retirement Benefits

	Millions of Yen	Thousands of U.S. dollars
(1) Projected retirement benefit obligation	¥ (4,603)	\$ (34,267)
(2) Pension assets	1,605	11,949
(3) Unfunded retirement benefit obligation (1) + (2)	(2,998)	(22,318)
(4) Unrecognized actuarial differences	354	2,637
(5) Employees' severance and retirement benefits (3) + (4)	¥ (2,644)	\$ (19,680)

Severance and retirement benefit expenses

	Millions of Yen	Thousands of U.S. dollars
(1) Service cost	¥ 328	\$ 2,443
(2) Interest cost	112	840
(3) Expected return on plan assets	(14)	(104)
(4) One-time amortization of net transition obligation	¥ (317)	\$ (2,364)

Calculations relating to retirement benefit liabilities

- (1) Method of allocation of estimated retirement benefits: Straight-line method
- (2) Discount rate: 2.50%
- (3) Expected return rate for pension assets: 1.00%
- (4) Amortization period for actuarial difference: 5 years
- (5) Amortization period of for difference arising from initial adoption of new accounting standard at transition: 1 year



Notes to the Consolidated Financial Statements

10. 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 42.1% for the year of 2002 and 42.1% for the year of 2001. Foreign consolidated subsidiaries are subject to income taxes of countries in where 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 non-deductible expenses.

Significant components of the deferred tax assets and liabilities held by the Company and its consolidated subsidiaries as of February 28, 2002 were summarized as follows:

	Millions of Yen	Thousands of U.S. dollars
	2002	2002
Deferred tax assets:		
Unrealized profits on inventories	¥ 193	\$ 1,442
Excess of retirement allowance	718	5,347
Accrued severance benefits for directors	313	2,334
Enterprise tax payable	243	1,810
Excess of allowance for employees' bonuses	279	2,082
Warranty reserve	61	455
Allowance for returned goods	75	558
Excess of depreciation	36	272
Unrealized loss on golf club memberships	93	699
Net loss carry forward	788	5,869
Other	293	2,188
Total deferred tax assets	3,098	23,060
Valuation allowance	(867)	(6,456)
Net deferred tax assets	¥ 2,230	\$ 16,603
 Deferred tax liabilities:		
Reserve for special depreciation	¥ 34	\$ 260
Other	74	554
Total deferred tax liabilities	¥ 109	\$ 814
Net deferred tax assets	¥ 2,121	\$ 15,789

The difference between the statutory tax rate and the Company's effective tax rate reflected in the consolidated statement of income for the year ended February 28, 2002 is as follows:

Statutory tax rate	42.1 %
(Adjustment)	
Permanently non-deductible expense	0.5
Inhabitant tax on capita basis	0.4
Loss on the transfer of subsidiaries' stock	(5.2)
Gain and less of valuation reserve for differed tax asset	0.6
Other	1.2
The Company's effective income tax rate	39.6

11. Shareholders' Equity

Under the Commercial Code of Japan, the entire amount of the issue price of shares is required to be accounted for as common stock, although a company may, by resolution of its board of directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital.

Effective October 1, 2001, the Japanese Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal reserve until the total amount of legal reserve and additional paid-in capital equals 25% of common stock. The legal reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of

the shareholders' meeting or may be capitalized by resolution of the board of directors.

On condition that the total amount of legal reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for distributions and certain other purposes by the resolution of shareholders' meeting. Legal reserve is included in retained earnings in the accompanying consolidated financial statements.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Code.

12. Contingent Liabilities

At February 28, 2002, one domestic consolidated subsidiary was contingently liable as a guarantor for bank loans of 7 members of a golf course in the aggregate amount of ¥13 million (\$103 thousand).

13. Subsequent Events

At the Company's annual meeting held in May 23, 2002, approval was given for the acquisition of treasury stock for the purpose of granting stock options to all directors and eligible key employees. The amendment to the Article of Incorporation provides for the acquisition

of no more than 500 thousand shares of the Company's common stock at a cost that shall not exceed ¥2,500 million (\$18,608 thousand).

14. Segment Information

(1) Business Segments

As the ratios of "Hair-related business" against the total sales, operating income and assets of all segment exceed 90%, information by business segment is not prepared or disclosed.

(2) Geographical Segments

Year ended February 28, 2002

	Japan	U.S.A.	Europe	Asia	Total	Elimination	Consolidated
Sales							
Outside customers	¥ 64,038	¥ 7,564	¥ 1,851	¥ 726	¥ 74,181	¥ —	¥ 74,181
Intersegment	2,013	122	1	3,705	5,842	(5,842)	—
Total	66,051	7,687	1,852	4,432	80,024	(5,842)	74,181
Operating expenses	46,355	8,137	1,921	2,998	59,413	(1,890)	57,522
Operating income	¥ 19,696	¥ (450)	¥ (68)	¥ 1,433	¥ 20,611	¥ (3,952)	¥ 16,659
Total assets	¥ 62,312	¥ 16,687	¥ 1,196	¥ 5,459	¥ 85,655	¥ 6,629	¥ 92,284

	Japan	U.S.A.	Europe	Asia	Total	Elimination	Consolidated
Sales							
Outside customers	\$ 476,656	\$ 56,305	\$ 13,778	\$ 5,410	\$ 552,150	\$ —	\$ 552,150
Intersegment	14,983	914	9	27,582	43,489	(43,489)	—
Total	491,640	57,219	13,788	32,992	595,640	(43,489)	552,150
Operating expenses	345,036	60,571	14,299	22,319	442,225	(14,073)	428,152
Operating income	\$ 146,604	\$ (3,351)	\$ (511)	\$ 10,673	\$ 153,414	\$ (29,415)	\$ 123,998
Total assets	\$ 463,809	\$ 124,208	\$ 8,904	\$ 40,635	\$ 637,557	\$ 49,341	\$ 686,899

	Japan	U.S.A.	Europe	Asia	Total	Elimination	Consolidated
Sales							
Outside customers	¥ 60,981	¥ 3,752	¥ 1,629	¥ 657	¥ 67,022	¥ —	¥ 67,022
Intersegment	1,728	121	—	3,195	5,044	(5,044)	—
Total	62,710	3,873	1,629	3,852	72,066	(5,044)	67,022
Operating expenses	44,379	3,808	1,642	2,710	52,540	(1,443)	51,097
Operating income	¥ 18,331	¥ 65	¥ (12)	¥ 1,142	¥ 19,526	¥ (3,601)	¥ 15,925
Total assets	¥ 53,704	¥ 3,576	¥ 1,208	¥ 3,842	¥ 62,330	¥ 21,560	¥ 83,890

As described in Note 2(j), due to changes in applicable accounting principles, 'Japan' and unallowable operating expenses included under 'Elimination' were 190 million yen and 7 million yen less than they would otherwise have been, and operating income was 197 million yen higher.



Notes to the Consolidated Financial Statements

(3) Overseas Sales

Year ended February 28, 2002

	Millions of yen			
	U.S.A.	Europe	Asia	Total
Overseas sales	¥ 7,194	¥ 2,253	¥ 639	¥ 10,087
Consolidated net sales				¥ 74,181
Share of overseas sales	9.7%	3.0%	0.9%	13.6%

Year ended February 28, 2002

	Thousands of U.S. dollars			
	U.S.A.	Europe	Asia	Total
Overseas sales	\$ 53,553	\$ 16,770	\$ 4,760	\$ 75,083
Consolidated net sales				\$ 552,150
Share of overseas sales	9.7%	3.0%	0.9%	13.6%

During the year ended February 28, 2001, the share of overseas sales was less than 10%. Accordingly, overseas sales have not been disclosed here.

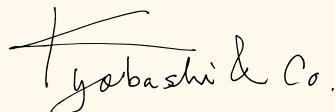
Report of Independent Certified Public Accountants

To the Board of Directors of
Aderans Company Limited

We have audited the consolidated balance sheets of Aderans Company Limited and consolidated subsidiaries at February 28, 2001 and 2002, the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, all expressed in Japanese yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above, expressed in Japanese yen, present fairly the consolidated financial position of Aderans Company Limited and consolidated subsidiaries at February 28, 2001 and 2002 and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

As described in Note 2 to the consolidated financial statements, effective from the year ended March 31, 2001, Aderans Company Limited and consolidated subsidiaries have adopted the new accounting standards for financial instruments, retirement benefits, and foreign currency translation.



Tokyo, Japan

May 23, 2002

Non-Consolidated Five-Year Summary

Aderans Company Limited
Years ended the last day of February

	Millions of yen				
	2002	2001	2000	1999	1998
Results of Operations:					
Net sales	¥55,275	¥52,726	¥50,746	¥49,272	¥46,061
Cost of sales	10,642	9,653	9,080	8,688	8,054
Gross profit	44,633	43,072	41,666	40,584	38,007
Selling, general and administrative expenses	30,601	29,866	29,208	28,223	27,001
Operating income	14,031	13,205	12,458	12,361	10,996
Income before income taxes	12,081	12,375	10,821	11,344	8,908
Net income	6,952	7,150	4,938	5,157	4,219
Capital expenditures	1,979	2,122	2,994	3,080	2,161
Research and development expenses	314	371	214	206	277
Depreciation and amortization	1,553	1,538	1,293	1,259	1,158
Amounts per Share of Common Stock (in yen):					
Net income	¥ 169.86	¥ 171.42	¥ 117.72	¥ 123.35	¥ 103.79
Shareholders' equity	1,548.98	1,464.47	1,305.07	1,246.60	1,134.46
Cash dividends applicable to the year	28.00	26.00	25.00	24.0	23.0
Financial Position:					
Current assets	¥20,979	¥27,802	¥20,865	¥20,903	¥22,872
Current liabilities	9,242	10,496	10,192	11,560	13,264
Interest-bearing debt	—	—	—	—	3,434
Shareholders' equity	63,293	61,088	54,439	52,402	47,116
Total assets	75,561	74,863	66,325	65,599	61,915
Key Ratios (%):					
Operating income to net sales	25.4	25.0	24.6	25.1	23.9
Net income to net sales	12.6	13.6	9.7	10.5	9.2
Shareholders' equity to total assets	83.8	81.6	82.1	79.9	76.1
Return on equity	11.2	12.3	9.2	10.3	9.3
Return on assets	9.2	10.1	7.5	8.1	6.4
Interest-bearing debt ratio	—	—	—	—	5.5
Other Year-End Data:					
Number of shares outstanding (thousand)	41,713	41,713	41,713	42,036	41,532
Number of employees	2,068	1,908	1,789	1,792	1,711
Common Stock Prices (in yen):					
High	¥4,720	¥5,000	¥6,100	¥ 3,680	¥ 3,550
Low	3,410	2,670	2,850	2,900	2,540
Year-end close	4,050	3,890	3,000	3,510	3,100

Non-Consolidated Operating Data

	Millions of yen				
	2002	2001	2000	1999	1998
<i>Sales of principal products:</i>					
Custom-made wigs	¥33,435	¥31,096	¥31,328	¥30,453	¥28,341
Hair Fix	233	399	551	338	—
Pinpoint	3,010	3,562	2,354	2,778	3,100
Hair Support	6,460	6,321	6,079	6,125	5,695
Physical Esthé	1,513	1,122	453	—	—
Total	¥44,653	¥42,501	¥40,765	¥39,694	¥37,136
<i>Sales of principal products from new customers:</i>					
Custom-made wigs	¥15,586	¥13,109	¥13,132	¥13,450	¥12,377
Hair Fix	30	124	178	67	—
Pinpoint	1,796	2,212	1,383	1,841	2,262
Hair Support	2,939	2,816	2,567	3,210	3,328
Physical Esthé	544	318	114	—	—
Total	¥20,897	¥18,581	¥17,374	¥18,568	¥17,967
<i>Sales of principal products from repeat customers:</i>					
Custom-made wigs	¥17,849	¥17,986	¥18,196	¥17,003	¥15,964
Hair Fix	202	274	373	271	—
Pinpoint	1,214	1,350	971	937	838
Hair Support	3,520	3,504	3,512	2,915	2,367
Physical Esthé	968	804	339	—	—
Total	¥23,755	¥23,920	¥23,391	¥21,126	¥19,169
<i>Sales of principal products from male customers:</i>					
Custom-made wigs	¥11,606	¥12,399	¥13,669	¥15,093	¥14,834
Hair Fix	225	392	538	338	—
Pinpoint	2,936	3,499	2,296	2,731	3,047
Hair Support	5,337	5,216	5,077	5,125	4,852
Physical Esthé	1,380	1,041	434	—	—
Total	¥21,485	¥22,550	¥22,014	¥23,287	¥22,733
<i>Sales of principal products from female customers:</i>					
Custom-made wigs	¥21,829	¥18,696	¥17,659	¥15,360	¥13,507
Hair Fix	8	6	13	—	—
Pinpoint	74	63	58	47	53
Hair Support	1,123	1,104	1,002	1,000	843
Physical Esthé	132	80	19	—	—
Total	¥23,168	¥19,951	¥18,751	¥16,407	¥14,403
<i>Number of outlets:</i>					
Counseling rooms	9	9	9	9	9
Regular outlets	134	128	123	123	121
Ladies' salons	25	24	23	19	19
Satellite salons	50	37	24	12	2
New-concept salons	4	2	—	—	—
Total	222	200	179	163	151
<i>Number of customer visits (thousand):</i>					
Male	1,028	979	919	944	910
Female	495	453	415	357	309
Total	1,523	1,432	1,334	1,302	1,220

Head Office

6-3, Shinjuku 1-chome, Shinjuku-ku, Tokyo 160-8429
 Tel.03-3350-3268 Fax.03-3356-3052
 E-mail. ir_div@aderans.co.jp

Sales and Marketing Division

Hokkaido

Prevy Building, 10, Minami 2-jo, Nishi 2-chome, Chuo-ku, Sapporo, Hokkaido 060-0062

Toboku

AD Building Sendai, 4-15, Chuo 3-chome, Aoba-ku, Sendai, Miyagi 980-0021

Tokyo

AD Building, 1-22, Shinjuku 3-chome, Shinjuku-ku, Tokyo 160-8429

Kanto

Fuji Soft ABC Building, 26, Nakamachi 2-chome, Saitama, Saitama 330-0845

Chukyo

AD Building Nagoya, 14-8, Naeki 4-chome, Nakamura-ku, Nagoya, Aichi 450-0002

Kansai

Hankyu Sangyo Umeda Building, 6-8, Taiyujicho, Kita-ku, Osaka, Osaka 530-0051

Chugoku

Asahi Nittsu Hiroshima Building, 2-29, Tatemachi, Naka-ku, Hiroshima, Hiroshima 730-0032

Kyusyu

Tenjin NK Building, 8-36, Tenjin 2-chome, Chuo-ku, Fukuoka, Fukuoka 810-0001

- (1) Established
- (2) Capital
- (3) Percentage of Parent Company's Ownership
- (4) Net Sales (net sales after elimination of intersegment)

Subsidiaries and Affiliates

Japan

FONTAINE Co., Ltd.

Kensei Shinjuku Building, 5-3, Shinjuku 5-chome, Shinjuku-ku, Tokyo 160-0022
 Tel.03-3352-2835 Fax.03-3352-3062
 (1) January 5, 1979 (Acquired August 12, 1985) (2) ¥1,539 million (3) 62.5%
 (4) ¥10,172 million

ADE Co., Ltd.

(1) September 2, 1972 (Acquired May 30, 1985) (2) ¥90 million
 (3) 100% (4) ¥513 million

ADN Co., Ltd.

(1) May 1, 1985 (Acquired December 4, 1998) (2) ¥654 million (3) 83.2%
 (4) ¥8,028 million

U.S.A.

Aderans, Inc.

15551 Cabrito Road, Van Nuys, California 91406
 Tel.+1-818-908-3114 Fax.+1-818-908-4078
 (1) April 19, 2001 (2) US\$3,000 thousand
 (3) 100% (Indirect) (4) US\$582 thousand

International Hairgoods, Inc.

18684 Lake Drive East, Chanhassen, Minnesota 55317
 Tel.+1-952-906-9900 Fax.+1-952-906-3400
 (1) October 31, 1968 (Acquired June 29, 1987) (2) US\$2,546 thousand (3) 100%
 (Indirect) (4) US\$5,333 thousand

New Concepts Hair Goods, Inc.

1450, S.W. 3rd Street, Suite A-9
 Pompano Beach, Florida 33069
 Tel.+1-954-545-9722 Fax.+1-954-545-9712
 (1) February 13, 1991 (Acquired March 5, 1998) (2) US\$25 (3) 100% (Indirect)
 (4) US\$2,170 thousand

René of Paris

15551 Cabrito Road, Van Nuys, California 91406
 Tel.+1-818-908-3100 Fax.+1-818-988-2496
 (1) November 1, 1976 (Acquired March 1, 1989) (2) US\$1,000 thousand (3) 100% (Indirect)
 (4) US\$7,424 thousand

Aderans Holding Co., Inc.

10 West 55th Street, New York, New York 10019
 (1) November 23, 1994 (2) US\$82,740 thousand (3) 100% (4) —

General Wig Manufacturers, Inc.

5800 N.W. 163rd Street, Court Miami Lakes, Florida 33014
 Tel.+1-305-823-0600 Fax.+1-305-823-0622
 (1) June 14, 1963 (Acquired September 28, 1998) (2) US\$37 thousand (3) 100%
 (Indirect) (4) US\$60,012 thousand

Bosley Medical Institute Inc.

9100 Wilshire Boulevard, East Penthouse, Beverly Hills, California 90212
 Tel.+1-310-288-9999 Fax.+1-310-888-3461
 (1) August 3, 1989 (Acquired August 1, 2001) (2) US\$1,747 thousand (3) 96.2%
 (Indirect) (4) US\$23,952 thousand

Europe

Aderans Europe B.V.

Burg. Rijnderslaan 10, 1185 MC Amstelveen, the Netherlands
 (1) January 9, 1992 (2) NLG27,000 thousand (3) 100% (4) —

Gesnofra S.A.

107 Boulevard Richard-Lenoir 75011 Paris France
 (1) March 1, 1980 (Acquired March 1, 1992) (2) €1,620 thousand
 (3) 100% (Indirect) (4) —

Camaflex S.A.

107 Boulevard Richard-Lenoir 75011 Paris, France
 Tel.+33-1-5336-1717 Fax.+33-1-4338-1077
 (1) December 5, 1956 (Acquired March 1, 1992) (2) €540 thousand (3) 100%
 (Indirect) (4) €6,511 thousand

Monfair Mode S.A.R.L.

27160 Francheville SUR ITON, France
 (1) February 16, 1987 (Acquired March 1, 1992) (2) €10 thousand
 (3) 100% (Indirect) (4) —

Créations de Paris Camaflex Vertriebs G.m.b.H.

Ettore-Bugatti-Str. 7, 51149 KÖLN, Germany
 Tel.+49-2203-977-020 Fax.+49-2203-301-544
 (1) July 26, 1966 (Acquired March 1, 1992) (2) DM4,500 thousand (3) 100%
 (Indirect) (4) DM11,230 thousand

Monfair Moden Vertriebs G.m.b.H.

Ettore-Bugatti Str. 7, 51149 KÖLN, Germany
 Tel.+49-2203-369-7413 Fax.+49-2203-369-7421
 (1) December 11, 1985 (Acquired March 1, 1992) (2) DM50 thousand (3) 100%
 (Indirect) (4) DM4,253 thousand

Camaflex S.A.

Boulevard Lambermont 140, 1030 Bruxelles, Belgium
 Tel.+32-2-215-5800 Fax.+32-2-215-4829
 (1) September 25, 1962 (Acquired March 1, 1992) (2) BF2,500 thousand (3) 100%
 (Indirect) (4) BF80,018 thousand

D. van Nooijen B.V.

Eglantierbaan 49 2908 LV Capelle A/D IJssel, the Netherlands
 Tel.+31-10-458-0988 Fax.+31-10-442-2098
 (1) January 1, 1984 (Acquired March 1, 1994) (2) NLG 35 thousand (3) 100%
 (Indirect) (4) NLG2,786 thousand

Trend Hair Supplies Co., Ltd.

Sheridan House 114/116, Western Road, Hove, East Sussex BN3 1DD England
 Tel.+44-01273-774-977 Fax.+44-01273-720-116
 (1) March 26, 1973 (Acquired May 13, 2002) (2) £30 thousand (3) 100% (Indirect)
 (4) £2,533 thousand (Reference only)

Asia

Aderans Inc. (Taiwan)

3F, No.39 Sec. 1, Chung-Shiao West Road, Taipei, Taiwan
 Tel.+886-2-2388-8905 Fax.+886-2-2311-1629
 (1) January 12, 1990 (2) NT\$20,000 thousand (3) 100% (4) NT\$155,077 thousand

Aderans Tha., Ltd.

122 Moo 9, Sai Buriram-Prakonchai Road, Tambol 1-San, Amphur Muang, Buriram 31000, Thailand
 Tel.+66-44-613-000 Fax.+66-44-613-372
 (1) October 17, 1986 (2) B170,000 thousand (3) 100% (4) B955,936 thousand

World Quality Co., Ltd.

109 Moo 1, Export Processing Zone, Banwah (Hi-Tech) Industrial Estate, Tumbol Banlane, Amphur Bangpian, Ayutthaya 13160, Thailand
 Tel.+66-35-350-149 Fax.+66-35-350-129
 (1) September 3, 1992 (2) B15,000 thousand (3) 100% (Indirect)
 (4) B542,967 thousand

Allen Artur (Manila), Inc.

KM 17-8 West Service Road, Paranaque, Metro Manila 3128, Philippines
 Tel.+63-2-823-2571 Fax.+63-2-823-8937
 (1) July 27, 1976 (Acquired June 29, 1987) (2) P40,000 thousand (3) 100%
 (4) P314,591 thousand

Directors and Auditors

Aderans Company Limited
As of May 23, 2002

President

Takayoshi Okamoto*

Executive Vice-President

Nobuo Watabe*

General manager of manufacturing headquarter

Senior Managing Director

Tsutomu Isogai

In charge of corporate planning division and IT control division

Managing Director

Mamoru Mino

In charge of administrative division and overseas division

Directors

Noboru Kaneko

Deputy general manager and director of sales and marketing headquarter and general manager of business development division

Tsuguo Tanaka

In charge of advertising division, public relations division, and investor relations division

Shigeru Ueda

General manager of sales and marketing management division

Supreme Adviser and Directors

Nobuo Nemoto

Kunihiro Hirakawa

Haruo Okita

Standing Corporate Auditor

Kouta Inose

Corporate Auditors

Okio Akutsu

Masaaki Katagiri

Masayuki Tominaga

Corporate Data

Aderans Company Limited
As of February 28, 2002

Head Office

6-3, Shinjuku 1-chome, Shinjuku-ku, Tokyo 160-8429

Established

March 1, 1969

Paid-in Capital

¥12,944 million

Number of Shares Authorized

138,033,400

Number of Shares Issued

41,713,388

Number of Shareholders

5,059

Principal Shareholders

Name	Percentage of total issued shares
Nobuo Nemoto	11.2%
The Mitsubishi Trust and Banking Corporation (trust account)	11.1
Japan Trustee Services Bank Ltd. (trust account)	9.9
UFJ Trust Bank Limited (trust account A)	6.1
The Chase Manhattan Bank NA London	5.0
State Street Bank & Trust Company	2.5
Trust & Custody Services Bank, Ltd.	1.9
The Dai-Ichi Mutual Life Insurance Company (pension trust account)	1.9
Nippon Life Insurance Company (special pension account)	1.6
The Chuo Mitsui Trust and Banking Company, Limited, Trustee of Designated Money Trust (account A)	1.4

Stock Listings

First Section of Tokyo Stock Exchange

First Section of Osaka Securities 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 Outlets

222

Number of Employees

2,068

For further information contact:

Investor Relations Division Office, Aderans Co., Ltd.

6-3, Shinjuku 1-chome, Shinjuku-ku, Tokyo 160-8429, Japan

Tel.03-3350-3268 Fax.03-3356-3052

E-mail. ir_div@aderans.co.jp

*Representative director

Aderans

Aderans Company Limited