

# A d e r a n s



MAXIMIZING VALUE POTENTIAL

## The Aderans Group: Maximizing value potential through Wellness

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### 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 maintains Japan's leading brand of custom-made hair-replacement products for both sexes and has also built a solid presence in the women's fashion wig market through Fontaine Co., Ltd., a domestic subsidiary.

### COMPREHENSIVE PRODUCTS AND SERVICES

We augment our mainstay custom-made wigs for men and women with a rich selection of complementary products and hair-related services. Seeking to cement a position at the forefront of the hair-transplant and hair-growth markets, we have reinforced our presence in the U.S. hair-transplant business with the June 2002 commencement of research and development on hair-regeneration treatments. This move underpins steady expansion of Group operations beyond wigs and hair-replacement products to hair growth medicine and medical procedures.

### GLOBAL PRESENCE

Aderans heads a group of 27 consolidated companies—three operating in Japan and 24 overseas—with a Groupwide workforce of more than 5,400 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.

### 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.

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

## Consolidated Financial Highlights

	Millions of yen		% change	Thousands of
	2003	2002		U.S. dollars
Net sales	¥77,112	¥74,181	4.0%	2003 \$654,886
Operating income	12,973	16,659	-22.1	110,181
Net income	6,173	9,200	-32.9	52,428

### PER COMMON SHARE AMOUNTS (yen and dollars):

Net income	¥152.39	¥224.76	-32.2%	\$ 1.29
Cash dividends applicable to the year	30.00	28.00	7.1	0.25

Total assets	¥92,864	¥92,284	0.6%	\$788,655
Shareholders' equity	70,303	68,577	2.5	597,054
Net cash provided by operating activities	9,729	9,438	3.1	82,631
Depreciation and amortization	2,478	2,270	9.1	21,047
Capital expenditures	2,537	2,715	-6.5	21,552

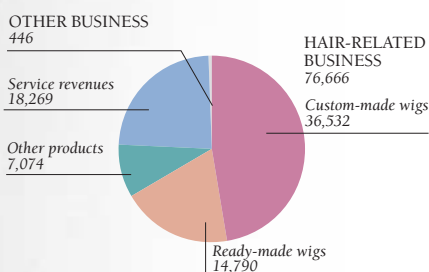
### OTHER YEAR-END DATA:

Number of shares outstanding (thousand)	40,357	40,861	-1.2	—
Number of employees	5,406	5,172	4.5	—

Note: The U.S. dollar amounts represent the arithmetical results of translating yen into U.S. dollars at the rate of ¥117.75 to US\$1.

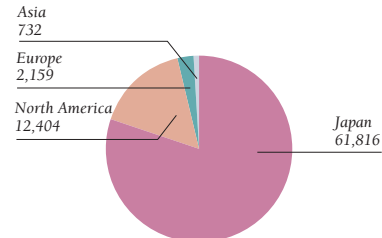
### SALES BY PRINCIPAL PRODUCT

(Millions of yen)



### SALES BY REGION

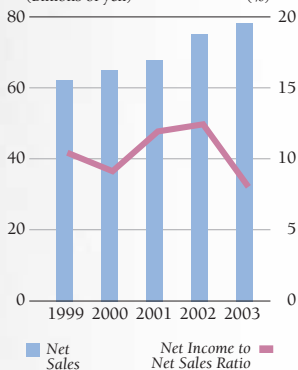
(Millions of yen)



Note: The above figures exclude intersegment transactions.

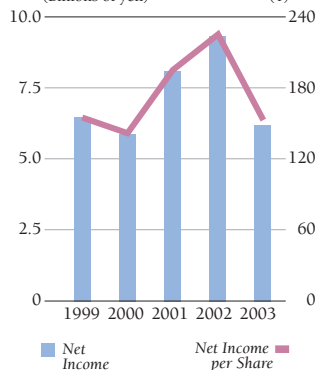
### NET SALES AND NET INCOME TO NET SALES RATIO

(Billions of yen)



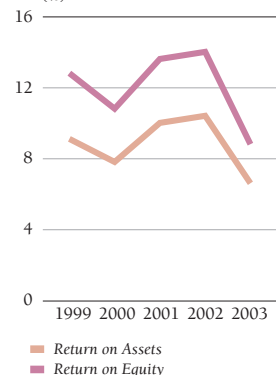
### NET INCOME AND NET INCOME PER SHARE

(Billions of yen)



### RETURN ON ASSETS RETURN ON EQUITY

(%)



## Maximum Value Is Our Ultimate Goal

SALES BY THE PARENT  
COMPANY, WHICH  
REPRESENT ABOUT 70%  
OF THE CONSOLIDATED  
TOTAL, WERE SQUEEZED  
BY A TOUGH DOMESTIC  
OPERATING ENVIRONMENT.

### Fiscal Results

On a consolidated basis, Aderans posted net sales of ¥77.1 billion and net income of ¥6.1 billion for the fiscal year ended February 28, 2003. While these amounts are generally in line with forecasts, sales were higher and net income was lower compared with the results achieved in the previous fiscal year, largely due to a disappointing domestic performance.

To overcome challenges in the domestic men's market, we focused on four strategies: to emphasize efficiency in the development of advertising activities; to distinguish our products and services from those of other companies; to revamp our television commercials with a new celebrity figure to encourage interest from new clients; and to revitalize demand for wigs. Unfortunately, our efforts in this area did not generate more clients or deliver the higher sales we had hoped for.

In the domestic women's market, we experienced a considerable drop in sales. However, sales steadied with the introduction of new products and we posted record-breaking sales to new clients in December 2002. In addition to bringing new products to market, we explored new marketing formats, such as wig fairs and try-on events, and launched items other than wigs and hairpieces to better address the haircare needs of women.

Noteworthy overseas developments include the June 2002 establishment of Aderans Research Institute, Inc., in California, to undertake R&D on hair-regeneration treatments. The results will be applied to the next generation of procedures used in the hair-transplant operations of Bosley Medical Institute, Inc. Also in the United States, we celebrated the start of retailing activities at a mall-based outlet in Garden City, New York. In Europe, we extended our retailing reach and, importantly, our wholesaling base to the United Kingdom when we brought Trend Hair Supplies Co., Ltd., under the Aderans umbrella in May 2002. In Asia, we set up Aderans Singapore Pte. Ltd. in September 2002. We also acquired a company and existing wig shop in Singapore, which began selling Aderans' products in October 2002.

### Domestic Strategies

In examining trends in sales to new male clients in Japan, we found that calls to our toll-free inquiry line were roughly the same in the fiscal years ended February 28, 2002 and 2003. But the number of telephone inquiries that led to consultations and ultimately to purchase agreements was down, causing sales in the term under review to fall more than ¥1 billion.

In response, we have identified three key strategies that should lead to higher consultation and purchase agreement ratios in the current fiscal year, and thereby buoy sales to new male clients. These strategies are: a solid advertising campaign; sales system reform; and an improved service menu.

Last year, image advertising might have piqued the interest of the average consumer, but the level of interest was not high enough to convert into firm orders. This year, we are refining our advertising campaigns and targeting certain segments of the men's market with specific products and services—that is, wigs to middle-aged men and Hair Support to younger men.



WE CURRENTLY TARGET  
WOMEN BETWEEN 50 AND  
80 YEARS OF AGE, A  
DEMOGRAPHIC THAT WILL  
SOON COMPRISE THE  
LARGEST SEGMENT OF THE  
POPULATION, CREATING  
A FAVORABLE BUSINESS  
ENVIRONMENT FOR US.

As part of sales system reform, we are integrating Consultation Division, which function as gateways to new clients, into the Sales and Marketing Division. We are also shifting the focus of salons. Instead of catering mainly to repeat clients, the nationwide network of salons will direct efforts toward attracting new clients.

In the area of an improved service menu, we are working on a full review of Hair Support, a service popular among young men. We expect the revamped service menu to be available in September 2003.

We have also found the Internet to be extremely effective in reaching the men's younger clients, a fact substantiated by average online monthly sales of ¥80 million during the fiscal year to February 28, 2003. This result has encouraged us to utilize our web site as a primary marketing tool that complements television commercials, magazine ads and other less effective but still valuable media.

Access to the Aderans Fathers' Club, a membership sales system through which we promote custom-made wigs to middle-aged men, was expanded to major urban centers across the country. As of February 28, 2003, membership stood at 543. We began renewing agreements with the first members to sign on about a year after the Club was introduced and have achieved a renewal rate of 84%, which is considered extremely high.

Amid projections of persistently sluggish demand for wigs among middle-aged men, we have based medium- to long-term goals for membership of 5,000 and annual sales of ¥1 billion on the hope that the Club will be the catalyst that reinvigorates the men's market.

Our activities in the domestic women's market in the current fiscal year hinge on three objectives: to ensure products retain consumer interest for a full two years after their introduction; to secure the business of women who visit our permanent sales facilities; and to avoid reductions in the level of orders caused by the changing seasons.

To maintain market interest in custom-made wigs that debuted in July 2002 we will experiment with successor products of Eve Sara to this lineup or bring slightly higher-quality custom-made wigs to market later this year. This should prevent sales from tumbling. To encourage women to make a purchase at our permanent sales facilities, we will continue to utilize new marketing approaches, including wig fairs and try-on events. The success of such an event in September 2002, for example, prompted us to hold another event in May 2003. To prevent a downturn in orders from women when the seasons change, we launched Reage Hair Support, a new haircare service, in March 2003.

Another aspect of domestic operations that warrants attention is our network of satellite salons. Once the network reached the desired 50 locations, we began reviewing profitability at each salon and turning profitable locations over to independent owner-operators under a profit-sharing system. In the fiscal year ended February 28, 2003, the satellite salon network generated sales of about ¥850 million, and, as of May 31, 2003, we had made operators at 27 salons fully responsible for business results at their locations. We plan to open five more satellite salons in the current fiscal year.

We are also tracking the success of new-concept salons, which combine the expertise of barbers and hairdressers with the products and services of the Aderans Group. This network presently comprises nine locations as of May 31, 2003 and will be taken nationwide only when existing salons have satisfied profit goals.

The introduction of the hair-transplant business to Japan is vital to our development as a comprehensive provider of hair-related products and services. We will open our first clinic this autumn in Tokyo, along with a medical corporation to oversee this clinic and the anticipated network, with locations in Osaka, Nagoya and other major urban centers.

As in the United States and parts of Europe, the number of men in Japan with thinning hair is high. We can thus be assured of firm demand for hair-transplant procedures in Japan, and we will strive, as an industry trailblazer, to make these procedures widely available to the domestic market as quickly as possible.

IN THE MEDIUM TO  
LONG TERM, WE SEEK  
TO ELEVATE THE SALES  
CONTRIBUTION FROM  
OVERSEAS MEMBERS OF  
THE ADERANS GROUP  
TO 50% FROM THE  
CURRENT 20%.

## Overseas Strategies

In the United States, Bosley Medical Institute plans to set up some 30 small-scale counseling offices for temporary use to facilitate access by its hair-transplant clients. Our research facilities are making steady progress on hair-regeneration techniques that should be ready for commercial application within five years. In regard to retailing activities, we will open one more store as planned, but we have delayed plans for a third store until we are more confident in the health of the local economy. In Europe, we have prioritized expansion of directly operated outlets. In Asia-Oceania, excluding our home base of Japan, we are focusing our marketing efforts on countries where local wig markets are starting to take shape, such as Australia and China, where Shanghai is of particular interest.

On the production front, construction of a new facility in the Philippines has been completed and full-scale operations are scheduled to commence in August 2003, with products distributed to Group companies soon thereafter.

## The Future

One of our greatest priorities is to build three core segments—wigs and haircare treatments; medicinal therapies, such as hair-growth agents; and medical treatments, such as hair-transplant services—to underpin our global position as a comprehensive provider of hair-replacement and hair-related services for men and women. R&D geared to market needs is essential to achieving this goal. Specifically, we are working on the next generation of Cyberhair and studying hair-regeneration techniques that should be market-ready by 2007.

As far as operating targets are concerned, we have always aimed for a ratio of nonconsolidated net sales to recurring profit above 25% and a consolidated return on equity above 10%. We emphasize a stable dividend for shareholders and aim to raise payouts each term. For the current fiscal year, we are considering a two-yen increase, to ¥32.0 per share. Another indication of a solid business foundation is the share buyback, and we plan to apply ¥2.5 billion to repurchase one million shares again this term.

Paralleling changes in our operating environment and a transformation of our own business activities, we embarked on a revised medium-term management plan in March 2002. However, sales to new male and female clients remain sluggish and economic conditions at home and abroad have taken another turn for the worse. These factors compel us to reconsider the medium-term plan yet again. Unfortunately, increasingly uncertain business and economic conditions at home and abroad hinder our ability to form reliable predictions. Therefore, the current fiscal year will be set aside as a time to reevaluate and reconstruct the medium-term management plan. The executive team has identified four points that will determine the Company's success under prevailing circumstances: trends in the domestic men's market and measures to revitalize demand; growth prospects for the domestic women's market; development of the domestic hair-transplant market; and the impact of world events on overseas results.

A solid grasp of these factors, including how they play out during the year, will help the executive team modify the goals of the three-year management plan and the methods needed to achieve these goals. Our stakeholders are also integral to our success. 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 2003



Takayoshi Okamoto  
President

# MAXIMIZING VALUE POTENTIAL

## Creating New Markets

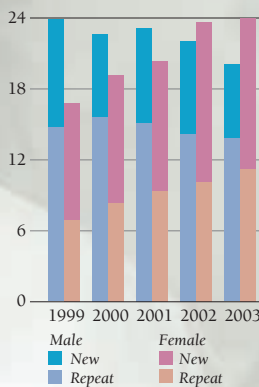
**A**DERANS WILL ESTABLISH THE ADERANS GROUP AS A COMPREHENSIVE PROVIDER OF HAIR-RELATED PRODUCTS AND SERVICES BY TURNING TWO KEYS THAT UNLOCK MAXIMUM VALUE FOR CLIENTS AND SHAREHOLDERS. THESE KEYS ARE THE ABILITY TO RESPOND QUICKLY TO CHANGING MARKET NEEDS, PARTICULARLY IN JAPAN, AND THE ABILITY TO APPLY A GLOBAL PERSPECTIVE TO THE CREATION OF NEW MARKETS.

## Responding to Change

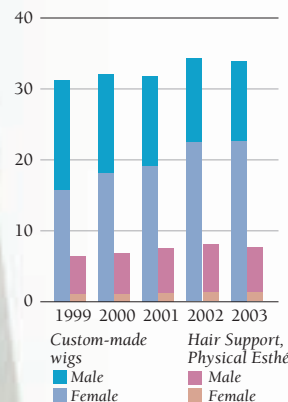
# Responding to

THE DOMESTIC MARKET FOR HAIR-RELATED PRODUCTS AND SERVICES IS CHANGING. THIS IS REFLECTED IN ADERANS' SALES COMPOSITION: SALES TO WOMEN SURPASSED THOSE TO MEN FOR THE FIRST TIME IN THE PREVIOUS FISCAL YEAR.

SALES BY GENDER  
(Non-Consolidated)  
(Billions of yen)



SALES BY PRODUCT  
(Non-Consolidated)  
(Billions of yen)



## Evolving Trends in Domestic Demand

In Japan, where nearly 80% of Aderans Group net sales are generated, annual demand for hair-related products and services, such as wigs and techniques to encourage hair-growth and increase hair volume, is valued at about ¥125.0 billion.

Demand is supported by a rapidly rising percentage of men with thinning hair, a situation precipitated by heightened stress levels and a larger number of seniors in society.

Aderans has maintained the top spot in this market for many years.

Indeed, “Aderans” has become synonymous in Japan with men’s hair-replacement products, and the brand is firmly entrenched in the minds of consumers.

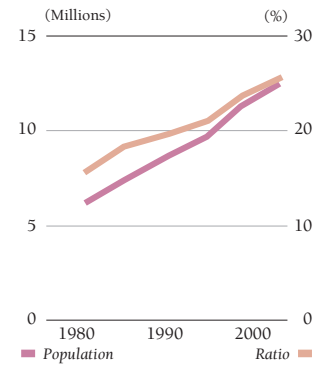
In recent years, however, several changes have emerged in Aderans’ nonconsolidated profit structure. Our revenue base continues to expand, tapping other sources of demand, including haircare services specialligned for young men. On the other hand, demand from middle-aged men—a segment that had been a mainstay source of profit for the Company from the time of its establishment—has faltered. Demand for hair-replacement products from younger men has shown a similar decline, primarily due to declining birth rates. As a result of this diminished sales activity in the men’s segment, sales to women have surpassed sales to men since the fiscal year ended February 28, 2002.

**Middle-aged Men’s Market** Against this operating backdrop, Aderans has worked to stimulate demand for products and services among middle-aged men by making the membership-style Aderans Fathers’ Club system available in Tokyo and other major urban centers across the country from March 2002. The Company also began full-scale preparations for bringing hair-transplant services to the domestic market to be able to provide men concerned about hair loss with a medical alternative to hair-replacement products.

**Young Men’s Market** Young men form an important new client segment for Aderans. They appear particularly keen on haircare services. Capitalizing on this trend, in June 2002 we applied an effective marketing strategy hinging on television commercials to attract young men to a new Hair Support service that blocks the harmful effects of ultraviolet rays.

This is a perfect example of how Aderans continues to enhance its service lineup with high-value-added features that revitalize the market and distinguish the Company from its competitors.

RATIO OF ADULT MEN IN JAPAN WHO HAVE SUFFERED SOME DEGREE OF HAIR LOSS



According to surveys conducted by Aderans almost 26% of adult men in Japan are estimated to have suffered some degree of hair loss. Aderans is expanding its activities to help this market group.

## INTRODUCTION OF HAIR-TRANSPLANT SERVICES IN JAPAN

In October 2002, a project team was set up to facilitate the introduction of hair-transplant services in Japan, and the Aderans Group is moving ahead with preparations to establish a clinic for such services.

In the United States, the market for hair-transplant services is worth about \$800 million. We anticipate high demand in Japan, as well, especially from clients already using Aderans brand products and services.

# Change

**Women's Market** The domestic women's market is served by Aderans, which handles custom-made wigs and hair-replacement products, and by Fontaine, a consolidated subsidiary specializing in women's fashion wigs. In the fiscal year ended February 2003, sales to women were steady. Sales by Aderans, the parent company, amounted to ¥23.3 billion, up 0.7%, while those by Fontaine reached ¥10.4 billion, up 2.7%. Eve Sara, a new product that debuted in July 2002, posted a strong showing in our mainstay custom-made wig business.

To keep the market active through the launch of appropriately timed products, the Aderans Group tracks the suitability of advertising campaigns, product cycles and product development to the changing needs of women. Responding to prevailing demand, for example, we initiated full-scale access to Reage Hair Support, a comprehensive haircare system for women, in March 2003.



*We utilize new marketing approaches, such as wig fairs and try-on events.*

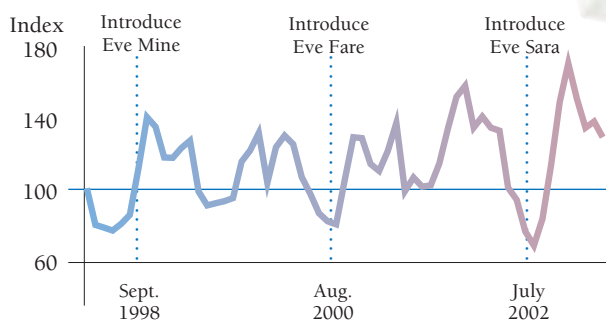
### Diversified Sales Channels

**Basic Salon Strategy** Aderans maintains three primary sales networks in Japan: regular salons, which are located in major urban centers throughout the country; satellite salons, which cater to clients outside large cities; and new-concept salons, which offer Aderans' services in addition to typical barber and hairdressing services.

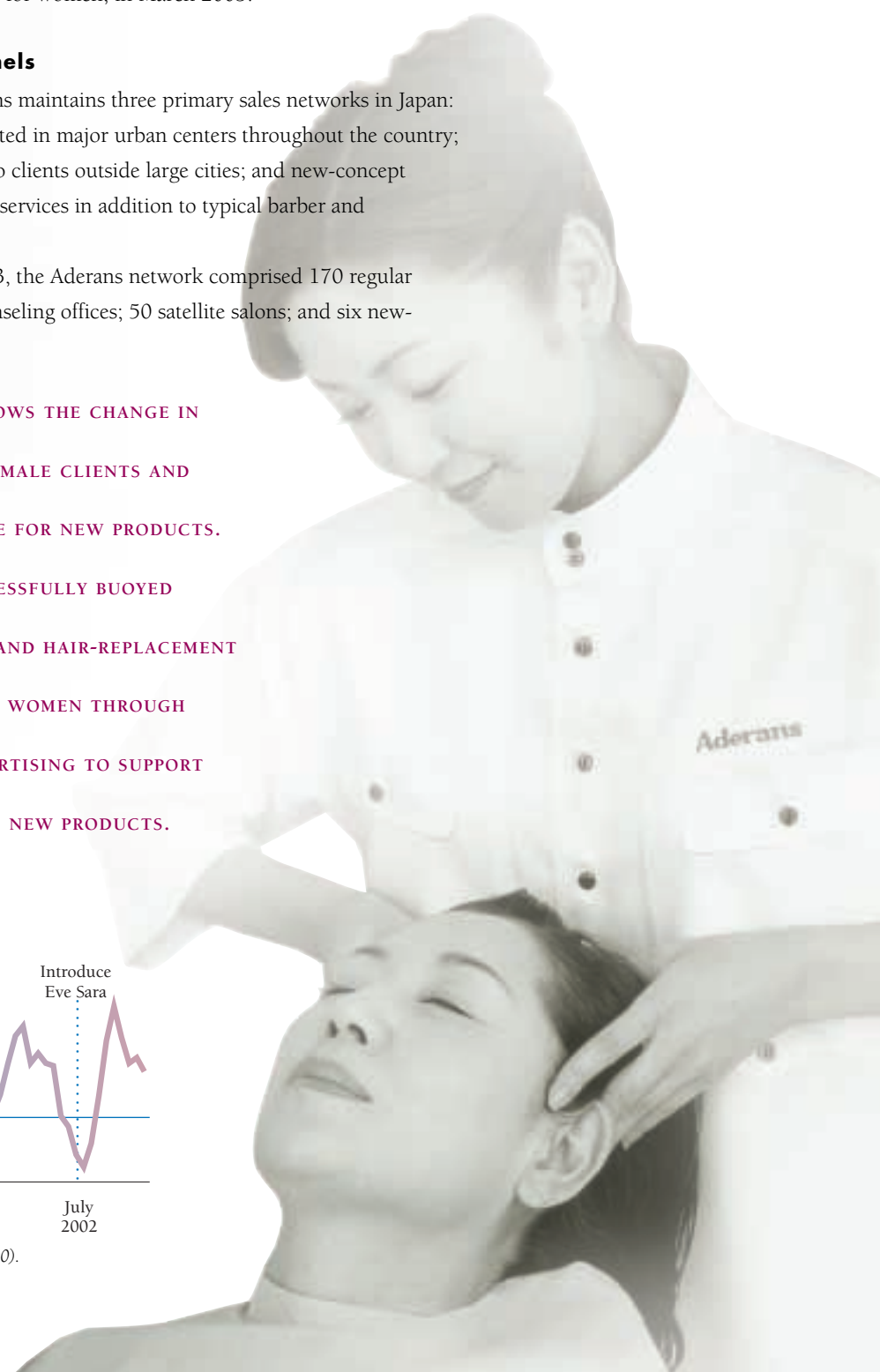
As of February 28, 2003, the Aderans network comprised 170 regular salons, including nine counseling offices; 50 satellite salons; and six new-concept salons.

THE GRAPH BELOW SHOWS THE CHANGE IN ORDERS FROM NEW FEMALE CLIENTS AND THE DEBUT SCHEDULE FOR NEW PRODUCTS. ADERANS HAS SUCCESSFULLY BUOYED INTEREST IN WIGS AND HAIR-REPLACEMENT PRODUCTS AMONG WOMEN THROUGH STRATEGIC ADVERTISING TO SUPPORT THE LAUNCH OF NEW PRODUCTS.

FEMALE SALES TRENDS (NEW CUSTOMERS)

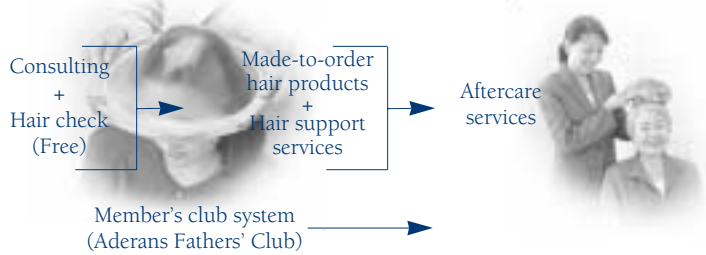


Note: Based on number of clients at March 1998 (=100).





- TV
- Magazines
- Web site
- Telephone
- Postcard



**Sales Channels**

(As of February 28, 2003)

**REGULAR SALON NETWORK:**

Counseling Offices	9
Salons	136
Ladies' Salons	25
Satellite salons	50
New-Concept Salons	6

New-concept salons, of which the first opened in the fiscal year ended February 28, 2001, have developed under three different salon names—Jacques Darcel, René of Paris and Studio AD. Each salon has its own ambience, reflecting the neighborhood and predominant age group of clients. The format of new-concept salons was expanded in September 2002 with the opening of Wellness Hair Salon Komorebi at the Cancer Center in Shizuoka Prefecture.



*The Wellness Hair Salon Komorebi, inside the Cancer Center*

Our salon strategy goes beyond attracting new clients. Our primary goal is to encourage clients who have purchased a custom-made wig or hair-replacement product to come back for regular barber and hairdressing services. Another goal is to bring in new clients for such products as well as for haircare services, such as Hair Support. In the medium term, we are looking to boost sales to repeat clients and generate a ratio of 30:70 for new client sales to repeat client sales.

We also have a salon strategy aimed at employees other than clients. At our satellite salons, we promote a profit-sharing system whereby the employees run the location once it has cleared a certain profit level. As of February 28, 2003, a total of 25 satellite salons had attained this status. The employees at these locations undoubtedly gained a higher sense of purpose.

**Other Sales Channels** The advertising strategies used by the Aderans Group to date have proven successful. The high profile enjoyed by the Company's brand, and steady interest in the stress-free advice system, through telephone and postcard, are testament to the effectiveness of the Group's marketing activities.

Another powerful sales channel is the Group's web site. Clients and potential clients can go online for a hair check or to set up an appointment. At the end of September 2002, monthly online sales hit ¥100 million. While this is a satisfactory level, sales through the Group's web site continue to grow.

Although the Aderans brand enjoys a high profile, we have embraced various sales formats, such as the Aderans Fathers' Club, our first membership sales system, to help the name spread to new avenues of the market. In July 2002, we began sales of the Medicated 9696 Series, an original haircare product for young men. It is now available at the large, do-it-yourself stores popular with this age group.

# Creating New

## ADERANS IN THE U.S. MARKET

Aderans Holding Co., Inc.  
(Holding company)

### Hair-Transplant Services

Bosley Medical Institute, Inc.

### Hair-Regeneration Technology

Aderans Research Institute, Inc.

### Hair-Replacement Products

#### Wholesale

New Concepts Hair Goods, Inc.  
General Wig Manufacturers, Inc.  
René of Paris  
International Hairgoods, Inc.

#### Retail

Aderans, Inc. (USA)

### What are hair-transplant services?

*Even in the field of cosmetic surgery, hair transplantation is considered a sophisticated medical procedure whereby a section of patient's own scalp with healthy hair roots is surgically removed and relocated to the area of hair loss.*

*In a field where most providers of hair-transplant services are doctors in private practice, Bosley Medical holds the highest share—about 10%—of the market. The company recorded net sales of \$65 million for the fiscal year ended December 31, 2002.*

### What is hair-regeneration technology?

*Hair-regeneration technology is a process whereby a small amount of hair follicle cells—the cells that produce hair roots—are cultivated and transplanted into the scalp. The procedure can be used to help burn victims and people who have lost hair due to cancer therapy.*



## Building a Strong U.S. Presence

*Entering the Retail Segment* The key point of the Aderans Group's overseas strategy, as it pertains to the United States and Europe, has been to capture a solid share in the wholesale market through mergers and acquisitions. Currently, Aderans Holding counts 11 companies in the United States under its umbrella, including four that wholesale men's and women's wigs and hair-replacement products. Others include Aderans, Inc. (USA), which is engaged in retailing, and Bosley Medical Institute, Inc., which offers hair-transplant services. The Aderans Group as a whole maintains top share—between 40% and 50%—in the local wholesale market for women's wigs

and hairpieces. In the corresponding men's market, International Hairgoods, which handles Cyberhair, also boasts the highest share.

The Aderans Group is making steady progress toward full-scale retailing operations in the United

States. Aderans, Inc. (USA), which was established in Los Angeles in April 2001, opened a store called Roloc in December 2002 inside the Roosevelt Field Mall, in Garden City, New York. This location offers a new, total coordination perspective that enables customers to select all they need, from fashion wigs to hair accessories and haircare products.

*Making Inroads into Hair-Transplant Services* We seek to have an active presence in three core segments—wigs and haircare treatments; medicinal therapies, such as hair-growth agents; and medical treatments, such as hair-transplant services—in the United States, which will place the Aderans Group on the world stage as a comprehensive provider of hair-replacement and hair-related services for men and women. We have therefore taken an enthusiastic approach to the business of hair-transplant services.

In August 2001, Bosley Medical Institute, the largest provider of hair-transplant services in the United States, was brought into the Aderans Group. The company, known globally as a pioneer in hair regeneration, maintains a network of 12 clinics and 33 consultation offices.

In June 2002, we established Aderans Research Institute, Inc., in California to undertake research and development on hair-regeneration technology. Also in June, through Aderans Holding we acquired the technologies and research-related assets of BioAmide, Inc., a U.S. company noted for its organic regeneration techniques. The technologies comprise three granted patents and three pending patents. The assets are valued at \$197,131, or about ¥22.7 million.

Aderans Research Institute is now working on plans to incorporate the hair-regeneration techniques acquired from BioAmide into the services the Group already offers, with the goal of commercializing medical procedures by 2007. Activities at two laboratories, in Philadelphia (Pennsylvania) and Atlanta (Georgia) commenced in July 2002.

# Markets

## ADERANS RESEARCH INSTITUTE

Established: June 25, 2002

Capital: \$400,000

Research Facilities:

Philadelphia and Atlanta



## Double-Edged Market Strategy

The overseas strategy of the Aderans Group is double-edged, with activities adjusted to each region. In the United States and Europe, where the market for wigs and hair-replacement products is already well established, we have built a presence through mergers and acquisition of marketing companies. Meanwhile, in Asia and regions where the wig market is not well established we have applied the business model used in Japan to promote Aderans brands directly to end users through retail shops and to nurture new markets.

In Europe, Aderans is represented by eight group companies with operations in France, Germany, Belgium, the United Kingdom and the Netherlands. Each member of the Aderans Group in this region holds regular strategy meetings with the overall goal the establishment of a distribution network similar to the one in the United States that hinges on retail development. A further step in that direction came in May 2002, when Trend Hair Supplies Co. Ltd., a major retailer of wigs headquartered in East Sussex, came under the Aderans Group umbrella.

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 two in the Philippines.

In September 2002, we set up Aderans Singapore Pte. Ltd. to establish a retail presence in the Asia-Oceania region. In October, that company opened its first retail outlet in Singapore.

During the fiscal year ended February 28, 2003, Aderans Siam Co., Ltd., our sales subsidiary in Thailand, opened two retail stores, bringing the retail network in Thailand to seven locations.

### Group Strategies

We seek to raise overall product capabilities and marketing expertise within the Group through close ties among member companies. This includes importing new products from U.S. and European sales subsidiaries for sale by domestic subsidiary Fontaine, as well as the application of the Japanese business model in other parts of Asia, and the anticipated introduction of Bosley Medical's hair-transplant services in Japan.

*Trend Hair Supplies  
in East Sussex*



*Aderans Siam Studio 404  
in Chiang Mai*



**STUDIO 404**

Manufacturing activities are concentrated at facilities in Thailand and the Philippines to curb overall costs for the Group. Aderans Thai, Ltd., and World Quality Co., Ltd., both located in Thailand, are the biggest wig producers in the world, boasting an aggregate annual capacity of about 900,000 wigs and hairpieces and a combined workforce of about 4,000 people.

Construction of a second factory in the Philippines was completed in December 2002. Test production has begun, with full-scale operations scheduled for summer 2003.



INFORMATION FROM GROUP COMPANIES  
ON EVERYTHING FROM PRODUCT  
DEVELOPMENT TO DISTRIBUTION IS  
STORED AT PRODUCTION FACILITIES IN  
THAILAND. THE NORIKO COLLECTION,  
A HIT SERIES ON A GLOBAL SCALE, WAS  
CREATED HERE, USING GROUP KNOW-  
HOW AND EXTENSIVE TRIALS BY A  
TEAM OF SKILLED PRODUCTION  
ENGINEERS.

ENVIRONMENTAL PRESERVATION AND QUALITY  
CONTROL EFFORTS AT ADERANS THAI AND WORLD  
QUALITY

Aderans Thai, Ltd., and World Quality Co., Ltd., were quick to embrace environmental preservation and quality control measures, and in 1999, the International Standards Organization granted both manufacturing facilities ISO 14001 and ISO 9002 accreditation for minimal impact on the environment and sustained high quality. Recognition is based on criteria established in 1994. The subsidiaries continue to work toward obtaining certification based on 2001 criteria.

*Major environmental preservation efforts at Aderans  
Thai and World Quality*

- Prevention of water pollution by factory wastewater
- Prevention of air pollution within the facility
- Safe processing of industrial waste
- Effective use of available resources
- Improved working environment within the facility



Production facility at  
Aderans Thai, Ltd.

## CUSTOM-MADE WIGS

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.

# Aderans: A Name Synonymous with

## FOR MEN

The characteristics of a person's hair are as individual as the person, so each product must be tailored to the unique preferences and physical requirements of every client. Male clients may choose from wigs featuring advanced technologies, such as Cyberhair CA30, which allows a wig to be worn continuously, and a wide assortment of partial hair-replacement products, such as Hair Fix and Pinpoint Fix, which add volume to specific areas.

## ADERANS FATHERS' CLUB

The Aderans Fathers' Club became available in Tokyo and other major urban centers across the country in March 2002. For an annual fee, members are provided with a custom-made wig that recreates a more natural-looking hairline. This is a point of considerable interest to men over 30. Advertising, pricing, marketing methods and product development are all fine-tuned to the needs of this client group.

## FOR WOMEN

Eve Sara, which debuted in July 2002, features newly developed net materials for greater softness and ventilation. This partial hair-replacement product enables each client to add volume to whatever area she wishes and allows a choice of hair color.

### WOMEN'S FASHION WIGS

In addition to custom-made wigs from Aderans, the domestic market has access to Fontaine's fashion wigs for women. The company's 200 different products are broken down into three categories: wigs, Top Piece, a hairpiece; and Posté, a hair accessory. The wig category comprises 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 through a proprietary process. All the company's wigs are highly regarded for design and fashionability.



## CARE SYSTEM

In addition to wigs and partial hair-replacement products, we offer Hair Support, which contributes to healthy hair growth by improving hair quality and preventing hair loss, and Physical Esthé, which rejuvenates hair damaged by sunlight, chemical treatments and other external causes.

These haircare services have won high praise from young men as well as an increasing number of women. In addition, we launched Reage Hair Support, a new haircare service for women, in March 2003.

## Top Quality in Japan



### Professional Skills

Aftercare services cover such aspects of post-purchase or post-treatment attention as haircuts and represent an extremely important part of operations.

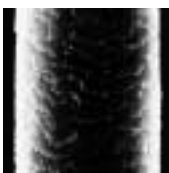
Some 60% of our employees on a nonconsolidated basis are involved in the provision of these services.

Clients can access the skills of these experienced professionals throughout Japan, at more than 200 directly operated salons and other locations within our domestic network.

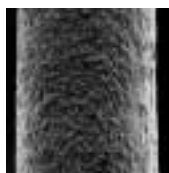
### Cyberhair

Aderans holds patents for Cyberhair in 11 countries.

This artificial hair is remarkably similar to real hair, boasting excellent durability, heat resistance, water absorption and stable light refraction, in addition to natural luster and texture.



Natural hair



Cyberhair



Conventional artificial hair



### R&D HEADQUARTERS

The development of new products and technologies for the Aderans Group hinges on the activities of the research and development division in Niigata Prefecture.

The technologically advanced capabilities of the Group are exemplified by the custom-made wig. The science that underpins the high quality of an Aderans-brand wig is second to none. Molding technology, for instance, ensures the perfect fit of a custom-made wig through careful reproduction of head shape, flow of hair, whorls, hairline and other characteristics unique to each client. The polyurethane foundation of the wigs is incredibly close in texture and color to that of real hair, and it is safe and hygienic.

**Aderans Love Charity** Aderans initiated the Aderans Love Charity campaign in 1978 as a way to donate custom-made wigs to children up to age 15 who had lost their hair through accident, injury, hair-related illness or as a side-effect of medical treatment, such as radiation therapy or chemotherapy. During the most recent campaign, which ran from October 2002 to November 2002, 200 children were randomly selected to receive wigs. The number of children to whom Aderans has donated wigs reached almost 4,000 from the first to the most recent campaign.



**Medical-Use Wigs** Aderans carries out a responsibility 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.



## Aderans in Society

**Studio AD** Superior technical capabilities put Aderans in the spotlight during the domestic run of the popular musical *Cats*. This experience launched the Company into the production of wigs and costume designs that complement special effects in movies and stage plays.



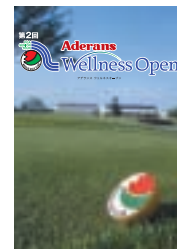
**Tokyo Hair Beauty College** The Tokyo Hair Beauty College was established in April 2000 to promote the development of hair artists. The college has earned a reputation as a highly specialized technical school, known for its excellence in wig technology, an area in which Aderans boasts more than 30 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 has hired many of these young professionals to work at its new-concept salons.

**Fore! Aderans Wellness Open** Aderans has become the regular sponsor of an event—the Aderans Wellness Open—on the Senior Professional Golf Association Tour schedule. The event, which was inaugurated in July 2002, will be held in June 2003 at a golf course in Niigata operated by ADN, a member of the Aderans Group. The event is expected to attract about 60 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				
		2003	2002	2001	2000	1999
<b>RESULTS OF OPERATIONS</b>	Net sales	¥ 77,112	¥ 74,181	¥ 67,022	¥ 64,187	¥ 61,570
	Cost of sales	13,080	13,324	11,522	10,333	10,119
	Gross profit	64,032	60,856	55,499	53,854	51,451
	Selling, general and administrative expenses	51,058	44,197	39,574	38,593	36,312
	Operating income	12,973	16,659	15,925	15,261	15,139
	Income before income taxes	12,742	15,788	14,523	13,047	13,918
	Net income	6,173	9,200	8,020	5,887	6,434
	Capital expenditures	2,537	2,715	2,537	3,756	7,632
	Research and development expenses	519	315	372	214	206
	Depreciation and amortization	2,478	2,270	2,209	1,841	1,612
	<b>AMOUNTS PER SHARE OF COMMON STOCK (IN YEN)</b>	Net income	¥ 152.39	¥ 224.76	¥ 194.63	¥ 141.30
Shareholders' equity		1,742.00	1,678.28	1,509.60	1,344.16	1,264.09
Cash dividends applicable to the year		30.00	28.00	26.00	25.00	24.00
<b>FINANCIAL POSITION</b>	Current assets	¥ 39,282	¥ 33,830	¥ 37,979	¥ 28,829	¥ 28,759
	Current liabilities	13,638	14,966	13,462	12,383	13,808
	Interest-bearing debt	0	145	749	851	1,262
	Shareholders' equity	70,303	68,577	62,126	55,648	52,805
	Total assets	92,864	92,284	83,890	75,101	74,010
<b>KEY RATIOS (%)</b>	Operating income to net sales	16.8	22.5	23.8	23.8	24.6
	Net income to net sales	8.0	12.4	12.0	9.1	10.5
	Shareholders' equity to total assets	75.7	74.3	74.1	74.1	71.3
	Return on equity	8.9	14.1	13.6	10.9	12.9
	Return on assets	6.7	10.4	10.1	7.9	9.1
	Interest-bearing debt ratio	0.0	0.2	0.9	1.1	1.7
<b>OTHER YEAR-END DATA</b>	Number of shares outstanding (thousand)	40,357	40,861	41,154	41,400	41,772
	Number of employees	5,406	5,172	4,544	4,504	4,553

## Consolidated Financial Review

The scope of consolidation for this review of the year ended February 28, 2003, covers Aderans Co., Ltd.—the Company—and 27 consolidated subsidiaries: three domestic subsidiaries, including Fontaine Co., Ltd., and 24 overseas subsidiaries, including Trend Hair Supplies Co., Ltd., and Aderans Research Institute, Inc., a U.S.-based facility engaged in R&D on hair-regeneration techniques, which recently joined the Aderans Group.

### Net Sales, Expenses and Profitability

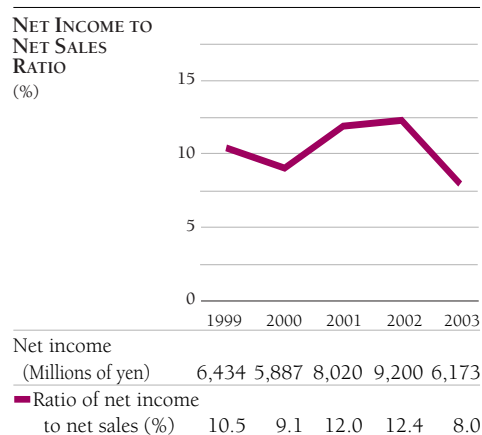
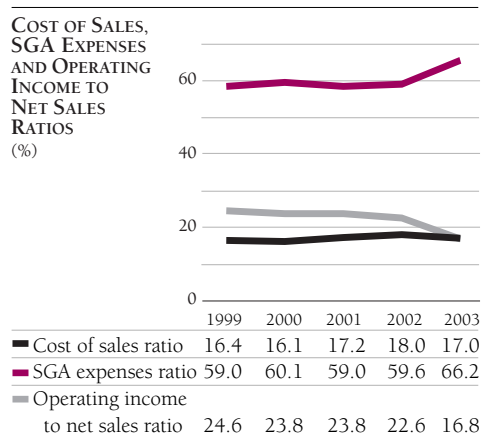
Net sales rose 4.0%, to ¥77,112 million (\$654 million), thanks to a full year of results from Bosley Medical Institute, Inc., and favorable sales of ready-made wigs in Japan. In the previous fiscal year, only five months of Bosley Medical's results were included in consolidated net sales because the company was acquired in August 2001.

	Millions of yen		
	2003	2002	% Change
<i>Operating Data</i>			
Net sales	¥77,112	¥74,181	4.0%
Operating income	12,973	16,659	-22.1
Net income	6,173	9,200	-32.9
Net sales per employee	14.3	14.3	0
Net income per employee	1.14	1.78	-36.0
Number of employees	5,406	5,172	4.5

Cost of sales reached ¥13,080 million, down 1.8%, primarily owing to reduced expenses by the Company, following a reduction in sales of Hair Support and other services, and a slightly improved cost of sales ratio at Bosley Medical. The consolidated cost of sales ratio thus improved 1.0 percentage point, to 17.0%.

	Millions of yen		
	2003	2002	% Change
<i>Cost of Sales and Selling, General and Administrative Expenses</i>			
Cost of sales	¥13,080	¥13,324	-1.8%
Selling, general and administrative expenses	51,058	44,197	15.5
Advertising expenses	12,982	11,859	9.5
Personnel expenses	19,558	16,502	18.5
Other	18,518	15,835	16.9

Selling, general and administrative (SGA) expenses climbed 15.5%, to ¥51,058 million. One of the major reasons for the increase was a 147.8% surge in advertising costs at Bosley Medical and the fact that 12 months of the subsidiary's expenses were included on the consolidated books in the fiscal year under review. Another reason was higher personnel expenses at Aderans, Fontaine and Bosley Medical. Amortization of goodwill in companies brought under the Aderans umbrella also caused SGA expenses to grow. The amounts amortized in the fiscal year for Bosley Medical and Trend Hair Supplies were ¥910 million and ¥44 million, respectively.



Consequently, operating income tumbled 22.1%, to ¥12,973 million (\$110 million).

A principal component of other expenses was an unrealized loss of ¥189 million on investment securities.

The pressure of the expenses outlined above squeezed net income to ¥6,173 million (\$52 million), a year-on-year decrease of 32.9%. Net income per common share fell to ¥152.39 (\$1.29).

The end-of-year dividend was raised one yen, to ¥15.0 per share. Including the interim dividend of ¥15.0, the annual dividend reached ¥30.0 per share, ¥2.0 more than in the previous fiscal year.

	Yen		
	2003	2002	% Change
<i>Per Common Share Data</i>			
Net income per common share	¥ 152.39	¥ 224.76	-32.2%
Shareholders' equity per common share	1,742.00	1,678.28	3.8
Cash dividends per common share	30.00	28.0	7.1

## Net Sales by Region

<i>Key Ratios by Geographic Area</i>	Japan		North America, Europe and Asia		Average/Total	
	2003	2002	2003	2002	2003	2002
	Sales growth ratio	-3.5%	5.0%	50.8%	67.9%	4.0%
Operating income to net sales	26.7%	30.8%	0.1%	9.0%	21.4%	27.8%
Operating income (millions of yen)	¥16,509	¥19,696	¥16	¥914	¥16,525	¥20,611
Asset turnover ratio (times)	0.97	1.11	0.69	0.64	0.90	1.00
Operating income to total assets	25.9%	34.0%	0.1%	5.7%	19.4%	27.9%

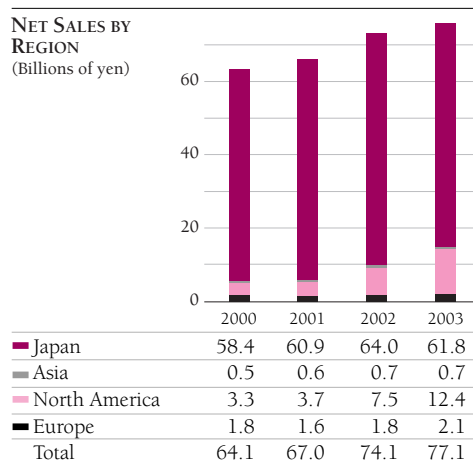
The figures above except sales growth rate represent those before adjustments for and eliminations of unallocated corporate expenses and assets.

**Japan** Domestic sales comprise contributions from Aderans and Fontaine, both involved in hair-related businesses, and two other consolidated subsidiaries not engaged in the hair-related business.

For the fiscal year ended February 28, 2003, domestic sales slipped 6.3% from the previous fiscal year, to ¥61,916 million (\$525 million), but still accounted for the majority—80.3%—of consolidated net sales.

A breakdown of sales by Aderans and Fontaine in Japan by product category shows a drop of 3.4% in sales of custom-made wigs, to ¥35,538 million. Sales of ready-made wigs contributed ¥9,383 million, up 3.2% on steady demand at department stores and directly operated stores, while sales of other hair-related products fell 8.4%, and amounted to just ¥6,483 million. Service revenue amounted to ¥9,964 million, down 6.0%, owing to sluggish demand among young men. Other business income edged down, to ¥446 million. Intersegment sales accounted for only ¥100 million, owing to the end of Aderans' intermediary role in sales to the USA and Europe.

Consequently, operating income in Japan declined 16.2%, to ¥16,509 million (\$140 million).



Note: The above figures exclude intersegment transactions.



## ADERANS' PERFORMANCE

Aderans reported non-consolidated net sales of ¥50,888 million (\$432 million), down 7.9%. The result might have been worse if not for a favorable shift in demand from repeat customers, in both the men's and women's segments.

Although the introduction of new products in July 2002 spurred demand from new female customers in the second half of the term, sales to new female customers fell 6.3% overall. Sales to new male clients retreated 19.8%, despite aggressive marketing activities.

A breakdown by product shows a drop in sales of ready-made wigs, because Aderans ended its intermediary distribution function to Group companies in January 2002. Other sales were down, due to a slight decrease in sales of shampoo and other products.

The Company recorded a 20.2% reduction in cost of sales, to ¥8,483 million (\$72.0 million). This achievement came about through a dramatic cut in costs, reflecting the drop in sales of ready-made wigs through intersegment trading, as well as a slight decrease in personnel costs reclassified as cost of sales during the year and lower service revenue from Hair Support. The cost of sales ratio dipped 2.6 percentage points, to 16.6%. SGA expenses grew 2.6%, to ¥31,414 million (\$266 million), as a 6.2% rise in personnel costs overshadowed a 2.2% drop in advertising costs, with promotions aimed at men suffering the most significant fall.

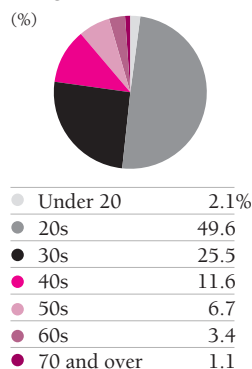
In the end, non-consolidated operating income declined 21.6%, to ¥10,990 million (\$93 million).

Notable components of other income included ¥100 million (\$0.8 million) in dividends from Fontaine, while major components of other expenses included ¥343 million (\$2.9 million) in exchange losses on loans extended to U.S. subsidiaries and ¥189 million (\$1.6 million) in unrealized losses on investment securities.

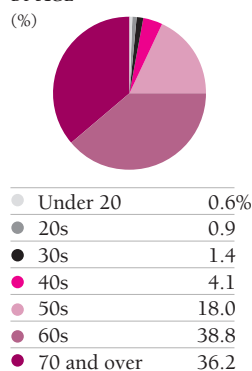
Net income thus settled at ¥6,476 million (\$55 million), down 6.8%

Capital expenditures amounted to ¥1,831 million (\$15 million), down 7.4%. Depreciation and amortization increased 14.2%, ¥1,775 million (\$15 million).

ADERANS' NEW MALE CUSTOMERS BY AGE (%)



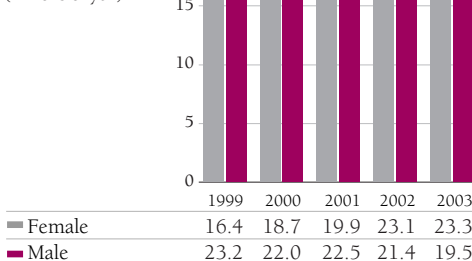
ADERANS' NEW FEMALE CUSTOMERS BY AGE (%)



Net Sales of Aderans by Product Category

	Millions of yen				
	2003	2002	2001	2000	1999
Custom-made wigs	¥32,950	¥33,435	¥31,096	¥31,328	¥30,453
Hair Fix	167	233	399	551	338
Pinpoint	2,300	3,010	3,562	2,354	2,778
Hair Support	5,997	6,460	6,321	6,079	6,125
Physical Esthé	1,455	1,513	1,122	453	—
Subtotal	42,872	44,653	42,501	40,765	39,694
Other custom-made wigs	68	67	80	58	68
Ready-made wigs	16	1,899	1,690	1,624	1,157
Other sales	5,449	6,064	5,983	5,666	5,738
Service revenues	2,481	2,590	2,469	2,632	2,614
Total	¥50,888	¥55,275	¥52,726	¥50,746	¥49,272

ADERANS' SALES OF PRINCIPAL PRODUCTS BY GENDER (Billions of yen)



ADERANS' SALES OF PRINCIPAL PRODUCTS TO NEW AND REPEAT CUSTOMERS (Billions of yen)



## FONTAINE'S PERFORMANCE

Fontaine, a subsidiary in which Aderans holds 62.5% equity, is listed on the Second Section of the Tokyo Stock Exchange. As a retailer, the company enjoys the top share—about 30%—in the domestic women's fashion wig market.

Fontaine has built a high profile through a presence at 168 department stores, the cornerstone of its sales network. The company also employs an assortment of complementary marketing approaches, including wholesale supply to some 100,000 beauty salons and fine cosmetics stores nationwide, sales at 35 directly operated shops, and mail order.

For the fiscal year ended February 28, 2003, Fontaine posted a 2.7% increase in net sales, to ¥10,451 million (\$88 million), supported by a 3.2% rise in sales of fashion wigs and hair accessories, to ¥9,371 million (\$79 million). Solid demand for Valan, a brand of high-quality fashion wigs, more than compensated for a drop in sales of Fontaine-brand wigs, hairpieces and other products.

Looking at sales of fashion wigs and hair accessories by marketing channel, the wholesale route generated a 2.2% improvement in sales, to ¥8,079 million, with a 5.1% rise in sales at department stores and a 7.8% gain in sales through cosmetics stores and by mail order offsetting a 7.0% decrease in sales via beauty salons. The retail route provided sales of ¥1,292 million, up 9.6%.

Sales of other products—that is, products other than fashion wigs and hair accessories—slipped 0.7%, to ¥1,080 million.

Fontaine posted net income of ¥1,071 million (\$9.0 million), a 12.8% jump over the previous fiscal year.

**Asia** <sup>Excluding Japan</sup> The Aderans Group continues to reinforce its presence in Asia, outside its home base in Japan, with subsidiaries in Taiwan, South Korea, Singapore, Thailand and the Philippines. Consolidated companies comprise Aderans Inc., in Taiwan, and our product development and manufacturing facilities in Thailand and the Philippines, which supply the Group with custom-made wigs and women's fashion wigs, and are among the world's largest wig factories.

Aderans Inc., a sales subsidiary in Taiwan, merits special mention. The company turned in another year of very satisfactory results, with net sales rising 6.8% through a greater number of retail sites offering ready-made wigs.

Aggregate net sales in Asia, excluding Japan, climbed 18.1%, to ¥5,234 million (\$44 million). By product, sales of custom-made wigs grew 5.3%, to ¥404 million, largely thanks to steady new and replacement demand in Taiwan. Sales of ready-made wigs were up 9.9%, to ¥121 million, buoyed by the start of department store sales in Taiwan. Other hair-related products contributed ¥71 million, down 25.1%, and service revenue added ¥135 million, about ¥2 million less than in the previous fiscal year. Intersegment sales jumped 21.5%, to ¥4,502 million.

As a result of this, operating income reached ¥1,371 million (\$11 million), down 4.4%.

**North America** In the United States, the Aderans Group is represented by 10 consolidated subsidiaries, including the newly established Aderans Research Institute, Inc., which is involved in R&D of hair-regeneration treatments. Aderans Holding Co., Inc., is responsible for nine other subsidiaries, including four companies that wholesale men's and women's wigs, as well as Aderans, Inc., a retailing company, and Bosley Medical, which offers hair-transplant procedures.

Aggregate net sales from activities in the United States soared 66.4%, to ¥12,790 million (\$108 million). Custom-made wigs provided ¥447 million, down 3.6%. Ready-made wigs, such as the high-quality Noriko and Amore, added ¥3,571 million, an 8.4% dip. Other hair-related products brought in ¥249 million, inching up 0.6%. Service revenue reached ¥8,136 million, thanks to the full-year contributions of Bosley Medical's hair-transplant business. Intersegment sales more than tripled, to ¥385 million.

Of note, Bosley Medical Institute posted net sales on a par with forecasts. But General Wig Manufacturers, Inc., which usually contributes well to regional results, was hurt by sluggish sales in the Latin American market, attributable mainly to political uncertainty, and depressed sales through its mass marketing channel in the United States. As a result, the company saw its net sales decline 11.8% year-on-year.

Despite excellent sales results overall, higher amortization of goodwill led to another year of consolidated operating loss. The Group recorded an operating loss of ¥1,343 million (\$11 million) for the year, compared with the operating loss of ¥450 million recorded a year earlier.

**Europe** Aderans maintains a strong presence on the Continent through eight Group companies with operations in France, Germany, Belgium and the Netherlands. The May 2002 acquisition of Trend Hair Supplies has extended the Group's reach into the United Kingdom, and brings the European network to nine consolidated companies.

Aggregate net sales from these operations climbed 22.1%, to ¥2,262 million (\$19 million). This achievement was supported by strategies to carve a higher profile through the introduction of products geared to each market and careful selection of marketing channels. The inclusion of Trend Hair Supplies' results also benefited the consolidated total.

Custom-made wigs accounted for ¥142 million, surging 75.0%. Ready-made wigs represented ¥1,714 million, up 11.9%. Other hair-related items added ¥269 million, a 13.8% increase. Service revenue amounted to ¥32 million, and intersegment sales reached ¥103 million, a year-on-year increase of nearly 80-fold.

Of note, operating income at Trend Hair Supplies surpassed the budgeted figure and reached ¥109 million for the year, owing to a favorable switch from the Noriko Collection to the higher-priced Amore brand. In France, operating income topped the previous year by 161.8%, thanks to improved gross profit ratios. In Germany, Creations de Paris Camaflex Vertriebs G.m.b.H. and Monfair Moden Vertriebs G.m.b.H. were hurt by sluggish sales and high SGA ratios, and posted operating losses.

In the end, the operating loss for operations in Europe deepened, settling at ¥11 million (\$96 thousand), or 83.5% worse than the operating loss recorded in the previous fiscal year.

### Cash Flow, Capital Expenditures and Funding

Cash and cash equivalents at February 28, 2003, stood at ¥18,921 million (\$160 million), up 15.1%, from the end of the previous fiscal year.

Net cash provided by operating activities amounted to ¥9,729 million (\$82 million), a year-on-year increase of 3.1%, reflecting ¥12,742 million in income before income taxes, ¥2,370 million in depreciation and amortization and ¥1,030 million in the amortization of consolidation differences on the assets side, and ¥888 million in notes and accounts payable on the liabilities side.

Net cash used in investing activities reached ¥3,399 million (\$28 million), down 28.4%, as ¥11,011 million applied as payment for purchase of marketable securities overshadowed ¥7,793 million in proceeds from the sales of marketable securities.

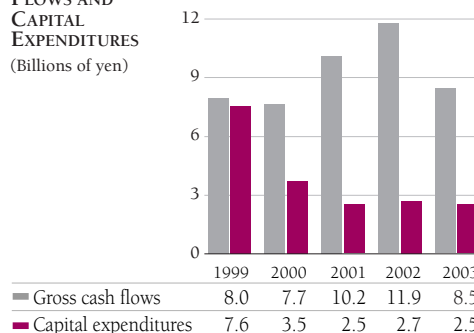
Net cash used in financing activities came to ¥3,568 million (\$30 million), an increase of 51.3%. The largest application of funds was a total of ¥2,175 million for the repurchase of treasury stock by Aderans and Fontaine.

#### Summary of Cash Flows Statements

	Millions of yen		
	2003	2002	% Change
Net cash provided by operating activities	¥ 9,729	¥ 9,438	3.1%
Net cash used in investing activities	(3,399)	(4,744)	-28.4
Net cash used in financing activities	(3,568)	(2,358)	51.3
Net increase in cash and cash equivalents	2,486	1,994	24.7
Cash and cash equivalents at the beginning of year	16,435	14,441	13.8
Cash and cash equivalents at the end of year	18,921	16,435	15.1

#### GROSS CASH FLOWS AND CAPITAL EXPENDITURES

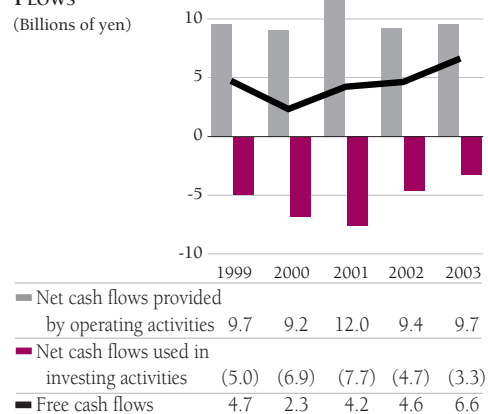
(Billions of yen)



Gross cash flows = Net income + Depreciation and amortization

#### FREE CASH FLOWS

(Billions of yen)



Free cash flows = Net cash flows provided by operating activities + Net cash flows used in investing activities

## Financial Position

At February 28, 2003, total assets amounted to ¥92,864 million (\$788 million), up 0.6%, while total liabilities stood at ¥19,152 million (\$162 million), down 6.0%.

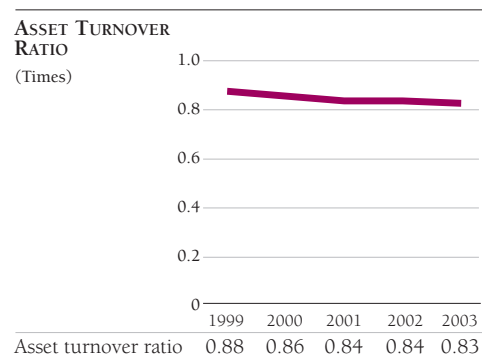
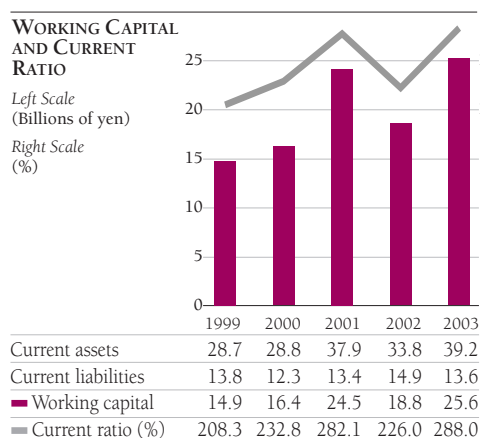
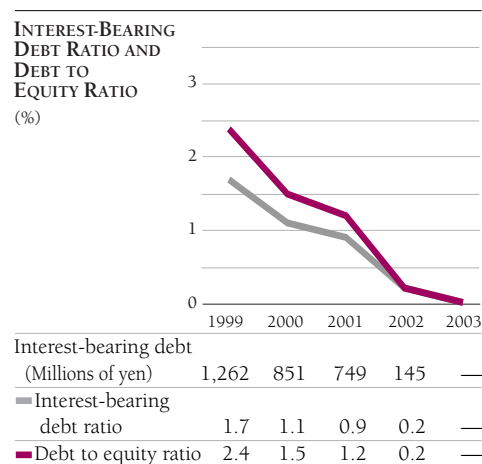
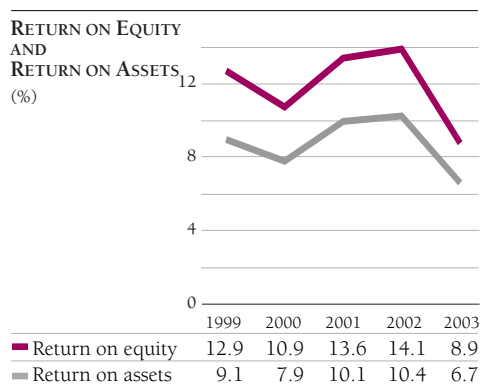
Current assets grew 16.1%, to ¥39,282 million, primarily because of an increase in marketable securities. Current liabilities slipped 8.9%, to ¥13,638 million. As a result, the current ratio (ratio of current assets to current liabilities) leaped 62.0 percentage points, to 288.0%.

Fixed assets fell 8.3%, to ¥53,581 million, chiefly because of a decrease in investment securities.

With the elimination of interest-bearing debt in the term under review, the interest-bearing debt ratio hit 0%, extending the downward trend from last fiscal year's 0.2%.

Total shareholders' equity rose 2.5%, to ¥70,303 million (\$597 million), owing to higher retained earnings. The equity ratio improved 1.4 percentage points, to 75.7%.

<i>Summary of Financial Position</i>	Millions of yen				
	2003	2002	2001	2000	1999
Total assets	<b>¥92,864</b>	¥92,284	¥83,890	¥75,101	¥74,010
Total liabilities	<b>19,152</b>	20,365	18,866	16,772	18,693
Shareholders' equity	<b>70,303</b>	68,577	62,126	55,648	52,805
Shareholders' equity to total assets (%)	<b>75.7</b>	74.3	74.1	74.1	71.3



## Consolidated Balance Sheets

Aderans Company Limited and Consolidated Subsidiaries  
February 28, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and time deposits (Note 4)	¥10,873	¥11,385	\$ 92,345
Marketable securities (Note 5)	15,905	10,030	135,078
Notes and accounts receivable	5,646	5,753	47,955
Allowance for doubtful accounts	(71)	(58)	(611)
Inventories (Note 6)	4,615	4,672	39,195
Deferred tax assets (Note 11)	973	898	8,264
Other current assets	1,339	1,147	11,379
Total current assets	39,282	33,830	333,607
<b>Investments and long-term loans:</b>			
Long-term loans receivable	59	192	509
Investment securities (Note 5)	4,873	8,154	41,390
Total investments and long-term loans	4,933	8,346	41,899
<b>Property, plant and equipment, at cost:</b>			
Land	13,282	13,230	112,802
Buildings and structures	29,297	28,718	248,809
Machinery and equipment	5,124	5,269	43,517
Construction in progress	447	300	3,802
Other	1,007	1,007	8,559
Total	49,159	48,526	417,490
Less accumulated depreciation	(19,182)	(18,607)	(162,912)
Property, plant and equipment, net	29,976	29,919	254,578
Intangible assets	12,173	13,590	103,388
Security deposits	3,759	4,099	31,926
Deferred tax assets (Note 11)	1,572	1,234	13,356
Other assets	1,192	1,306	10,129
Allowance for doubtful accounts	(27)	(43)	(231)
Total assets	¥92,864	¥92,284	\$788,655
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities:</b>			
Short-term borrowings (Note 8)	¥ —	¥ 145	\$ —
Notes and accounts payable	1,192	2,052	10,124
Accrued income taxes (Note 11)	3,282	3,023	27,876
Accrued expenses	2,021	2,542	17,164
Deferred tax liabilities (Note 11)	1	—	11
Other current liabilities	7,141	7,202	60,651
Total current liabilities	13,638	14,966	115,828
<b>Long-term liabilities:</b>			
Accrued severance and retirement benefits (Note 10)	3,665	3,393	31,133
Deferred tax liabilities (Note 11)	—	11	—
Other long-term liabilities	1,847	1,994	15,689
Total long-term liabilities	5,513	5,399	46,822
Total liabilities	19,152	20,365	162,651
<b>Minority interests</b>	3,408	3,342	28,949
<b>Contingent liabilities (Note 13)</b>			
<b>Shareholders' equity (Note 12):</b>			
Common stock, no par value			
Authorized—138,033 thousand shares for 2003 and 2002			
Issued—41,713 thousand shares for 2003 and 2002	12,944	12,944	109,928
Additional paid-in capital	13,157	13,157	111,739
Retained earnings	50,974	46,120	432,903
Unrealized loss on available-for-sale securities	(140)	(46)	(1,194)
Foreign currency translation adjustments	(1,219)	(172)	(10,356)
Treasury stock, at cost	(5,412)	(3,426)	(45,965)
Total shareholders' equity	70,303	68,577	597,054
Total liabilities, minority interests and shareholders' equity	¥92,864	¥92,284	\$788,655

See Notes to the Consolidated Financial Statements.

## Consolidated Statements of Income

Aderans Company Limited and Consolidated Subsidiaries  
For the years ended February 28, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
<b>Net sales</b>	<b>¥77,112</b>	¥74,181	<b>\$654,886</b>
<b>Cost of sales</b>	<b>13,080</b>	13,324	<b>111,083</b>
Gross profit	<b>64,032</b>	60,856	<b>543,803</b>
<b>Selling, general and administrative expenses</b> (Note 14)	<b>51,058</b>	44,197	<b>433,621</b>
Operating income	<b>12,973</b>	16,659	<b>110,181</b>
<b>Other income (expenses):</b>			
Interest and dividend income	<b>189</b>	228	<b>1,955</b>
Interest expenses	<b>(19)</b>	(33)	<b>(161)</b>
Loss on sales of investment securities	<b>—</b>	(433)	<b>—</b>
Unrealized loss of investment securities	<b>(189)</b>	(688)	<b>(1,610)</b>
Unrealized loss of golf club membership	<b>—</b>	(546)	<b>—</b>
Exchange gain (loss) on foreign currency translation	<b>(328)</b>	249	<b>(2,792)</b>
Loss on disposal of property, plant and equipment	<b>(94)</b>	(49)	<b>(804)</b>
Other income and expenses, net	<b>211</b>	402	<b>1,449</b>
Total other income (expenses)	<b>(231)</b>	(870)	<b>(1,964)</b>
Income before income taxes and minority interests	<b>12,742</b>	15,788	<b>108,217</b>
<b>Income taxes</b> (Note 11):			
Current	<b>6,569</b>	6,385	<b>55,795</b>
Deferred	<b>(356)</b>	(118)	<b>(3,030)</b>
<b>Minority interests</b>	<b>(356)</b>	(321)	<b>(3,024)</b>
<b>Net income</b>	<b>¥ 6,173</b>	¥ 9,200	<b>\$ 52,428</b>
<b>Net income per common share</b> (Note 15) (in the whole yen)	<b>¥152.39</b>	¥224.76	<b>\$ 1.29</b>

See Notes to the Consolidated Financial Statements.

## Consolidated Statements of Shareholders' Equity

Aderans Company Limited and Consolidated Subsidiaries  
For the years ended February 28, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
<b>Common stock:</b>			
Balance, beginning of year	¥12,944	¥12,944	\$109,928
Balance, end of year (2003—41,713,388 shares; 2002—41,713,388 shares)	¥12,944	¥12,944	\$109,928
<b>Additional paid-in capital:</b>			
Balance, beginning of year	¥13,157	¥13,157	\$111,739
Balance, end of year	¥13,157	¥13,157	\$111,739
<b>Retained earnings:</b>			
Balance, beginning of year	¥46,120	¥38,201	\$391,682
Net income	6,173	9,200	52,428
Increase in retained earnings:			
Increase due to merger of consolidated subsidiaries	—	12	—
Increase due to investment in consolidated subsidiaries	—	2	—
Others	55	—	468
Decrease in retained earnings:			
Cash dividends	1,195	1,106	10,150
Bonuses to directors and corporate auditors	179	188	1,525
Balance, end of year	¥50,974	¥46,120	\$432,903
<b>Unrealized loss on available-for-sale securities:</b>			
Balance, beginning of year	¥ (46)	—	\$ (393)
Net change	(94)	¥(46)	(801)
Balance, end of year	¥(140)	¥(46)	\$(1,194)
<b>Foreign currency translation adjustments:</b>			
Balance, beginning of year	¥ (172)	—	\$ (1,462)
Net change	(1,047)	¥(172)	(8,893)
Balance, end of year	¥(1,219)	¥(172)	\$(10,356)
<b>Treasury stock:</b>			
Balance, beginning of year	¥(3,426)	¥(2,176)	\$(29,098)
Purchases of treasury stock	(1,986)	(1,250)	(16,866)
Balance, end of year (2003—1,355,642 shares; 2002—851,800 shares)	¥(5,412)	¥(3,426)	\$(45,965)

See Notes to the Consolidated Financial Statements.

## Consolidated Statements of Cash Flows

Aderans Company Limited and Consolidated Subsidiaries  
For the years ended February 28, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
<b>Cash Flows from Operating Activities:</b>			
Income before income taxes and minority interests	¥12,742	¥15,788	\$108,217
Depreciation and amortization	2,370	2,201	20,132
Loss on retirement of fixed assets	133	103	1,134
Amortization for consolidation difference	1,030	520	8,747
Change in allowance for employees' bonus	(1)	75	(14)
Decrease in retirement benefit allowance	—	(2,820)	—
Increase in accrued severance benefits	249	2,628	2,119
Unrealized loss of golf club memberships	—	546	—
Unrealized loss of investment securities	189	688	1,610
Interest and dividend income	(189)	(228)	(1,607)
Interest expenses	19	33	161
Change in notes and accounts receivable	131	(297)	1,117
Decrease in inventories	(14)	(522)	(124)
Change in notes and accounts payable	(888)	859	(7,542)
Payment of guarantee deposits	(499)	(323)	(4,245)
Proceeds from security deposits	835	251	7,091
Bonuses to directors and corporate auditors	(192)	(206)	(1,633)
Other	32	(2,769)	276
Subtotal	15,948	16,528	135,440
Proceeds from interest and dividend income	154	194	1,312
Payment of interest	(39)	(33)	(337)
Payment of income taxes	(6,332)	(7,251)	(53,783)
Net cash provided by operating activities	9,729	9,438	82,631
<b>Cash Flows from Investing Activities:</b>			
Payment for purchase of marketable securities	(11,011)	(4,261)	(93,515)
Proceeds from sales of marketable securities	7,793	6,339	66,189
Payment for purchase of property, plant and equipment	(2,217)	(2,392)	(18,832)
Payment for purchase of intangible assets	(567)	(37)	(4,820)
Payment for purchase of investment securities	(3,310)	(1,601)	(28,116)
Proceeds from sales of investment securities	6,274	3,296	53,283
Payment for purchase of investment in subsidiaries	(781)	(5,687)	(6,635)
Other	421	(401)	3,580
Net cash used in investing activities	(3,399)	(4,744)	(28,867)
<b>Cash Flows from Financing Activities:</b>			
Proceeds from short-term borrowings	—	3,703	—
Payments of short-term borrowings	(137)	(3,654)	(1,167)
Payment to acquire treasury stock	(1,985)	(1,365)	(16,865)
Payment by consolidated subsidiaries to acquire treasury stock	(189)	—	(1,612)
Proceeds from sales of treasury stocks upon exercise of stock options	—	19	—
Cash dividends paid	(1,195)	(1,106)	(10,150)
Other	(60)	45	(514)
Net cash used in financing activities	(3,568)	(2,358)	(30,309)
Effects of exchange rate changes on cash and cash equivalents	(275)	(341)	(2,338)
Net increase in cash and cash equivalents	2,486	1,994	21,116
Cash and cash equivalents at the beginning of year	16,435	14,441	139,579
Cash and cash equivalents at the end of year	¥18,921	¥16,435	\$160,696

See Notes to the Consolidated Financial Statements.

## Notes to the Consolidated Financial Statements

Aderans Company Limited and Consolidated Subsidiaries

### Note 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. The accompanying consolidated financial statements include the accounts of the company and its significant subsidiaries.

### Note 2.

#### Summary of Significant Accounting Policies

##### *(a) Principles of consolidation*

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

All significant intercompany transactions and unrealized profits among the Companies have been eliminated in consolidation. The difference between the cost and underlying net equity of investments in consolidated subsidiaries is deferred and amortized within 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 two 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 intercompany transactions and events to the end of fiscal year.

##### *(b) Cash and cash equivalents*

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

##### *(c) Securities*

The Company and its domestic subsidiaries adopted the “Opinion on Establishing Accounting Standard for Financial Instruments,” issued by the Business Accounting Deliberative Council, from the fiscal year ended February 28, 2002.

The Company changed its valuation methods for securities, membership of golf club to conform with this standard. As a result of this change, income before income taxes and minority interest decreased by ¥433 million (\$3,227 thousand) for the year ended February 28, 2002 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 bonds 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 for the year ended February 28, 2002.

Methods of valuation of securities are as follows

Held-to-maturity debt securities:

Amortized cost method

Available-for-sale 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 non-consolidated 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 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 ¥132 million (\$1,125 thousand) at February 28, 2003 and ¥129 million at February 28, 2002 and was included in other current liabilities in the consolidated balance sheets.

*(j) Allowance for returned goods*

One of the Japanese subsidiaries, Fontaine Co., Ltd., sets allowance for returned goods up. This allowance is provided based on accounts receivable multiplied by an average of sales returns rate referring current and previous year and gross profit rate of current year. Amounted to ¥185 million (\$1,578 thousand) at February 28, 2002 and ¥175 million at February 2002, 28 and was included in other current liabilities in the consolidated balance sheets.

*(k) Translation of foreign currency accounts*

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

*(l) Derivative financial instruments*

The company utilizes derivative financial instruments primarily to hedge their exposure to fluctuations in foreign exchange rates.

In accordance with the accounting standard for financial instruments, all derivative financial instruments, recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of income.

*(m) 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.

*(n) Research and development costs*

Research and development costs are charged to income when incurred.

*(o) Reclassifications*

In preparing the accompanying consolidated financial statements, certain reclassifications have been made to the consolidated financial statements for the year ended February 28, 2003 issued domestically. In addition, the consolidated financial statements for 2002 have been retroactively restated to conform to the 2002 presentation.

**Note 3.**

**U.S. Dollar Amounts**

The financial statements are stated in Japanese yen. The U.S. dollar amounts included in the financial statements and notes thereto represent the arithmetical results of translating yen into U.S. dollars at the rate of ¥117.75 to U.S.\$1. This is the approximate rate of exchange in effect on February 28, 2003.

**Note 4.****Cash and Cash Equivalents**

Reconciliation of cash and time deposits in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows at February 28, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Cash and time deposits	¥10,873	¥11,385	\$ 92,345
Cash equivalents included in marketable securities	8,899	6,195	75,578
Time deposits with maturities more than three months	(850)	(1,145)	(7,226)
Cash and cash equivalents	¥18,921	¥16,435	\$160,696

**Note 5.****Securities**

(1) The following tables summarize acquisition costs, book values and fair value of securities at February 28, 2003 and 2002.

*(a) Held-to-maturity debt securities*

February 28, 2003	Millions of yen			Thousands of U.S. dollars		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Securities with available fair values exceeding book values						
Bonds	¥1,700	¥1,701	¥ 1	\$14,437	\$14,452	\$ 14
Discount bank debenture	—	—	—	—	—	—
Subtotal	1,700	1,701	1	14,437	14,452	14
Securities other than the above						
Bonds	4,600	4,596	(3)	39,065	39,038	(27)
Discount bank debenture	—	—	—	—	—	—
Subtotal	4,600	4,596	(3)	39,065	39,038	(27)
Total	¥6,300	¥6,298	¥(1)	\$53,503	\$53,490	\$(13)

February 28, 2002	Millions of yen			Thousands of U.S. dollars		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Securities with available fair values exceeding book values						
Bonds			¥1,437	¥1,439		¥ 2
Discount bank debenture			299	299		0
Subtotal			1,737	1,739		2
Securities other than the above						
Bonds			¥ 100	¥ 99		¥(0)
Discount bank debenture			998	996		(2)
Subtotal			1,098	1,096		(2)
Total			¥2,835	¥2,836		¥ 0

*(b) Available-for-sale securities*

February 28, 2003	Millions of yen			Thousands of U.S. dollars		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Securities with book values exceeding acquisition costs						
Equity securities	¥ 29	¥ 38	¥ 8	\$ 251	\$ 324	\$ 73
Others	200	203	3	1,698	1,726	27
Subtotal	229	241	11	1,950	2,050	100
Securities other than the above						
Equity securities	1,451	1,184	(266)	12,324	10,058	(2,266)
Others	—	—	—	—	—	—
Subtotal	1,451	1,184	(266)	12,324	10,058	(2,266)
Total	¥1,680	¥1,425	¥(254)	\$14,274	\$12,109	\$(2,165)

February 28, 2002	Millions of yen			Thousands of U.S. dollars		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Securities with book values exceeding acquisition costs						
Equity securities			¥ 300	¥ 332		¥ 31
Others			6,100	6,177		77
Subtotal			6,400	6,509		109
Securities other than the above						
Equity securities			1,497	1,301		(196)
Others			—	—		—
Subtotal			1,497	1,301		(196)
Total			¥7,897	¥7,811		¥ (86)

- (2) Total sales of available-for-sale securities sold for the year ended February 28, 2003 amounted to ¥178 million (\$1,518 thousand) and February 28, 2002 amounted to ¥2,795 million. The related gains and losses for the year ending 2003 amounted to ¥40 million (\$347 thousand) and ¥0 million (\$2 thousand), respectively and 2002 amounted to ¥102 million and ¥535 million, respectively.
- (3) The following tables summarize book values of securities with no available fair values at February 28, 2003 and 2002.

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Held-to-maturity debt securities			
Commercial paper	¥8,995	¥ 999	\$76,392
Available-for-sale securities			
Money management funds	2,901	3,700	24,644
Free financial funds	—	2,000	—
Medium-term government bond	—	494	—
Total	¥2,901	¥6,194	\$24,644

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

February 28, 2003	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	¥ 4,000	¥2,300	¥ —	¥ —	\$ 33,970	\$19,532	\$ —	\$ —
Discount bank debenture	—	—	—	—	—	—	—	—
Others	8,995	—	—	—	76,390	—	—	—
Total	¥12,995	¥2,300	¥ —	¥ —	\$110,360	\$19,532	\$ —	\$ —

February 28, 2002	Millions of yen			
	Within one year	Within five years	Within ten years	Over ten years
Bonds	¥1,537	¥ —	¥ —	¥ —
Discount bank debenture	1,298	—	—	—
Others	999	—	—	—
Total	¥3,835	¥ —	¥ —	¥ —

## Note 6.

### Inventories

At February 28, 2003 and 2002, inventories consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Finished goods	¥3,384	¥3,522	\$28,739
Work in process	157	126	1,337
Raw materials and supplies	1,073	1,024	9,118
Total	¥4,615	¥4,672	\$39,195

## Note 7.

### Derivative Financial Instruments

The company utilizes currency option contracts primarily to hedge their exposure to fluctuations in foreign exchange rates. As a matter of policy, the company does not speculate in derivatives.

Derivative transactions are controlled by the Treasury Office of the company based on internal rules.

The contract amounts and unrealized gain or loss at February 28, 2003 and 2002 of outstanding derivative transactions were as follows:

Currency-related transactions	Millions of yen				Thousands of U.S. dollars	
	2003		2002		2003	
	YEN-Notional amount	Fair value	YEN-Notional amount	Fair value	YEN-Notional amount	Fair value
Options:						
Call options, sold	¥3,179	¥(104)	¥ —	¥ —	\$27,000	\$(886)
Put options, purchased	1,059	47	—	—	9,000	402
Total (Unrealized loss)	¥4,239	¥ (56)	¥ —	¥ —	\$36,000	\$(483)

The notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the company's exposure to risk.

**Note 8.****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.

**Note 9.****Leases**

## (1) Finance Leases

Future lease payments and lease payments under finance lease at February 28, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Outstanding finance lease payments			
Within one year	¥156	¥163	\$1,326
Over one year	107	235	916
Total	264	399	2,242
Lease payments	¥171	¥204	\$1,459

A summary of assumed amounts of acquisition cost, accumulated depreciation and net book value at February 28, 2003 and 2002 were as follows:

February 28, 2003	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Equipment	¥777	¥547	¥229	\$6,603	\$4,652	\$1,951
Vehicle	63	29	34	543	254	289
Software	5	5	0	47	44	2
Total	¥847	¥583	¥264	\$7,194	\$4,951	\$2,242

February 28, 2002	Millions of yen			Acquisition cost	Accumulated depreciation	Net book value
	Acquisition cost	Accumulated depreciation	Net book value			
Equipment	¥791	¥418	¥372			
Vehicle	40	15	24			
Software	5	4	1			
Total	¥837	¥438	¥399			

## (2) Operating Leases

Future lease payments at February 28, 2003 and 2002 under operating lease for the years ended February 28, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Outstanding lease payments			
Within one year	¥ 548	¥ 483	\$ 4,653
Over one year	1,623	1,351	13,783
Total	¥2,171	¥1,835	\$18,437

**Note 10.****Accrued Severance and Retirement Benefits**

## (1) Employees:

Employees who terminate their service with the Company or one of the domestic consolidated subsidiaries are entitled to defined benefit pension plans, i.e., tax-qualified pension plans and lump-sum payment plans determined by reference to basic rates of pay, length of service and conditions under which the termination occurs. Another domestic subsidiary has maintained unfounded lump-sum payment plans, whereas certain overseas subsidiaries have defined contribution pension plans or non-funded lump-sum payment plans.

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 fair value of plan assets at the balance sheet date. The net transition obligation at the adoption of the new accounting standard amounting to ¥317 million 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 and income before income taxes and minority increased by ¥515 million compared with what would have been recorded under the previous accounting standard.

The following table sets forth the funded and accrued status of the retirement benefits, and the amounts recognized in the consolidated balance sheets as of February 28, 2003 and 2002:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
(a) Projected retirement benefit obligation	¥(5,226)	¥(4,603)	\$(44,383)
(b) Pension assets at fair value	1,786	1,605	15,172
(c) Unfunded retirement benefit obligation (a) + (b)	(3,439)	(2,998)	(29,210)
(d) Unrecognized actuarial differences	567	354	4,819
(e) Accrued employees' severance and retirement benefits (c) + (d)	¥(2,872)	¥(2,644)	\$(24,390)

The component of retirement benefit costs for the years ended February 28, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
(a) Service cost	¥424	¥328	\$3,601
(b) Interest cost	110	112	940
(c) Expected return on plan assets	(16)	(14)	(136)
(d) One-time amortization of net transition obligation	—	(317)	—
(e) Amortization for actuarial difference	70	—	601
Total	¥589	¥109	\$5,006

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

(a) Method of allocation of estimated retirement benefits	Straight-line method
(b) Discount rate	2.00% for 2003 and 2.50% for 2002
(c) Expected rate of return on pension assets	1.00%
(d) Amortization period of actuarial difference	5 years
(e) Amortization period of difference arising from initial adoption of new accounting standard at transition	1 year

(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 under the liability of accrued severance and retirement benefits in the consolidated balance sheets. The amount was ¥793 million (\$6,742 thousand) and ¥749 million at February 28, 2003 and 2002, respectively.

**Note 11.**

**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 2003 and 42.1% for the year of 2002. 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, 2003 and 2002 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
<b>Deferred tax assets:</b>			
Unrealized profits on inventories	¥ 139	¥ 193	\$ 1,187
Excess of retirement allowance	822	718	6,984
Accrued severance benefits for directors	334	313	2,841
Enterprise tax payable	285	243	2,427
Excess of allowance for employees' bonuses	374	279	3,180
Warranty reserve	117	61	998
Allowance for returned goods	77	75	655
Excess of depreciation	349	36	2,971
Unrealized loss on golf club memberships	128	93	1,091
Net loss carry forward	1,073	788	9,116
Other	299	293	2,546
Total deferred tax assets	4,003	3,098	34,001
Valuation allowance	(1,421)	(867)	(12,068)
Net deferred tax assets	2,582	2,230	21,932
<b>Deferred tax liabilities:</b>			
Reserve for special depreciation	32	34	278
Other	5	74	45
Total deferred tax liabilities	38	109	323
Net deferred tax assets	¥2,554	¥2,121	\$21,609

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, 2003 and 2002 were as follows:

	2003	2002
Statutory tax rate (Adjustment)	42.1%	42.1%
Permanently non-deductible expense	0.5	0.5
Inhabitant tax on capita basis	1.1	0.4
Loss on the transfer of subsidiaries' stock	—	(5.2)
Change in valuation allowance for differed tax assets	4.3	0.6
Other	0.7	1.2
The Company's effective income tax rate	48.7%	39.6%

## Note 12.

### 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.

## Note 13.

### Contingent Liabilities

One of domestic consolidated companies was contingently liable as a surety for bank loans of members of a golf course. The aggregate amount at February 28, 2003 and 2002 was ¥0 million (\$5.8 thousand) by 2 members and ¥13 million by 7 members, respectively.

## Note 14.

### Research and Development Costs

Research and development costs included in selling, general and administrative expenses for the year ended February 28, 2003 and 2002 amounted to ¥519 million (\$4,415 thousand) and ¥315 million, respectively.

**Note 15.****Net Income per Common Share**

Net income per common share is based on the weighted average number of shares of common stock in issue during the respective year (less the treasury stock). The company did not have securities or contingent stock agreements that could potentially dilute net income per common share in the year ended February 28, 2003 and 2002.

**Note 16.****Subsequent Events**

On May 22, 2003, the shareholders of the Company approved payment of a year-end cash dividend of ¥15.00 (\$0.12) per share to shareholders of record at February 28, 2003, totaling ¥605 million (\$5,141 thousand) and bonuses to directors and corporate auditors of 152 million (\$1,292 thousand).

**Note 17.****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, 2003	Millions of yen						Elimination	Consolidated
	Japan	North America	Europe	Asia	Total			
Sales								
Outside customers	¥61,816	¥12,404	¥2,159	¥ 732	¥77,112	¥ —	¥77,112	
Intersegment	100	385	103	4,502	5,091	(5,091)	—	
Total	61,916	12,790	2,262	5,234	82,204	(5,091)	77,112	
Operating expenses	45,407	14,133	2,273	3,863	65,678	(1,539)	64,138	
Operating income	¥16,509	¥(1,343)	¥ (11)	¥1,371	¥16,525	¥(3,552)	¥12,973	
Total assets	¥65,239	¥13,150	¥2,196	¥5,581	¥86,167	¥ 6,697	¥92,864	

Year ended February 28, 2003	Thousands of U.S. dollars						Elimination	Consolidated
	Japan	North America	Europe	Asia	Total			
Sales								
Outside customers	\$524,979	\$105,349	\$18,337	\$ 6,220	\$654,886	\$ —	\$654,886	
Intersegment	851	3,271	877	38,236	43,237	(43,237)	—	
Total	525,830	108,621	19,215	44,457	698,123	(43,237)	654,886	
Operating expenses	385,623	120,031	19,311	32,810	557,776	(13,071)	544,704	
Operating income	\$140,207	\$(11,410)	\$(96)	\$11,646	\$140,347	\$(30,165)	\$110,181	
Total assets	\$554,050	\$111,678	\$18,650	\$47,400	\$731,779	\$ 56,875	\$788,655	

Year ended February 28, 2002	Millions of yen						Elimination	Consolidated
	Japan	North America	Europe	Asia	Total			
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	

## (3) Overseas Sales

Year ended February 28, 2003	Millions of yen					Total
	North America	Europe	Asia	Others		
Overseas sales	¥12,085	¥2,421	¥639	¥122	¥15,268	
Consolidated net sales						¥77,112
Share of overseas sales	15.7%	3.1%	0.8%	0.2%	19.8%	

Year ended February 28, 2003	Thousands of U.S. dollars					Total
	North America	Europe	Asia	Others		
Overseas sales	\$102,636	\$20,562	\$5,434	\$1,037	\$129,670	
Consolidated net sales						\$654,886
Share of overseas sales	15.7%	3.1%	0.8%	0.2%	19.8%	

Year ended February 28, 2002	Millions of yen					Total
	North America	Europe	Asia	Others		
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%	

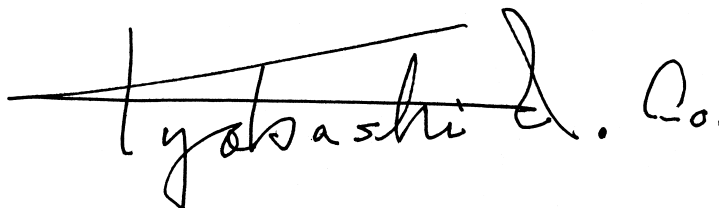
## Report of Independent Auditors

To the Board of Directors of  
Aderans Company Limited

We have audited the accompanying consolidated balance sheets of Aderans Company Limited and subsidiaries at February 28, 2003 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 standard, 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 accompanying consolidated 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, 2003 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 and 10 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.

A handwritten signature in black ink, appearing to read "T. Kobashi", is written over a horizontal line. To the right of the signature, the letters "Co." are written in a similar cursive style.

Tokyo, Japan  
May 23, 2003

## Non-Consolidated Five-Year Summary

Aderans Company Limited  
Years ended the last day of February

		Millions of yen				
		2003	2002	2001	2000	1999
<b>RESULTS OF OPERATIONS</b>	Net sales	¥ 50,888	¥ 55,275	¥ 52,726	¥ 50,746	¥ 49,272
	Cost of sales	8,483	10,642	9,653	9,080	8,688
	Gross profit	42,405	44,633	43,072	41,666	40,584
	Selling, general and administrative expenses	31,414	30,601	29,866	29,208	28,223
	Operating income	10,990	14,031	13,205	12,458	12,361
	Income before income taxes	11,313	12,081	12,375	10,821	11,344
	Net income	6,476	6,952	7,150	4,938	5,157
	Capital expenditures	1,831	1,979	2,122	2,994	3,080
	Research and development expenses	467	314	371	214	206
	Depreciation and amortization	1,775	1,553	1,538	1,293	1,259
<b>AMOUNTS PER SHARE OF COMMON STOCK (IN YEN)</b>	Net income	¥ 159.86	¥ 169.86	¥ 171.42	¥ 117.72	¥ 123.35
	Shareholders' equity	1,644.23	1,548.98	1,464.47	1,305.07	1,246.60
	Cash dividends applicable to the year	30.00	28.00	26.00	25.00	24.0
<b>FINANCIAL POSITION</b>	Current assets	¥ 24,449	¥ 20,979	¥ 27,802	¥ 20,865	¥ 20,903
	Current liabilities	9,374	9,242	10,496	10,192	11,560
	Interest-bearing debt	—	—	—	—	—
	Shareholders' equity	66,357	63,293	61,088	54,439	52,402
	Total assets	78,976	75,561	74,863	66,325	65,599
<b>KEY RATIOS (%)</b>	Operating income to net sales	21.6	25.4	25.0	24.6	25.1
	Net income to net sales	12.7	12.6	13.6	9.7	10.5
	Shareholders' equity to total assets	84.0	83.8	81.6	82.1	79.9
	Return on equity	10.0	11.2	12.3	9.2	10.3
	Return on assets	8.2	9.2	10.1	7.5	8.1
	Interest-bearing debt ratio	—	—	—	—	—
<b>OTHER YEAR-END DATA</b>	Number of shares outstanding (thousand)	40,357	40,861	41,154	41,400	41,772
	Number of employees	2,137	2,068	1,908	1,789	1,792
<b>COMMON STOCK PRICES (IN YEN)</b>	High	¥ 4,250	¥ 4,720	¥ 5,000	¥ 6,100	¥ 3,680
	Low	2,180	3,410	2,670	2,850	2,900
	Year-end close	2,225	4,050	3,890	3,000	3,510

## Non-Consolidated Operating Data

	Millions of yen					
	2003	2002	2001	2000	1999	
<b>SALES OF PRINCIPAL PRODUCTS</b>	Custom-made wigs	¥32,950	¥33,435	¥31,096	¥31,328	¥30,453
	Hair Fix	167	233	399	551	338
	Pinpoint	2,300	3,010	3,562	2,354	2,778
	Hair Support	5,997	6,460	6,321	6,079	6,125
	Physical Esthé	1,455	1,513	1,122	453	—
	Total	¥42,872	¥44,653	¥42,501	¥40,765	¥39,694
<b>SALES OF PRINCIPAL PRODUCTS FROM NEW CUSTOMERS</b>	Custom-made wigs	¥14,321	¥15,586	¥13,109	¥13,132	¥13,450
	Hair Fix	18	30	124	178	67
	Pinpoint	1,145	1,796	2,212	1,383	1,841
	Hair Support	2,582	2,939	2,816	2,567	3,210
	Physical Esthé	469	544	318	114	—
	Total	¥18,539	¥20,897	¥18,581	¥17,374	¥18,568
<b>SALES OF PRINCIPAL PRODUCTS FROM REPEAT CUSTOMERS</b>	Custom-made wigs	¥18,628	¥17,849	¥17,986	¥18,196	¥17,003
	Hair Fix	149	202	274	373	271
	Pinpoint	1,155	1,214	1,350	971	937
	Hair Support	3,414	3,520	3,504	3,512	2,915
	Physical Esthé	985	968	804	339	—
	Total	¥24,333	¥23,755	¥23,920	¥23,391	¥21,126
<b>SALES OF PRINCIPAL PRODUCTS FROM MALE CUSTOMERS</b>	Custom-made wigs	¥10,916	¥11,606	¥12,399	¥13,669	¥15,093
	Hair Fix	154	225	392	538	338
	Pinpoint	2,241	2,936	3,499	2,296	2,731
	Hair Support	4,908	5,337	5,216	5,077	5,125
	Physical Esthé	1,320	1,380	1,041	434	—
	Total	¥19,541	¥21,485	¥22,550	¥22,014	¥23,287
<b>SALES OF PRINCIPAL PRODUCTS FROM FEMALE CUSTOMERS</b>	Custom-made wigs	¥22,033	¥21,829	¥18,696	¥17,659	¥15,360
	Hair Fix	13	8	6	13	—
	Pinpoint	59	74	63	58	47
	Hair Support	1,089	1,123	1,104	1,002	1,000
	Physical Esthé	134	132	80	19	—
	Total	¥23,330	¥23,168	¥19,951	¥18,751	¥16,407
<b>NUMBER OF OUTLETS</b>	Counseling offices	9	9	9	9	9
	Regular outlets	136	134	128	123	123
	Ladies' salons	25	25	24	23	19
	Satellite salons	50	50	37	24	12
	New-concept salons	6	4	2	—	—
	Total	226	222	200	179	163
<b>NUMBER OF CUSTOMER VISITS (THOUSAND)</b>	Male	967	1,028	979	919	944
	Female	507	495	453	415	357
	Total	1,474	1,523	1,432	1,334	1,302

# Directory

## Head Office

6-3, Shinjuku 1-chome,  
Shinjuku-ku, Tokyo 160-8429  
URL: <http://www.aderans.co.jp>

## Sales and Marketing Division

### Hokkaido

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

### Tohoku

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, Omiya-ku,  
Saitama, Saitama 330-0845

### Chukyo

AD Building Nagoya, 14-8 Meieki  
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

### Kyushu

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

- Established
- Capital
- Percentage of parent company's ownership
- Net sales (after elimination of intersegment sales)

## Subsidiaries and Affiliates (Consolidated Companies)

### Japan

#### MARKETING COMPANY FONTAINE Co., Ltd.

Kensei Shinjuku Building, 5-3  
Shinjuku 5-chome, Shinjuku-ku,  
Tokyo 160-0022  
URL: <http://www.fontaine.co.jp>

*Sells ready-made women's fashion wigs and hair-related products through major department stores and directly operated outlets, and wholesale to beauty salons.*

- January 5, 1979  
(Acquired August 12, 1985)
- ¥1,539 million
- 62.5%
- ¥10,451 million

#### OTHER BUSINESS ADE Co., Ltd.

*Real estate agent.*

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

#### OTHER BUSINESS ADN Co., Ltd.

*Advertising agent for members of the Aderans Group. Golf course management.*

- May 1, 1985  
(Acquired December 4, 1998)
- ¥654 million
- 83.2%
- ¥10,088 million

### U.S.A.

#### HOLDING COMPANY Aderans Holding Co., Inc.

10 West 55th Street, New York,  
New York 10019

- November 23, 1994
- US\$83,000 thousand
- 100%

#### MARKETING COMPANY Aderans, Inc.

15551 Cabrito Road, Van Nuys,  
California 91406

*Sells wigs and hair-replacement products through directly operated outlets*

- April 19, 2001
- US\$3,000 thousand
- 100% (Indirect)
- US\$590 thousand

#### MARKETING COMPANY

#### International Hairgoods, Inc.

18684 Lake Drive East,  
Chanhassen, Minnesota 55317  
URL: <http://www.internationalhairgoods.com>

*Wholesales custom-made wigs and other hair-replacement products to wig shops and barber shops.*

- October 31, 1968  
(Acquired June 29, 1987)
- US\$2,546 thousand
- 100% (Indirect)
- US\$5,199 thousand

#### MARKETING COMPANY

#### New Concepts Hair Goods, Inc.

1450, S.W. 3rd Street, Suite A-9,  
Pompano Beach, Florida 33069  
URL: <http://www.newconcepts-hairgoods.com>

*Wholesales high-quality human-hair products to wig shops, barber shops and beauty salons.*

- February 13, 1991  
(Acquired March 5, 1998)
- US\$25
- 100% (Indirect)
- US\$2,280 thousand

#### MARKETING COMPANY

#### Rene of Paris

15551 Cabrito Road, Van Nuys,  
California 91406  
URL: <http://www.reneofparis.com>

*Wholesales and exports fashionable, high-quality wigs and hair accessories to wig shops and beauty salons.*

- November 1, 1976  
(Acquired March 1, 1989)
- US\$1,000 thousand
- 100% (Indirect)
- US\$7,951 thousand

#### MARKETING COMPANY

#### General Wig Manufacturers, Inc.

5800 N.W. 163rd Street, Court  
Miami Lakes, Florida 33014  
URL: <http://www.tressallure.com>  
URL: <http://www.beautytrend.com>

*Wholesales fashion wigs and hair accessories to wig shops, major beauty salon supply chains and beauty salons. Exports to Latin America and Europe.*

- June 14, 1963  
(Acquired September 28, 1998)
- US\$37 thousand
- 100% (Indirect)
- US\$20,212 thousand

#### HAIR-TRANSPLANT BUSINESS

#### Bosley Medical Institute Inc.

9100 Wilshire Boulevard, East  
Penthouse, Beverly Hills,  
California 90212  
URL: <http://www.bosley.com>

*Undertakes hair-transplant business in the United States.*

- August 3, 1989  
(Acquired August 1, 2001)
- US\$8,261
- 96.2% (Indirect)
- US\$65,123 thousand

## Europe

### HOLDING COMPANY

#### **Aderans Europe B.V.**

Burg. Rijinderslaan 10, 1185 MC Amstelveen, the Netherlands

- January 9, 1992
- €19,285 thousand
- 100%

### HOLDING COMPANY

#### **Gesmofra S.A.**

107 Boulevard Richard-Lenoir, 75011 Paris, France

- March 1, 1980  
(Acquired March 1, 1992)
- €1,620 thousand
- 100% (Indirect)

### MARKETING COMPANY

#### **Camaflex S.A.**

107 Boulevard Richard-Lenoir, 75011 Paris, France  
URL: <http://www.camaflex.com>

Wholesales women's fashion wigs and hair accessories, as well as custom-made wigs and hair-replacement products, to wig shops and beauty salons. Sells fashion wigs and hair accessories through department stores and directly operated boutiques.

- December 5, 1956  
(Acquired March 1, 1992)
- €540 thousand
- 100% (Indirect)
- €6,321 thousand

### MARKETING COMPANY

#### **Monfair Mode S. A. R. L.**

27160 Francheville sur Iton, France

Sells women's fashion wigs and hair accessories by mail order.

- February 16, 1987  
(Acquired March 1, 1992)
- €10 thousand
- 100% (Indirect)

### MARKETING COMPANY

#### **Creations de Paris Camaflex Vertriebs G.m.b.H.**

Ettore-Bugatti-Str. 7, 51149 Köln, Germany

Wholesales women's fashion wigs and hair accessories, as well as custom-made wigs and hair-replacement products, to wig shops and beauty salons. Retailers women's fashion wigs and hair accessories at department stores and directly operated boutiques.

- July 26, 1966  
(Acquired March 1, 1992)
- €800 thousand
- 100% (Indirect)
- €5,554 thousand

- Established
- Capital
- Percentage of parent company's ownership
- Net sales (after elimination of intersegment sales)

### MARKETING COMPANY

#### **Monfair Moden Vertriebs G.m.b.H.**

Ettore-Bugatti Str. 7, 51149 Köln, Germany

Wholesales men's hair-replacement products, women's fashion wigs and hair accessories to wig shops and beauty salons in Germany and neighboring countries.

- December 11, 1985  
(Acquired March 1, 1992)
- €50 thousand
- 100% (Indirect)
- €1,260 thousand

### MARKETING COMPANY

#### **Camaflex S.A.**

Boulevard Lambertmont 140, 1030 Bruxelles, Belgium

Wholesales custom-made wigs and hair-replacement products, women's fashion wigs and hair accessories to wig shops and beauty salons.

- September 25, 1962  
(Acquired March 1, 1992)
- €70 thousand
- 100% (Indirect)
- €1,943 thousand

### MARKETING COMPANY

#### **D. van Nooijen B.V.**

Eglantierbaan 49 2908 LV Capelle A/D IJssel, the Netherlands

Wholesales custom-made wigs and hair-replacement products, women's fashion wigs and hair accessories to wig and beauty salons.

- July January 1, 1984  
(Acquired March 1, 1994)
- €20 thousand
- 100% (Indirect)
- €1,408 thousand

### MARKETING COMPANY

#### **Trend Hair Supplies Co., Ltd.**

Sheridan House, 114/116 Western Road, Hove, East Sussex BN3 1DD, England

URL: <http://www.wigsatirendco.co.uk>

Sells custom-made wigs, hair replacement products, and women's fashion wigs through directly operated outlets, and wholesale to wig shops.

- March 26, 1973  
(Acquired May 13, 2002)
- £30 thousand
- 100% (Indirect)
- €3,358 thousand

## Asia

### MARKETING COMPANY

#### **Aderans Inc. (Taiwan)**

3rd Floor, No. 39 Sec. 1, Chung-Shiao West Road, Taipei, Taiwan

Sells custom-made wigs and provides related services through five directly operated salons.

- January 12, 1990
- NT\$20,000 thousand
- 100%
- NT\$165,671 thousand

### MANUFACTURING COMPANY

#### **Aderans Thai., Ltd.**

122 Moo 9, Sai Buriram-Prakonchai Road, Tambol I-San, Amphur Muang, Buriram 31000, Thailand

Implants hairs into custom-made wig and hairpiece foundations. Manufactures fashion wigs and hair-replacement products.

- October 17, 1986
- B170,000 thousand
- 100%
- B1,085,998 thousand

### MANUFACTURING COMPANY

#### **World Quality Co., Ltd.**

109 Moo 1, Export Processing Zone, Banwah (Hi-Tech) Industrial Estate, Tumbol Banlane, Amphur Bangpa-in, Ayutthaya 13160, Thailand

Manufactures the foundations of custom-made wigs and hairpieces. Implants hairs into wig foundations. Dyes and otherwise processes human hair. Produces Cyberhair.

- September 3, 1992
- B15,000 thousand
- 100% (Indirect)
- B510,414 thousand

### MANUFACTURING COMPANY

#### **Allen Arthur (Manila), Inc.**

KM 17-8 West Service Road, Paranaque, Metro Manila 3128, Philippines

Manufactures the foundations of custom-made wigs and hairpieces. Implants hair into wig foundations.

- July 27, 1976  
(Acquired June 29, 1987)
- P40,000 thousand
- 100%
- P334,933 thousand

## Directors and Auditors

Aderans Company Limited  
As of May 22, 2003

### PRESIDENT

Takayoshi Okamoto\*

### EXECUTIVE VICE-PRESIDENT

Nobuo Watabe\*

General manager and director of manufacturing headquarters

### SENIOR MANAGING DIRECTORS

Tsutomu Isogai

In charge of IT control division

Mamoru Mino

In charge of overseas division

### MANAGING DIRECTOR

Noboru Kaneko

Deputy general manager and director of sales and marketing headquarters

### DIRECTORS

Tsuguo Tanaka

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

Shigeru Ueda

General manager of sales and marketing management division

Hiroyasu Yamakawa

General manager of administrative division

Senkichi Yagi

General manager of Tokyo sales and marketing division

Katsuji Tokumaru

General manager of corporate planning division

### SUPREME ADVISORS AND DIRECTORS

Nobuo Nemoto

Kunihiko Hirakawa

Haruo Okita

### STANDING CORPORATE AUDITOR

Kouta Inose

### CORPORATE AUDITORS

Okio Akutsu

Masaaki Katagiri

Masayuki Tominaga

\*Representative director

### FOR FURTHER INFORMATION CONTACT:

Investor Relations Division, 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

## Corporate Data

Aderans Company Limited  
As of February 28, 2003

### 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

7,371

Number of Shares and Shareholding Ratio

### PRINCIPAL SHAREHOLDERS

Name	Thousands of shares	
	Thousands of shares	%
Nobuo Nemoto	4,626	11.4
The Master Trust Bank of Japan, Limited (Trust Account)	4,215	10.4
Japan Trustee Services Bank, Limited (Trust Account)	4,183	10.3
UFJ Trust Bank Limited (Trust Account A)	1,442	3.5
Nomura Securities Company, Limited	827	2.0
The Mitsubishi Trust and Banking Corporation (Trust Account)	723	1.7
NikkoCiti Trust and Banking Corporation (Standing Proxy Account)	711	1.7
The Dai-ichi Mutual Life Insurance Company	692	1.7
DBTCO 518000 Client Lending Account	630	1.5
State Street Bank and Trust Company	616	1.5

Notes: 1. The Company holds of 1,355 thousand shares of its own shares in treasury stock.  
2. Those shares held by the Master Trust Bank of Japan, Limited, Japan Trustee Services Bank, Limited, UFJ Trust Bank Limited, The Mitsubishi Trust and Banking Corporation and NikkoCiti Trust and Banking Corporation are the shares relating to their trust businesses.

### 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

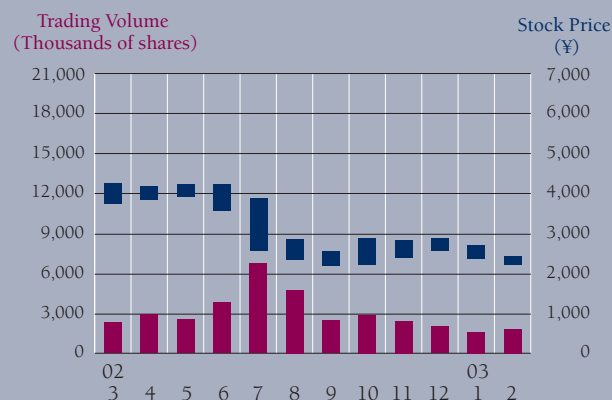
### NUMBER OF OUTLETS

226

### NUMBER OF EMPLOYEES

2,137

### STOCK PRICE RANGE



# Aderans

Aderans Company Limited