

## Key Questions & Answers at the Fiscal 2008 Information Meeting

Date: April 17, 2008 (Thursday)  
Respondents: Takayoshi Okamoto, President, and Michiyoshi Takahashi, General Manager, Corporate Communications Office

**Q1: What's the market for hair-related products and services going to be like in three years? Will we start to see companies falling by the wayside?**

A1: In the men's market, only companies that can grow their operations wide enough to address the needs of all age groups between 20 and 60 are going to remain. In the women's market, I think we'll see major growth for companies that have been able to invigorate demand and really distinguish themselves from the competition.

**Q2: Mr. Okamoto, you said that the goal for the hair-transplant business in North America is to raise its share of the local market to 40%. I'd like to know how this will be achieved.**

A2: Bosley is No. 1 in the market and MHR is right behind at No. 2. Their combined share is about 15%. We are currently approaching corporate groups with single-digit market shares, and if we can bring them into our hair-transplant business through mergers and acquisitions, our market share should top 20%. The rest of the industry does not necessarily specialize in hair transplants, but if we can entice physicians who perform hair transplants to work under our group umbrella, we should get pretty close to our goal of 40%.

**Q3: Do you figure on using the ¥15 billion for mergers and acquisitions that you plan over the next three years to expand the hair-transplant business?**

A3: Some funds will certainly be used to expand the hair-transplant business.

**Q4: Can you update the status of hair-regeneration research in the United States? What's the outlook for marketable techniques?**

A4: Initially, we gave ourselves until fiscal 2009 to determine whether or not the technology under study could be successfully commercialized. But we need more time to form a decision. We should know within one or two years if we go ahead with commercialization or not.

This is not a reflection of problems at our end. Indeed, we have encountered no major setbacks, and progress is on track toward a marketable technique. The timing has been slowed, however, due to U.S. Food and Drug Administration red tape.

**Q5: Your R&D on hair regeneration is quite fascinating. Is it fair to assume that the clinical trial stage is taking more time than anticipated?**

A5: Yes.

**Q6: I'd like to hear more about the Fontaine Business, specifically, the products created through synergies with Aderans and future salon openings.**

A6: Regarding products -- Fontaine's sales include a rising percentage from high-priced, easy-custom-made products. This is a tangible results of synergies with Aderans. Fontaine will continue to work with Aderans to develop and launch higher quality products, and the enhanced attractiveness of products will underpin the Group's overall ability to meet client needs.

Regarding salon openings -- Competition issues among department stores had limited expansion of Fontaine's department store presence. But recent department store business integration has lowered previous barriers, and Fontaine is eager to capitalize on the opportunity to open more department store corners.

The directly operated salon network is also primed for expansion, following verification of profitability and other operating factors at existing salons. The company has confirmed sites for salons nationwide and aims to open new locations as soon as possible.

**Q7: Any thoughts on M&As under the Fontaine Business?**

A7: Companies like Fontaine -- those with several marketing routes to the ready-made wig market -- are few and far between. I don't think there are any viable targets for Fontaine to pursue at the present time.

**Q8: What were the major causes of higher other selling, general and administrative expenses?**

A8: The major increases came from depreciation costs on a business system at Aderans, fees for outside consulting services, and selling, general and administrative expenses at MHR, which just came under the Group umbrella.

**Q9: In the presentation materials, you mention "strengthening corporate governance by enhancing the capacity of the Board of Directors". What do you mean exactly?**

A9: We will increase the number of outside directors on the Board.

**Q10: When will this take place?**

A10: We obtained approval at the general shareholders' meeting in May 2007 to add two outside directors. We plan to ask shareholders to approve another increase this year.

**Q11: Aderans' television commercials don't have the same impact of rivals. And the company's website is difficult to navigate. Are you going to do anything about this?**

A11: With regard to television commercials -- in the past, Aderans focused its advertising energy on television commercials. But the company seeks to achieve greater effect from its advertising activities and that means going beyond TV. As for the website, a revamp is coming soon.

**Q12: Hypothetically speaking, what will you do if the domestic men's market doesn't recover?**

A12: We're not considering a withdrawal from the business or anything like that just on the basis of poor net sales over the short term -- a situation that stems from sluggish demand from new male clients. We will take a medium- to long-term perspective in pursuing this business.

**Q13: Since Fontaine generated good sales, why didn't the company meet its operating income goal?**

A13: Fontaine front-loaded its investments for the future and hired more staff to address new medium-term management plan strategies.

**Q14: Bring Samson into the Aderans Group has impacted consolidated cost of sales ratio. How do you feel about this?**

A14: Samson is a beauty salon chain, and personnel costs account for nearly all of its costs. In this type of business, personnel costs are booked under cost of sales rather than selling, general and administrative expenses. This is what pushed the consolidated cost of sales ratio higher in fiscal 2008.

We would like to take the salon network nationwide. For this reason but not only this reason, we plan to build a structure that supports not only higher sales but also generates a higher profit contribution.

End