L O O K

# ANNUAL REPORT 2015

Year Ended December 31, 2015

LOOK INCORPORATED

# LOOK Group Corporate Profile

Adhering to its basic philosophy that the "Customer Comes First," the LOOK Group is committed to increasing customer satisfaction through fashion. Reflecting this commitment, since the establishment of LOOK INCORPORATED in 1962, we have been engaged in the planning, manufacturing, and sales of mainly women's apparel. Through these integrated business activities, we have sought to create new lifestyles and values and enhance people's everyday lives.

The LOOK Group now encompasses LOOK (the parent company) and eleven consolidated subsidiaries in Japan and overseas. In addition to building a robust business foundation domestically, we are expanding our operations in other parts of Asia, including South Korea, China, and Hong Kong. Aiming to achieve sustained growth into the future, the LOOK Group has formulated a new medium-term business plan covering the three-year period from January 2016 to December 2018. Under the plan, we will improve the income of existing businesses, broaden our e-commerce business, and actively develop new businesses to boost our competitiveness and earnings power and thus further expand corporate value.

## Contents

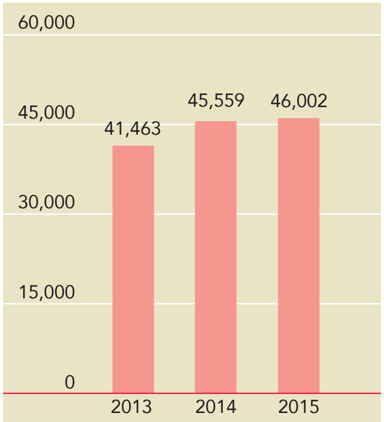
# Financial Highlights

LOOK INCORPORATED and Subsidiaries
For the years ended December 31, 2015 and 2014

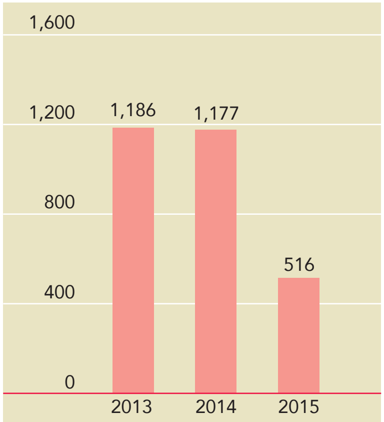
| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2015 | 2014 | 2015 |
| **At year-end:** | | | |
| Total current assets | ¥20,378 | ¥20,743 | $169,071 |
| Total current liabilities | 7,340 | 7,692 | 60,898 |
| Short-term loans | 500 | 150 | 4,148 |
| Total shareholders' equity | 18,258 | 17,889 | 151,485 |
| **For the year:** | | | |
| Net sales | 46,002 | 45,559 | 381,664 |
| Operating income | 516 | 1,177 | 4,286 |
| Ordinary income | 660 | 1,623 | 5,476 |
| Net income | 441 | 1,262 | 3,663 |
| | Yen | | U.S. dollars |
| **Per share:** | | | |
| Net income | ¥11.56 | ¥33.05 | $0.10 |
| Cash dividends | 3.00 | 3.00 | 0.02 |
| | % | | |
| **Ratios:** | | | |
| ROE | 2.2 | 6.6 | |
| Operating income margin | 1.1 | 2.6 | |

Note: U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥120.53 to US$1, the approximate rate of exchange at December 30, 2015.

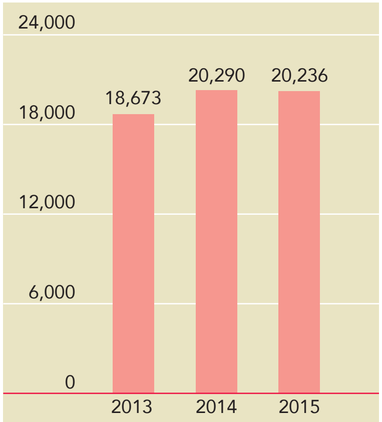
Net Sales
(Millions of yen)




Operating Income
(Millions of yen)




Total Net Assets
(Millions of yen)



# To Our Shareholders

In fiscal 2015, ended December 31, 2015, the LOOK Group contributed to improved lifestyles and values guided by a corporate philosophy that ensures the "Customer Comes First." At the same time, we addressed the expectations of customers and all other stakeholders who support the Group by pursuing our basic policy of enriching people's lives.

Going forward, we will continue generating value that resonates in people's hearts while responding appropriately to the changing times and business environment, to help create a diverse, affluent society.

Kazuhiro Tada
President and
Representative Director

### Performance Overview

**Consolidated Results**

| | |
|---|---|
| Net sales | ¥46,002 million (up 1.0% year on year) |
| Operating income | ¥516 million (down 56.1%) |
| Ordinary income | ¥660 million (down 59.3%) |
| Net income | ¥441 million (down 65.0%) |

In fiscal 2015, ended December 31, 2015, the LOOK Group pursued a policy of "selection and concentration" to reinforce its earnings foundation in response to the changing market environment. Initiatives included bolstering sales of mainstay brands and discontinuing unprofitable brands. As a result, consolidated net sales for the year totaled ¥46,002 million, up 1.0% from fiscal 2014. Operating income declined 56.1%, to ¥516 million, and ordinary income fell 59.3%, to ¥660 million. Net income for the year was down 65.0%, to ¥441 million.

### Performance by Business Segment

#### Apparel Business

In Japan, we focused on energizing and expanding existing brands and worked in other ways to achieve growth and reinforce our earnings foundation. With respect to KEITH, a British style brand, we developed an original tartan check pattern in collaboration with an English textile manufacturer. We also actively opened new shops, which led to a year-on-year increase in sales. As for Marimekko, a Finnish lifestyle brand, we enjoyed healthy sales of bags and stepped up e-commerce sales, resulting in solid sales. Regarding Il Bisonte, an Italian leather goods brand, we achieved higher sales thanks to new store openings. In our e-commerce business, we posted strong sales owing to proactive brand launches on external websites. We also boosted our lineup of products under the A.P.C. brand, handled by consolidated subsidiary A.P.C. JAPAN LTD., with a new assortment of bags and leather accessories in addition to its popular denim items. In addition, proactive openings of new retail stores resulted in substantial growth in overall sales of the A.P.C. brand. With respect to Vera Bradley, a bag-centered lifestyle brand operated by VERA BRADLEY STYLE LTD., we broadened our sales network to department stores and opened new stores. Concurrently, LAISSE PASSE CO., LTD. strove to expand its business, including by launching the new HARYU brand for adult women. Nevertheless, sales in Japan declined 6.4% year on year, to ¥31,244 million, and operating income fell 85.6%, to ¥94 million.

In South Korea, we enjoyed robust sales of brands handled by I.D. LOOK LTD.—including Sandro (a French import brand), and Maje (a French licensed brand)—despite challenging economic conditions due to ongoing weakness in personal consumption. I.D. JOY LTD. opened new stores in shopping centers and elsewhere, achieving significantly higher sales as a result. During the year, the South Korean won appreciated against the Japanese yen, leading to significant sales growth from a year earlier in yen terms. By contrast, our active store development efforts led to an increase in selling, general and administrative (SG&A) expenses. As a result, sales in South Korea rose 23.8%, to ¥13,721 million, while operating income declined 13.8%, to ¥457 million.

In "Other abroad" (Hong Kong and China), despite efforts toward improving business efficiency at LOOK (H.K.) LTD. (based in Hong Kong), sales and operating income declined year on year due to a temporary drop in the number of stores resulting from the openings and closures of some stores. Concurrently, LOOK CHINA CO., LTD., based in Shanghai, reduced its operating loss by closing unprofitable stores. Accordingly, sales in "Other abroad" fell 29.0%, to ¥364 million, and the operating loss was ¥113 million, compared with an operating loss of ¥171 million in fiscal 2014.

As a result, the Group's Apparel Business segment posted a 0.8% increase in sales, to ¥45,330 million, and a 56.8% drop in operating income, to ¥438 million.

### Production and OEM Business

LOOK MODE INC., which handles the Group's Production and OEM Business segment, posted a year-on-year decrease in production volume for the parent company's apparel offerings, as well as a sales decline in its OEM business, leading to a drop in overall sales. However, LOOK MODE enhanced the efficiency of its production management system, which led to a decrease in manufacturing costs and higher operating income. As a consequence, the segment reported a 9.5% drop in sales, to ¥3,899 million, and a 39.9% jump in operating income, to ¥51 million.

### Logistics Business

L. LOGISTICS INC., which is responsible for the Group's Logistics Business segment, posted an increase in SG&A expenses due mainly to depreciation of new systems. Accordingly, this segment reported a 0.1% rise in sales, to ¥1,284 million, and a 67.0% decline in operating income, to ¥8 million.

### Food & Beverage Business

FFI INC. (FASHIONABLE FOODS International), which spearheads the Group's Food & Beverage Business segment, launched sales of Italian gelato under the Gelateria Marghera brand in July 2013. We now have three Gelateria Marghera shops—in Azabu-juban and at Atré Ebisu and Namba-Parks. For the year, this segment posted sales of ¥124 million and an operating loss of ¥56 million.

## Outlook for Fiscal 2016 and Consolidated Forecasts

**Consolidated Forecasts**

| | |
|---|---|
| Net sales | ¥42,500 million (down 7.6% year on year) |
| Operating income | ¥600 million (up 16.1%) |
| Ordinary income | ¥700 million (up 6.1%) |
| Profit attributable to owners of parent | ¥500 million (up 13.3%) |

Going forward, the LOOK Group will strive to achieve performance recoveries for existing brands and broaden e-commercial sales to strengthen its earnings foundation. We will also work proactively in new businesses. For existing brands, we will seek to reinforce our product planning capabilities and boost brand value. In our e-commerce business, where the industry is expected to expand even more, we will promote omnichannel retailing—including by integrating the inventories of physical and online stores—to further raise sales and secure solid income. We will deploy our internal information system, introduced in 2015, to enhance operational efficiency and expand the effectiveness of our entire business.

Overseas, South Korean subsidiary I.D. JOY will strive to broaden sales with ongoing new store openings, mainly in shopping centers and other commercial facilities. LOOK CHINA will work to improve earnings by closing unprofitable stores and expanding online shopping.

In fiscal 2016, the LOOK Group forecasts consolidated net sales of ¥42,500 million, down 7.6% year on year. We forecast operating income of ¥600 million (up 16.1%), ordinary income of ¥700 million (up 6.1%), and profit attributable to owners of parent of ¥500 million (up 13.3%).

The LOOK Group has formulated a new medium-term business plan to address challenging consumption trends and changing business conditions. Fiscal 2016 is the first year of the three-year plan. Under the plan, we will implement business strategies and emphasize operational efficiency aimed at reinforcing our earnings foundation to achieve sustainable growth in the future. In fiscal 2018, the final year of the plan, we are targeting consolidated net sales of ¥45,000 million and ordinary income of ¥1,200 million.

# New Medium-term Business Plan 2016–2018

## Priority Strategies

Implement drastic structural reforms to rebuild our business portfolio, boost earnings power, and establish a future growth trajectory.

### 1. Increase the profitability of existing businesses

SCAPA KEITH

Further reinforce product planning and manufacturing capabilities, amassed since our foundation, to increase the appeal of products in national brand businesses

Establish a Merchandise Planning Department to deliver high-quality, high-value-added products to customers

IL BISONTE marimekko A.P.C. repetto PARIS

Promote a policy of business "selection and concentration"

Build an optimal business portfolio through effective investment of managerial resources in core businesses

Establish a stable earnings foundation

### 2. Expand the e-commerce (EC) business

Unify inventories for physical stores and EC sites

Upgrade the product lineup to improve convenience for customers

Renew the customer data system

Further increase the interaction between physical stores and EC sites to provide meticulous services tailored to individual customers

Swiftly increase the EC sales ratio to 10%

### 3. Actively develop new businesses

Develop original national brand businesses

Use our accumulated product planning and manufacturing capabilities and business advancement power to develop original brands

Launch a new import brand business

Deploy our ability to identify and advance appealing brands—a LOOK strength recognized worldwide—to launch a new import brand business

Develop brands that are appealing and highly recognized by customers, and foster these brands as future core businesses

### 4. Other strategies

**Foster human resources**

Nurture highly creative human resources

Expand/upgrade the education system for young and mid-level human resources

Deploy a diverse range of personnel to respond to the changing environment

Actively promote female employees; mobilize human resources beyond stores and sections

Become a vibrant corporate group imbued with the spirit of challenge

**Entrench compliance**

Work Groupwide to strengthen/entrench the compliance awareness of individual employees

Become a corporate group that earns the full confidence of customers and society

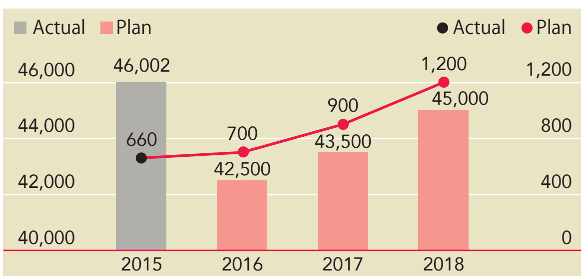
### Performance Target

(Millions of yen)

| | Actual | Plan | | |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 |
| Net Sales | ¥46,002 | ¥42,500 | ¥43,500 | ¥45,000 |
| Ordinary Income | ¥660 | ¥700 | ¥900 | ¥1,200 |
| Recurring Profit Margin | 1.4% | 1.6% | 2.1% | 2.7% |

### Net Sales / Ordinary Income

(Millions of yen) (Millions of yen)



# Expanding Brand Sales in New Businesses

**Targeting sustained growth through new brand business development**

## HARYU, a Brand Combining Elegance and Femininity for the Creation of New Styles and Values

LAISSE PASSE CO., LTD. has launched the HARYU brand for adult women. Based on the concept of mode elegance, the keyword of the brand is “ladylike.” It is casual but coordinated to suggest a subtle underlying femininity. It spotlights a style that shows the beauty of women and is aimed at adults regardless of age.

## Establishment of DENHAM JAPAN INC.

In March 2016, LOOK INC. established a joint venture with Netherlands-based DENHAM GROUP B.V., which develops the DENHAM brand of denim wear.

On April 1, 2016, we commenced exclusive imports and sales of DENHAM, as well as production and sales under license, covering Japan.



**Corporate Profile**

**DENHAM JAPAN INC.**
3rd Floor, AK-1 Bldg., 1-15-1 Aobadai, Meguro-ku, Tokyo, Japan
Representative Director: Hiroaki Negishi
Main Business: Import, planning and sales of apparel merchandise for men and women
Paid-in Capital: 50 million yen
Establishment: March 2016

### Brand Overview

Founded in Amsterdam in 2008, DENHAM was established by Englishman and internationally respected jeanmaker Jason Denham. Collections include a full range of styles for men, women and kids across both tops and bottom categories, but the core of the brand is firmly rooted in the premium denim segment. DENHAM is a fast growing international brand represented in 24 countries with Head Offices and dedicated stores in international fashion capitals such as Amsterdam, Dusseldorf and Tokyo.

# Initiatives to Expand the LOOK Group's Earnings

## Implementing Our Store-opening Strategy

(As of May 31, 2016)

### A.P.C.

Futako-Tamagawa

Hiroshima

Sapporo

Kyoto


In 2015, we opened three new stores and relocated our store in Kyoto.

### IL BISONTE

Marunouchi


Ikebukuro

Nagoya

Takamatsu

We opened two new stores in 2015, and two more in March 2016.

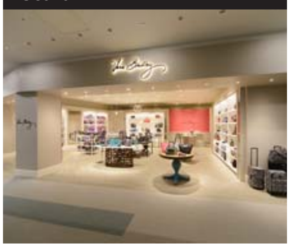
### ALICE + OLIVIA

Fukuoka

In 2015, we opened a store at Iwataya Department Store Main Store.

### VERA BRADLEY

Osaka



In 2015, we opened a store at LaLaPort Expocity in Osaka.

### MARIMEKKO

Kanazawa


Nagoya

We opened a new store in 2015, and another one in March 2016.

## GALATERIA MARGHERA

Osaka


In 2015, we opened a store in Namba-Parks, our first in western Japan.

## Overseas Business

### Continuous Growth in South Korea



In South Korea, I.D. LOOK performed well with its licensed brands Sandro and Maje, while I.D. JOY promoted opening of new stores.

## Reinforcing Our E-commerce Business

**2015**

**VERA BRADLEY**
Online store opened through system alliance with Marui Web Channel

**MARIMEKKO, ALICE + OLIVIA, VERA BRADLEY**
Online store opened through system alliance with FLAG SHOP by SHUEISHA

**REPETTO**
New online store in ZOZOTOWN
Mobile site launched

**2016**

**MARIMEKKO**
Official online store opened in Japan

**VERA BRADLEY**
New online store opened in ZOZOTOWN

**Stocks at the shops displayed in LOOK@E-SHOP; brands handled gradually expanding**

## “J∞QUALITY” corporate certification acquired

LOOK INC. and the LOOK Group’s own manufacturing plants—ALIS LTD. and LABO OFUNATO LTD.—have received “J∞QUALITY” corporate certification for providing safety, security, and compliance. J∞QUALITY is a system for endorsing purely Japan-made products, manufactured meticulously by companies that have received corporate certification for safety, security, and compliance across all aspects of operations—material weaving, knitting, dyeing, and adjustment, as well as product sewing, planning, and sales.

# Brand Profile

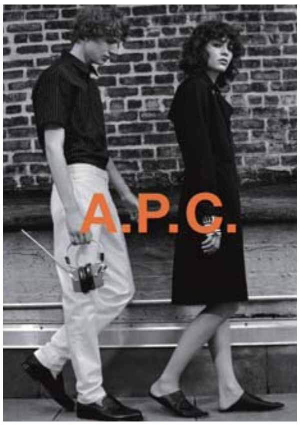
A comprehensive lifestyle brand incorporating the personality and style of fashion designer Stacey Bendet.

A lifestyle brand from America for all of women's lifestyle scenarios.

VERA BRADLEY
SPRING/SUMMER 2016

## A.P.C.

A modern French-style brand pursuing essential elegance with minimal yet radical elements.




## repetto
PARIS

A brand tracing back to 1947 when Rose Repetto started designing ballet shoes. Its shoes, which are hand-made using traditional techniques, promise reliable quality and beauty.


## DENHAM

Founded in Amsterdam in 2008, DENHAM was established by Englishman and internationally respected jeanmaker Jason Denham.


## IL BISONTE IL BISONTE UOMO

A handbag and leather goods brand designed by Wanny Di Filippo, from Florence, Italy.

## marimekko

A lifestyle brand from Finland, offering a variety of items, from interior goods to apparel and bags.

## SCAPA

A Belgian brand featuring sophisticated styles with a sense of nostalgia reminiscent of Scotland.

MARIMEKKO
SPRING/SUMMER 2016

SCAPA
SPRING/SUMMER 2016

## KEITH

A brand that is continuously evolving while maintaining its British tradition, KEITH is a favorite among women who are especially aware of their individual qualities.

## roga

A contemporary casual brand incorporating today's trends and sensibilities, for women who are capable of expressing their own uniqueness.

## KORET

A coordinated fashion brand allowing mature women to enjoy their time in their own special way.

## REMALON mieux

A prêt-à-porter brand of large-sized apparel for adults who are youthful at heart and enjoy the latest trends.

## Début de Fiore

The "older sister" of LAISSÉ PASSÉ, Début de Fiore combines delicacy and charm.

## LAISSÉ PASSÉ

A brand for young career women that accentuates women's distinctive charm.

## H A R Y U
since 1986

Based on the concept of mode elegance, the brand's keyword is "ladylike." Casual but coordinated to suggest a subtle underlying femininity.

KEITH
SPRING/SUMMER 2016

# Management's Discussion and Analysis

Future-related statements contained in the following section are based on the LOOK Group's judgments at the time of submission of the annual securities report.

## Major Accounting Policies and Estimates

The LOOK Group's consolidated financial statements are based on accounting standards generally accepted in Japan as fair and appropriate.

## Business Performance

In fiscal 2015, ended December 31, 2015, the LOOK Group reported consolidated net sales of ¥46,002 million, up ¥442 million from the previous fiscal year. This was largely due to proactive sales growth measures adopted by consolidated subsidiaries, which contrasted with the negative effect of business transfers on revenue.

Gross profit rose ¥407 million, to ¥21,307 million, owing to the increase in net sales.

Selling, general and administrative (SG&A) expenses rose ¥1,068 million, to ¥20,790 million. A significant factor was full-year SG&A expenses posted by three companies consolidated in the previous fiscal year—LAISSE PASSE CO., LTD., VERA BRADLEY STYLE LTD., and I.D. JOY LTD.

## Financial Position

At December 31, 2015, total assets amounted to ¥29,669 million, down ¥1,338 million from a year earlier. The main factors included a decrease in notes and accounts receivable–trade and a decline in fixed assets stemming from impairment losses.

Total liabilities declined ¥1,284 million, to ¥9,432 million, due mainly to a decrease in notes and accounts payable–trade.

Total net assets edged down ¥53 million, to ¥20,236 million. This was due primarily to a decline in foreign currency translation adjustments, which contrasted with growth in retained earnings stemming from net income.

## Cash Flows

Net cash provided by operating activities amounted to ¥843 million. Major factors included ¥471 million in income before income taxes and minority interests, ¥1,066 million in depreciation and amortization, and a ¥757 million decrease in notes and accounts receivables. Contrasting factors included a ¥675 million decline in notes and accounts payables, a ¥530 million increase in inventories, and ¥339 million in income taxes paid.

Net cash provided by investing activities totaled ¥1,070 million. Factors boosting cash flows included ¥2,207 million in proceeds from business transfer, which contrasted with ¥906 million in payments for purchase of property, plant and equipment, and ¥164 million in payments for purchase of intangible assets.

Net cash used in financing activities amounted to ¥167 million. Key factors included ¥114 million in cash dividends paid.

Cash and cash equivalents at end of year stood at ¥4,471 million, up ¥1,693 million from a year earlier. This was due to the aforementioned factors, as well as the ¥55 million negative effect of foreign currency translation adjustments on cash and cash equivalents.

## Business Risks

The LOOK Group's business performance and financial position described in its financial reports are subject to a number of factors, discussed below, that could have a major influence on the decisions of investors.

Future-related statements contained in the following section are based on the LOOK Group's judgments at the time of submission of the annual securities report.

**(1) Economic and consumer trends**

Domestic sales account for approximately 70% of the LOOK Group's consolidated net sales. As a result, the overall level of personal consumption in the Japanese market—the Group's main market—has a material impact on the Group's revenue and earnings. The Group endeavors to accurately grasp customer needs and takes care to offer products that reflect the demands of the times. It also focuses on developing and fostering new brands for the market based on innovative proposals. However, changes in external circumstances that the Group cannot foresee, such as sharp changes in fashion trends, could have an impact on the Group's business performance. In addition, department stores generate approximately 40% of domestic sales posted by the Group's apparel business. Consequently, changes in the business results of department stores could also have an impact on the Group's business performance.

**(2) Unseasonal weather and natural disasters**

The Group's business performance is impacted by unseasonal weather. Abnormal weather, such as a cold summer or warm winter, discourages consumers from purchasing seasonal products, which could have an impact on the Group's business performance. Natural disasters, including typhoons, earthquakes, and floods, can impact the sales activities of business partners and the production activities of affiliated factories, as well as reduce consumption in affected regions, which could have an impact on the Group's business performance.

**(3) Overseas business and production**

Overseas subsidiaries generate approximately 30% of the Group's consolidated net sales. Around 70% of products sold in the domestic market are either manufactured overseas or procured from overseas sources. Accordingly, significant exchange rate fluctuations affecting the Group's main overseas markets and procurement and manufacturing bases, political or economic turmoil, unforeseen changes in laws and regulations, and the unforeseen outbreak of an epidemic, terrorism, war, or other acts of social upheaval could have an impact on the Group's business performance.

**(4) Product quality**

The LOOK Group manages quality control in accordance with its "Quality Manual," "Inspection Procedure Manual," "Written Inspection Standards" and others established as part of its quality control system. If an unforeseen quality-related problem or product liability incident were to occur, it could tarnish the reputation of the Group or its brands, which could have an impact on the Group's business performance.

**(5) Exclusive distribution and license agreements**

In addition to its original brands, the LOOK Group develops brands under exclusive distribution and license agreements. If such an agreement cannot be continued due to an unforeseen factor, there could be an impact on the Group's business performance.

**(6) Information management**

The LOOK Group possesses a large amount of personal information on the customers of its shop-in-shops in department stores, directly managed stores and online. The Group appoints information management officers to oversee the handling of this type of information, and rigorously implements rules based on internal regulations and management manuals. However, the leaking of information due to an unforeseen incident could result in a loss of customer trust or damage to the Group's image.
This could lead to a decline in sales or claims for compensation, which in turn could have an impact on the Group's business performance.

# LOOK INCORPORATED

Consolidated Balance Sheets (Unaudited)

December 31, 2015 and 2014

| ASSETS | Millions of yen 2015 | Millions of yen 2014 | Thousands of U.S. dollars (Note 3) 2015 |
|---|---|---|---|
| **Current assets:** | | | |
| Cash and time deposits (Note 4) | ¥ 4,912 | ¥ 3,120 | $ 40,756 |
| Notes and accounts receivable-trade | 5,344 | 6,216 | 44,339 |
| Less: allowance for bad debts | (37) | (37) | (314) |
| Inventories (Note 5) | 8,741 | 9,990 | 72,529 |
| Deferred tax assets (Note 10) | 926 | 804 | 7,687 |
| Other current assets | 491 | 648 | 4,074 |
| Total current assets | 20,378 | 20,743 | 169,071 |
| **Investments and other assets:** | | | |
| Investments in securities (Note 7, 8) | 3,093 | 3,294 | 25,666 |
| Lease deposit | 1,774 | 1,809 | 14,719 |
| Other assets (Note 10,18) | 1,014 | 1,057 | 8,418 |
| Less: allowance for bad debts | (135) | (133) | (1,127) |
| Total investments and other assets | 5,746 | 6,028 | 47,676 |
| **Property, plant and equipment :** | | | |
| Buildings and structures (Note 6 ,9, 18) | 4,887 | 5,533 | 40,549 |
| Machinery and equipment (Note 18) | 184 | 177 | 1,535 |
| Tools, furniture and fixtures (Note 6, 18) | 3,278 | 3,966 | 27,203 |
| Other | 178 | 59 | 1,479 |
| Land (Note 9) | 1,651 | 1,680 | 13,705 |
| | 10,181 | 11,417 | 84,471 |
| Less: Accumulated depreciation | (6,636) | (7,182) | (55,063) |
| Total property, plant and equipment | 3,544 | 4,235 | 29,408 |
| **Total assets** | ¥ 29,669 | ¥ 31,007 | $ 246,155 |

The accompanying notes are an integral part of these statements.

# LOOK INCORPORATED

Consolidated Balance Sheets (Unaudited)
December 31, 2015 and 2014

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| LIABILITIES AND NET ASSETS | 2015 | 2014 | 2015 |
| **Current liabilities:** | | | |
| Short-term loans (Note 9) | ¥ 500 | ¥ 150 | $ 4,148 |
| Current installments of long-term loans (Note 9) | 500 | — | 4,148 |
| Notes and accounts payable - trade | 3,768 | 4,509 | 31,268 |
| Accounts payable - other | 29 | 83 | 243 |
| Accrued expenses | 1,650 | 1,769 | 13,698 |
| Income taxes payable (Note 10) | 100 | 208 | 830 |
| Reserve for sales returns | 39 | 51 | 327 |
| Reserve for point service | 14 | 12 | 119 |
| Reserve for business transfer loss | — | 35 | — |
| Asset retirement obligations (Note 12) | 39 | 45 | 327 |
| Other current liabilities | 697 | 828 | 5,790 |
| Total current liabilities | 7,340 | 7,692 | 60,898 |
| **Long-term liabilities:** | | | |
| Long-term loans (Note 9) | 550 | 1,400 | 4,563 |
| Liabilities for retirement benefits (Note 11) | 647 | 782 | 5,376 |
| Deferred tax liabilities (Note 10) | 268 | 383 | 2,230 |
| Asset retirement obligations (Note 12) | 182 | 189 | 1,514 |
| Other liabilities | 443 | 268 | 3,676 |
| Total long-term liabilities | 2,092 | 3,023 | 17,359 |
| **Total liabilities** | 9,432 | 10,716 | 78,257 |
| **Net assets (Note 13):** | | | |
| **Shareholders' equity :** | | | |
| Common stock<br>-Authorized : 120,000,000 shares<br>-Issued : 38,237,067 shares both at December 31, 2015 and 2014 | 6,340 | 6,340 | 52,609 |
| Additional paid-in capital | 1,631 | 1,631 | 13,537 |
| Retained earnings | 10,302 | 9,931 | 85,480 |
| Treasury stock, at cost, 63,058 shares and 55,614 shares at December 31, 2015 and 2014, respectively | (17) | (15) | (141) |
| Total shareholders' equity | 18,258 | 17,889 | 151,485 |
| **Accumulated other comprehensive income:** | | | |
| Net unrealized gain on available-for-sale securities, net of tax (Note 7) | 1,357 | 1,366 | 11,266 |
| Foreign currency translation adjustments | 261 | 687 | 2,168 |
| Total accumulated other comprehensive income | 1,619 | 2,054 | 13,434 |
| **Minority interests in consolidated subsidiaries** | 359 | 347 | 2,979 |
| **Total net assets** | 20,236 | 20,290 | 167,898 |
| **Commitments and contingencies (Note 19)** | | | |
| **Total liabilities and net assets** | ¥ 29,669 | ¥ 31,007 | $ 246,155 |

The accompanying notes are an integral part of these statements.

# LOOK INCORPORATED

Consolidated Statements of Income (Unaudited)
For the years ended December 31, 2015 and 2014

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2015 | 2014 | 2015 |
| **Net sales** | ¥ 46,002 | ¥ 45,559 | $ 381,664 |
| **Cost of sales (Note 5)** | 24,694 | 24,659 | 204,883 |
| Gross profit | 21,307 | 20,899 | 176,781 |
| **Selling, general and administrative expenses** | 20,790 | 19,721 | 172,495 |
| Operating income | 516 | 1,177 | 4,286 |
| **Other income (expenses)** | | | |
| Interest and dividend income | 68 | 77 | 564 |
| Interest expenses | (16) | (21) | (135) |
| Rent income | 13 | 12 | 114 |
| Reversal of allowance for employees' retirement benefits | 4 | 70 | 39 |
| Foreign currency exchange gain, net | 4 | 108 | 41 |
| Loss on disposal of property, plant and equipment | (50) | (18) | (419) |
| Impairment loss on long-lived assets (Note 18) | (384) | (112) | (3,192) |
| Income from sale of prototypes | 45 | 42 | 374 |
| Cooperation money income for brand operation | 24 | 31 | 202 |
| Gain on business transfer | 328 | — | 2,725 |
| Loss on withdrawal from the brand | (123) | — | (1,022) |
| Gain on valuation of compound financial instruments | — | 65 | — |
| Loss on valuation of coupon swap | — | (11) | — |
| Gain on sales of property, plant and equipment | — | 2 | — |
| Additional payment for retirement | — | (9) | — |
| Provision for business transfer loss | — | (35) | — |
| Other, net | 40 | 88 | 335 |
| Income before income taxes and minority interests | 471 | 1,468 | 3,912 |
| **Income taxes (Note 10)** | | | |
| Current | 255 | 323 | 2,119 |
| Deferred | (247) | (143) | (2,054) |
| | 7 | 179 | 65 |
| Income before minority interests | 463 | 1,288 | 3,847 |
| **Minority interests in consolidated subsidiaries** | 22 | 25 | 184 |
| **Net income** | ¥ 441 | ¥ 1,262 | $ 3,663 |

| | Yen | | U.S. dollars (Note 3) |
|---|---|---|---|
| | 2015 | 2014 | 2015 |
| **Per share (Note 22):** | | | |
| Basic net income | ¥ 11.56 | ¥ 33.05 | $ 0.10 |
| Diluted net income | - | - | |
| Cash dividends applicable to the year | 3.00 | 3.00 | 0.02 |

The accompanying notes are an integral part of these statements.

# LOOK INCORPORATED

Consolidated Statements of Comprehensive Income (Unaudited)
For the years ended December 31, 2015 and 2014

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2015 | 2014 | 2015 |
| **Income before minority interests** | ¥ 463 | ¥ 1,288 | $ 3,847 |
| **Other comprehensive income (Note 14):** | | | |
| Net unrealized gain (loss) on available-for-sale securities | (9) | (186) | (82) |
| Deferred gain (loss) on derivatives under hedge accounting | — | (54) | — |
| Foreign currency translation adjustments | (430) | 671 | (3,572) |
| Total other comprehensive income | (440) | 431 | (3,654) |
| **Comprehensive income** | ¥ 23 | ¥ 1,719 | $ 193 |

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2015 | 2014 | 2015 |
| **Comprehensive income attributable to:** | | | |
| Owners of parent | ¥ 6 | ¥ 1,661 | $ 53 |
| Minority interests | 16 | 58 | 140 |

The accompanying notes are an integral part of these statements.

# LOOK INCORPORATED

Consolidated Statements of Changes in Net Assets (Unaudited)
For the years ended December 31, 2015 and 2014

Millions of yen

| | | Shareholders' equity | | | | | Accumulated other comprehensive income | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Number of shares of Common stock | Common stock | Additional paid-in capital | Retained earnings | Treasury stock | Sub-total | Net unrealized gain on available-for-sale securities | Deferred gain (loss) on derivatives under hedge accounting | Foreign currency translation adjustments | Sub-total | Minority interests in consolidated subsidiaries | Total net assets |
| **Balance at December 31, 2013** | 38,237,067 | ¥ 6,340 | ¥ 1,631 | ¥ 8,783 | ¥ (5) | ¥ 16,750 | ¥ 1,550 | ¥ 54 | ¥ 50 | ¥ 1,655 | ¥ 267 | ¥ 18,673 |
| Dividends | – | – | – | (114) | – | (114) | – | – | – | – | – | (114) |
| Net income for the year ended December 31, 2014 | – | – | – | 1,262 | – | 1,262 | – | – | – | – | – | 1,262 |
| Treasury stock acquired (40,052 shares) | – | – | – | – | (9) | (9) | – | – | – | – | – | (9) |
| Net changes other than shareholders' equity | – | – | – | – | – | – | (184) | (54) | 637 | 398 | 79 | 478 |
| Total changes during the year | – | – | – | 1,148 | (9) | 1,138 | (184) | (54) | 637 | 398 | 79 | 1,616 |
| **Balance at December 31, 2014** | 38,237,067 | 6,340 | 1,631 | 9,931 | (15) | 17,889 | 1,366 | – | 687 | 2,054 | 347 | 20,290 |
| Dividends | – | – | – | (114) | – | (114) | – | – | – | – | – | (114) |
| Net income for the year ended December 31, 2015 | – | – | – | 441 | – | 441 | – | – | – | – | – | 441 |
| Treasury stock acquired (7,444 shares) | – | – | – | – | (1) | (1) | – | – | – | – | – | (1) |
| Change in the scope of consolidation | – | – | – | 44 | – | 44 | – | – | – | – | – | 44 |
| Net changes other than shareholders' equity | – | – | – | – | – | – | (8) | – | (426) | (435) | 11 | (423) |
| Total changes during the year | – | – | – | 371 | (1) | 369 | (8) | – | (426) | (435) | 11 | (53) |
| **Balance at December 31, 2015** | 38,237,067 | ¥ 6,340 | ¥ 1,631 | ¥ 10,302 | ¥ (17) | ¥ 18,258 | ¥ 1,357 | ¥ – | ¥ 261 | ¥ 1,619 | ¥ 359 | ¥ 20,236 |

Thousands of U.S. dollars (Note 3)

| | | Shareholders' equity | | | | | Accumulated other comprehensive income | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Number of shares of Common stock | Common stock | Additional paid-in capital | Retained earnings | Treasury stock | Sub-total | Net unrealized gain on available-for-sale securities | Deferred gain (loss) on derivatives under hedge accounting | Foreign currency translation adjustments | Sub-total | Minority interests in consolidated subsidiaries | Total net assets |
| **Balance at December 31, 2014** | 38,237,067 | $ 52,609 | $ 13,537 | $ 82,402 | $ (128) | $ 148,420 | $ 11,337 | $ – | $ 5,707 | $ 17,044 | $ 2,880 | $ 168,344 |
| Dividends | – | – | – | (950) | – | (950) | – | – | – | – | – | (950) |
| Net income for the year ended December 31, 2015 | – | – | – | 3,663 | – | 3,663 | – | – | – | – | – | 3,663 |
| Treasury stock acquired (7,444 shares) | – | – | – | – | (13) | (13) | – | – | – | – | – | (13) |
| Change in the scope of consolidation | – | – | – | 365 | – | 365 | – | – | – | – | – | 365 |
| Net changes other than shareholders' equity | – | – | – | – | – | – | (71) | – | (3,539) | (3,610) | 99 | (3,511) |
| Total changes during the year | – | – | – | 3,078 | (13) | 3,065 | (71) | – | (3,539) | (3,610) | 99 | (446) |
| **Balance at December 31, 2015** | 38,237,067 | $ 52,609 | $ 13,537 | $ 85,480 | $ (141) | $ 151,485 | $ 11,266 | $ – | $ 2,168 | $ 13,434 | $ 2,979 | $ 167,898 |

The accompanying notes are an integral part of these statements.

## LOOK INCORPORATED

Consolidated Statements of Cash Flows (Unaudited)
For the years ended December 31, 2015 and 2014

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2015 | 2014 | 2015 |
| **Cash flows from operating activities:** | | | |
| Income before income taxes and minority interests | ¥ 471 | ¥ 1,468 | $ 3,912 |
| Adjustments for: | | | |
| Depreciation and amortization | 1,066 | 896 | 8,847 |
| Impairment loss on long-lived assets | 384 | 112 | 3,192 |
| Loss on disposal of property, plant and equipment | 50 | 18 | 419 |
| Gain on sales of property, plant and equipment | (0) | (2) | (0) |
| Interest and dividend income | (68) | (77) | (564) |
| Interest expenses | 16 | 21 | 135 |
| Loss on withdrawal from the brand | 123 | — | 1,022 |
| Gain on business transfer | (328) | — | (2,725) |
| Loss on valuation of coupon swap | — | 11 | — |
| Gain on valuation of compound financial instruments with embedded derivatives | — | (65) | — |
| Change in assets and liabilities: | | | |
| Decrease (increase) in notes and accounts receivables | 757 | (267) | 6,287 |
| Increase in inventories | (530) | (337) | (4,398) |
| Increase (decrease) in notes and account payables | (675) | 3 | (5,605) |
| Increase (decrease) in accrued expenses | (102) | 94 | (848) |
| Increase (decrease) in allowance for bad debts | 4 | (2) | 38 |
| Increase (decrease) in reserve for sales returns | (11) | 0 | (96) |
| Decrease in allowance for employees' retirement benefits | (134) | (263) | (1,116) |
| Increase in reserve for business transfer loss | — | 35 | — |
| Others | 106 | 436 | 881 |
| Subtotal | 1,130 | 2,081 | 9,381 |
| Interest and dividend income received | 68 | 78 | 572 |
| Interest expenses paid | (17) | (22) | (146) |
| Income taxes paid | (339) | (449) | (2,813) |
| Net cash provided by operating activities | 843 | 1,688 | 6,994 |
| **Cash flows from investing activities:** | | | |
| Payments into time deposits | (442) | (651) | (3,670) |
| Proceeds from time deposits | 343 | 449 | 2,849 |
| Payments for purchase of property, plant and equipment | (906) | (974) | (7,522) |
| Proceeds from sales of property, plant and equipment | 0 | 0 | 0 |
| Payments for purchase of intangible assets | (164) | (466) | (1,361) |
| Proceeds from sales of intangible assets | — | 14 | — |
| Payments for purchase of investments in securities | (2) | (2) | (24) |
| Proceeds from sales of investment in securities | — | 0 | — |
| Proceeds from acquisition of newly consolidated subsidiary | — | 288 | — |
| Payments for purchase of associated company shares | (56) | — | (465) |
| Proceeds from business transfer | 2,207 | — | 18,317 |
| Proceeds from redemption of bond | 202 | — | 1,680 |
| Payments for long-term loans receivable made | (35) | (107) | (296) |
| Proceeds from collection of long-term loans receivable | 28 | 56 | 236 |
| Payments for lease deposit | (160) | (282) | (1,332) |
| Proceeds from lease deposit | 120 | 63 | 1,000 |
| Payments for investment in capital | (54) | — | (453) |
| Proceeds from cancellation of insurance | — | 89 | — |
| Other, net | (9) | (8) | (75) |
| Net cash provided by (used in) investing activities | 1,070 | (1,530) | 8,884 |
| **Cash flows from financing activities:** | | | |
| Proceeds from short-term loans | 949 | 1,810 | 7,879 |
| Repayment of short-term loans | (599) | (2,260) | (4,975) |
| Proceeds from long-term loans | — | 550 | — |
| Repayment of long-term loans | (350) | (204) | (2,904) |
| Cash dividends paid | (114) | (113) | (946) |
| Cash dividends paid to minority interests | (4) | (3) | (41) |
| Purchase of treasury stock | (1) | (9) | (13) |
| Repayment of lease obligations | (46) | (14) | (388) |
| Redemption of bond | — | (100) | — |
| Net cash used in financing activities | (167) | (346) | (1,388) |
| **Foreign currency translation adjustments on cash and cash equivalents** | (55) | 110 | (461) |
| **Net increase (decrease) in cash and cash equivalents** | 1,690 | (77) | 14,029 |
| **Cash and cash equivalents at beginning of year** | 2,778 | 2,856 | 23,049 |
| **Cash and cash equivalents of newly consolidated subsidiaries** | 2 | — | 22 |
| **Cash and cash equivalents at end of year (Note 4)** | ¥ 4,471 | ¥ 2,778 | $ 37,100 |

The accompanying notes are an integral part of these statements.

LOOK INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

December 31, 2015 and 2014

## 1. Basis of Presenting the Financial Statements

The accompanying unaudited consolidated financial statements of LOOK INCORPORATED (the "Company") have been prepared based on the consolidated financial statements filed with the Financial Service Agency as required by the Financial Instruments and Exchange Act of Japan, and in accordance with accounting principles generally accepted in Japan ("Japan GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards ("IFRSs"). In the case of the foreign subsidiary, its financial statements are prepared in conformity with accounting principles prevailing in the countries of domicile.

The "Practical Solution on unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No. 18, May 17, 2006) requires that for the preparation of consolidated financial statements, the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should be unified, in principle, and financial statements prepared by foreign subsidiaries in accordance with IFRSs or the generally accepted accounting principles in the United States ("U.S. GAAP") tentatively may be used for the consolidation process, however, the items listed in the PITF should be adjusted in the consolidation process so that net income is accounted for in accordance with Japan GAAP unless they are not material. According to the PITF, for the preparation of consolidated financial statements, the Company made necessary modification to the consolidated financial statements.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information which is not required under Japan GAAP but is presented herein as additional information.

Certain reclassifications of previously reported amounts have been made to conform with classifications for the year ended December 31, 2015.

## 2. Summary of Significant Accounting Policies

(1) Consolidation and investments in affiliates

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Company has the ability to exercise significant influence are accounted for by the equity method.

The consolidated financial statements at December 31, 2015 include the accounts of the Company and its ten significant subsidiaries (collectively the "Group"), A.P.C. JAPAN LTD., LAISSE PASSE CO., LTD., VERA BRADLEY STYLE LTD., LOOK MODE INC., L. LOGISTICS INC., FASHIONABLE FOODS INTERNATIONAL INC., I.D. LOOK LTD., I.D. JOY LTD., LOOK (H.K.) LTD. and LOOK CHINA CO., LTD. and the consolidated financial statements at December 31, 2014 include the accounts of the Company and its nine significant subsidiaries (collectively the "Group"), A.P.C.

JAPAN LTD., LAISSE PASSE CO., LTD., VERA BRADLEY STYLE LTD., LOOK MODE INC., L. LOGISTICS INC., I.D. LOOK LTD., I.D. JOY LTD., LOOK (H.K.) LTD. and LOOK CHINA CO., LTD. For the year ended December 31, 2015, FASHIONABLE FOODS INTERNATIONAL INC. is newly consolidated because it becomes more important for consolidation. Consolidation of the remaining unconsolidated subsidiaries would not have had a material effect on the accompanying consolidated financial statements. The fiscal year-end of the consolidated subsidiaries is in conformity with that of the Company, except for one subsidiary. One consolidated subsidiary with balance sheet date of August 31 is consolidated based on its tentative financial statement as of and for the period ended November 30. The necessary adjustments are made in consolidation to reflect any significant transactions from December 1 to December 31.

There are no investments in non-consolidated subsidiaries and affiliate companies at December 31, 2015 and 2014, which should be accounted for by the equity method since the effect on the accompanying consolidated financial statements would not have been material. Investment in non-consolidated subsidiaries is stated at cost (see Note 8).

All significant inter-company balances and transactions have been eliminated in consolidation. All material unrealized gains resulting from inter-company transactions have been eliminated.

(2) Cash and cash equivalents

Cash and cash equivalents are composed of cash on hand, bank deposits which can be withdrawn on demand, and short-term investments which are readily convertible into cash and with an original maturity of three months or less, which represent insignificant risk of changes in value.

(3) Foreign currency transactions/ Foreign currency financial statements

All monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rate at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income.

All assets and liabilities of foreign consolidated subsidiary are translated into Japanese yen at the exchange rate at balance sheet date. All revenue and expense accounts are translated at average exchange rate for the year. The resulting translation adjustments are reported as a separate component of accumulated other comprehensive income and minority interests in consolidated subsidiaries.

(4) Inventories

Inventories are stated at the lower of cost or net selling value. Cost is determined mainly by the first-in first-out method.

(5) Securities

Securities are classified as held-to-maturity debt securities or available-for-sale securities, depending on management's holding intent. Held-to-maturity debt securities are reported at amortized cost. Available-for-sale securities, for which market quotations are available, are stated at fair value, with unrealized gains or losses, net of taxes, reported in a separate component of accumulated other comprehensive income. Available-for-sale securities, for which market quotations are unavailable, are stated at cost. The cost of available-for-sale security sold is determined based on the moving-average method. In cases where the fair value of held-to-maturity debt securities, available-for-sale securities and equity securities issued by subsidiaries and affiliates has declined significantly and such impairment of the value is not deemed temporary, those securities are written down to the fair value and the resulting losses are charged to income for the period.

(6) Derivatives and hedging activities

The Company uses foreign exchange forward contracts to manage its exposures to fluctuations in foreign exchanges. The Company does not enter into derivatives for trading or speculative purposes.
Derivative instruments are classified and accounted for as follows: a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of income and b) for derivatives used for hedging purposes, if the hedging derivative instruments qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until the related losses and gains on the hedged items are recognized, reported in a separate component of accumulated other comprehensive income.

(7) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is mainly computed on the declining-balance method, at rates based on the estimated useful lives of assets, which are prescribed by the Japanese corporate tax laws.
When property, plant or equipment is retired or disposed of, the difference between the net book value and sales proceeds, if any, is charged or credited to income.
Normal repair and maintenance, including minor renewals and improvements, are charged to income as incurred.

(8) Amortization

Amortization of intangible assets is computed on the straight-line method over service lives of assets, which are prescribed by the Japanese corporate tax laws.
The difference between the acquisition cost and net assets acquired is shown as goodwill and amortized over its estimated effective period (within 20 years) on a straight-line basis.

(9) Income taxes

Income taxes consist of corporate income taxes, local inhabitant taxes and enterprise taxes.
The asset and liability approach is used to recognize deferred income tax assets and liabilities for the future tax consequence of temporary differences between the tax basis of assets and liabilities and those as reported in the financial statements.

(10) Accounting for leases

Leased assets related to finance lease transactions are depreciated on a straight-line method, with the lease periods as their useful lives and no residual value.

(11) Reserve for sales returns

Reserve for sales returns has been provided by the Company and certain consolidated subsidiaries in an amount equivalent to the gross margin of merchandise sold, which is estimated to be returned subsequent to year-end dates in order to exclude profits on such possible sales returns. In estimating the sales returns, the formula prescribed by the Japanese tax laws is applied which is primarily based on past experience.

(12) Liabilities for retirement benefits

The Company and three domestic consolidated subsidiaries have a defined contribution pension plan and a prepaid termination allowance plan as defined contribution plans as well as a corporate pension plan and a termination allowance plan as defined benefit plans. One domestic and one foreign subsidiary have a termination allowance plan as defined benefit plans. One foreign subsidiary has a defined contribution plan and a termination allowance plan as a defined benefit plan.
The Company and certain consolidated subsidiaries use a simplified method for the calculation of liabilities for retirement benefits and retirement benefit expenses. The simplified method assumes the retirement benefit obligation to be equal to the amount required for voluntary retirement at the balance sheet date for termination allowance plans and to be equal to the projected benefit obligations for corporate pension plans.

(13) Allowance for bad debts

Allowance for bad debts is provided for future losses on defaults and computed on the past experiences and other factors after considering estimated uncollectible amounts on an individual customer bases.

(14) Allowance for environmental measures

Allowance for environmental measures is provided for future handling cost of waste at an estimated amount of disposal costs of polychlorinated biphenyl waste.

(15) Reserve for business transfer loss

Reserve for business transfer loss is provided for future losses on business transfer.

(16) Reserve for point service

Reserve for point service is provided for future cost generating from the utilization of points based on its past experience.

(17) Appropriation of retained earnings

Appropriations of retained earnings are reflected in the consolidated financial statements for the following year upon shareholders' approval.

(18) Per share information

Net income per share of common stock is computed based upon the weighted-average number of shares of common stock outstanding during each year. Cash dividends per share shown for each year in the accompanying consolidated statements of income represent dividends declared as applicable to the respective years rather than those paid during the years.

(19) New accounting pronouncements not yet adopted

(a) "Accounting Standard for Business Combinations" (ASBJ Statement No. 21), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22), "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7) and other related standards and implementation guidance were revised on September 13, 2013.

In accordance with these revisions, the following accounting policies will be changed.

- the treatment of the parent company's changes in equity of its subsidiary while the parent company's control is continuing because of additional acquisition of shares of the subsidiary
- the treatment of acquisition-related expenses
- the presentation of net income and the change from minority interests to non-controlling interests
- the treatment of provisional accounting

The Company is scheduled to apply these accounting standards from the beginning of the year ending December 31, 2016.

The effect of adoption of these revised accounting standards is now under assessment at the time of preparation of the accompanying consolidated financial statements.

(b) Regarding the treatment related to the recoverability of deferred tax assets, "Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No.26)" has been reviewed, basically following the framework of the Audit Committee Report No. 66 "Audit Treatment related to Judgment of the Recoverability of Deferred Tax Assets," namely, a framework that classifies companies into five categories and estimates the recorded amount of deferred tax assets according to each category.

The following treatment has been reviewed.

1) Treatment of companies that do not satisfy any of the category requirements for Category 1 through Category 5

2) Category requirements for Category 2 and Category 3

3) Treatment related to a future deductible temporary difference for which scheduling is not possible, in a company that qualifies as Category 2

4) Treatment related to the reasonable estimable period for taxable income before future additions and deductions such as temporary difference, etc., in a company that qualifies as Category 3

5) Treatment in the case that a company that satisfies the category requirements for Category 4 qualifies as Category 2 or Category 3

The Company is scheduled to apply these accounting standards from the beginning of the year ending December 31, 2017.

The effect of adoption of these revised accounting standards is now under assessment at the time of preparation of the accompanying consolidated financial statements.

## 3. United States Dollar Amounts

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and principally operates. The translation of Japanese yen amounts into U.S. dollar amounts for the year ended December 31, 2015 is included solely for the convenience of readers outside Japan and has been made at the rate of ¥120.53=U.S.$1, the rate of exchange on December 30, 2015. The translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at the above or any other rate.

## 4. Cash and Cash Equivalents

Cash and cash equivalents at December 31, 2015 and 2014 on the consolidated statements of cash flows consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2015 | 2014 | 2015 |
| Cash and time deposits | ¥ 4,912 | ¥ 3,120 | $ 40,756 |
| Time deposits that have maturities of over three months when acquired | (440) | (342) | (3,656) |
| Cash and cash equivalents | ¥ 4,471 | ¥ 2,778 | $ 37,100 |

**5. Inventories**

Inventories at December 31, 2015 and 2014 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2015 | 2014 | 2015 |
| Finished goods and merchandise | ¥ 7,912 | ¥ 9,170 | $ 65,644 |
| Work-in-process | 506 | 512 | 4,202 |
| Raw materials | 323 | 307 | 2,683 |
| Total | ¥ 8,741 | ¥ 9,990 | $ 72,529 |

Write-down of finished goods and merchandise to net realizable value are charged to cost of sales. The amount of such write-down for the years ended December 31, 2015 and 2014 were ¥2,856 million ($23,702 thousand) and ¥2,561 million, respectively.

**6. Advanced depreciation**

The followings are the accumulated advanced depreciation related to government subsidy directly deducted from acquisition costs of property, plant and equipment at December 31, 2014.

| | Millions of yen |
|---|---|
| Buildings and structures | ¥ 7 |
| Tools, furniture and fixtures | 12 |
| | ¥ 20 |

**7. Investments in Securities**

At December 31, 2015 and 2014, book values (fair values), acquisition costs and difference of available-for-sale securities with available fair values are as follows:

| | Millions of yen | | |
|---|---|---|---|
| | 2015 | | |
| | Book values | Acquisition costs | Difference |
| Securities with book values (fair values) exceeding acquisition costs: | | | |
| Equity securities | ¥ 3,022 | ¥ 1,060 | ¥ 1,961 |
| Total | ¥ 3,022 | ¥ 1,060 | ¥ 1,961 |

| | Thousands of U.S. dollars (Note 3) | | |
|---|---|---|---|
| | 2015 | | |
| | Book values | Acquisition costs | Difference |
| Securities with book values (fair values) exceeding acquisition costs: | | | |
| Equity securities | $ 25,075 | $ 8,803 | $ 16,272 |
| Total | $ 25,075 | $ 8,803 | $ 16,272 |

| | Millions of yen | | |
|---|---|---|---|
| | 2014 | | |
| | Book values | Acquisition costs | Difference |
| Securities with book values (fair values) exceeding acquisition costs: | | | |
| Equity securities | ¥ 3,016 | ¥ 1,004 | ¥ 2,012 |
| Total | ¥ 3,016 | ¥ 1,004 | ¥ 2,012 |
| Securities with book values (fair values) not exceeding acquisition costs: | | | |
| Equity securities | ¥ 53 | ¥ 55 | ¥ (2) |
| Bonds | 199 | 199 | — |
| Total | ¥ 253 | ¥ 255 | ¥ (2) |

Securities classified as available-for-sale securities for which fair values are not available at December 31, 2015 and 2014 are as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2015 | 2014 | 2015 |
| Non-listed equity securities | ¥ 0 | ¥ 21 | $ 0 |
| Bonds | 3 | 6 | 31 |

## 8. Investments in Non-consolidated Subsidiaries

Investments in non-consolidated subsidiaries at December 31, 2015 and 2014 are ¥67 million ($560 thousand) and ¥21 million, respectively.

## 9. Short-term and Long-term Loans

Short-term loans at December 31, 2015 and 2014 represented bank loan, bearing average interest of 1.41% and 1.48% per annum, respectively.

Long-term loans represented bank loan of ¥1,050 million ($8,712 thousand) and ¥1,400 million at December 31, 2015 and 2014, bearing average interest of 0.80 % and 0.96% per annum, respectively.

The annual maturities of the long-term loans (except for current installments) at December 31, 2015 are as follows:

| | Millions of yen | Thousands of U.S. dollars (Note 3) |
|---|---|---|
| Year ending December 31, | | |
| 2017 | ¥ 200 | $ 1,659 |
| 2018 | — | — |
| 2019 | 350 | 2,904 |
| 2020 | — | — |

The annual maturities of the lease obligations (except for current installments) at December 31, 2015 are as follows:

| | Millions of yen | Thousands of U.S. dollars (Note 3) |
|---|---|---|
| Year ending December 31, | | |
| 2017 | ¥ 51 | $ 425 |
| 2018 | 49 | 413 |
| 2019 | 48 | 399 |
| 2020 | 12 | 102 |

At December 31, 2015 and 2014, assets pledged as collateral for short-term loans and long-term loans are as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2015 | 2014 | 2015 |
| Buildings and structures | ¥ 113 | ¥ 122 | $ 944 |
| Land | 1,132 | 1,132 | 9,393 |
| Total | ¥ 1,245 | ¥ 1,254 | $ 10,337 |

Secured loans at December 31, 2015 and 2014 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2015 | 2014 | 2015 |
| Short-term loans | ¥ 500 | ¥ 150 | $ 4,148 |
| Long-term loans | 1,050 | 1,400 | 8,712 |
| Total | ¥ 1,550 | ¥ 1,550 | $ 12,860 |

**10. Income Taxes**

Following the promulgation of the law "Partial Amendment of the Income Tax Act, etc." and "Partial Amendment of the Local Tax Act, etc." on March 31, 2015, the effective statutory tax rate used for the calculation of deferred tax assets and deferred tax liabilities (only for the temporary differences, expected to be resolved on or after January 1, 2016) has been revised from the previous rate of 35.64%. The rate of 33.06% has been applied to the temporary differences, expected to be recovered or settled from January 1, 2016 to December 31, 2016, while the rate of 32.26% has been applied to the temporary differences, expected to be recovered or settled on or after January 1, 2017.

As a result of the change in tax rates, the amount of deferred tax assets (the amount after offsetting deferred tax liabilities) decreased by ¥6 million ($55 thousand) and income taxes-deferred for the current year increased by ¥31 million ($262 thousand) and unrealized gain on available-for-sale securities increased by ¥38 million ($317 thousand).

Significant components of deferred tax assets and deferred tax liabilities at December 31, 2015 and 2014 are as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2015 | 2014 | 2015 |
| Deferred tax assets: | | | |
| Tax losses carried-forward | ¥ 1,258 | ¥ 1,279 | $ 10,442 |
| Retirement benefit expenses | 214 | 282 | 1,776 |
| Loss on write-down of inventories | 778 | 776 | 6,457 |
| Impairment loss on long-lived assets | 1,143 | 1,156 | 9,484 |
| Allowance for bad debts | 48 | 37 | 400 |
| Shipped sales | 496 | 457 | 4,123 |
| Asset retirement obligations | 74 | 84 | 615 |
| Inventories | 49 | 59 | 407 |
| Others | 245 | 606 | 2,037 |
| Gross deferred tax assets | 4,307 | 4,740 | 35,741 |
| Less: Valuation allowance | (2,830) | (3,509) | (23,480) |
| Offset with deferred tax liabilities | (545) | (419) | (4,527) |
| Total deferred tax assets | 932 | 810 | 7,734 |
| Deferred tax liabilities: | | | |
| Net unrealized gains on available-for-sale securities | (577) | (615) | (4,790) |
| Undistributed earnings of foreign subsidiaries | (57) | (32) | (473) |
| Inventories | (164) | (142) | (1,368) |
| Asset retirement obligations | (9) | (12) | (75) |
| Others | (6) | (2) | (57) |
| Gross deferred tax liabilities | (815) | (804) | (6,763) |
| Offset with deferred tax assets | 545 | 419 | 4,527 |
| Total deferred tax liabilities | (269) | (384) | (2,236) |
| Deferred tax assets, net | ¥ 662 | ¥ 426 | $ 5,498 |

The reconciliation of the statutory income tax rate and the tax rate reflected in the consolidated statements of income for the years ended December 31, 2015 and 2014 is follows:

| | 2015 | 2014 |
|---|---|---|
| Statutory income tax rate | 35.64% | 38.01% |
| Expenses not deducted for tax purposes | 1.73 | 0.86 |
| Income not credited for tax purposes | (1.44) | (0.89) |
| Per capita tax | 7.79 | 2.32 |
| Difference in statutory tax rates of subsidiaries | (9.44) | (3.07) |
| Special exemption of consolidated subsidiaries | (7.12) | (3.47) |
| Prior years incomes taxes | 5.19 | — |
| Deferred tax not recognized on consolidation entries, etc. | — | 30.63 |
| Effect of tax rate change | 20.52 | (0.31) |
| Increase / decrease in valuation allowance | (50.72) | (51.97) |
| Other | (0.50) | 0.14 |
| Tax rate reflected in the consolidated statements of income | 1.65% | 12.25% |

## 11. Employees' Pension and Retirement Benefits

1. Followings are the information of defined benefit plans at December 31, 2015 and 2014 and for the years then ended.
   (1) Reconciliation of changes in liabilities for retirement benefits calculated by a simplified method

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2015 | 2014 | 2015 |
| Liabilities for retirement benefits at beginning of year | ¥ 782 | ¥ 1,013 | $ 6,492 |
| Retirement benefit expenses | 188 | 106 | 1,568 |
| Benefits paid | (115) | (127) | (961) |
| Contribution | (211) | (254) | (1,759) |
| Increase by business combination | — | 31 | — |
| Other | 4 | 11 | 36 |
| Liabilities for retirement benefits at end of year | ¥ 647 | ¥ 782 | $ 5,376 |

(2) Reconciliation between net of retirement benefit obligation and plan assets, and liabilities or assets for retirement benefits recognized in consolidated balance sheets

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2015 | 2014 | 2015 |
| Funded retirement benefit obligation | ¥ 2,853 | ¥ 2,460 | $ 23,675 |
| Plan assets | (2,310) | (2,100) | (19,173) |
| | 542 | 359 | 4,502 |
| Unfunded retirement benefit obligation | 105 | 423 | 874 |
| Net of liabilities and assets for retirement benefits | ¥ 647 | ¥ 782 | $ 5,376 |
| Liabilities for retirement benefits | ¥ 647 | ¥ 782 | $ 5,376 |
| Net of liabilities and assets for retirement benefits | ¥ 647 | ¥ 782 | $ 5,376 |

(3) Retirement benefit expenses calculated by a simplified method is ¥188 million ($1,568 thousand) and ¥106 million for the years ended December 31, 2015 and 2014, respectively.

2. The amount to be paid by the Company and consolidated subsidiaries to the defined contribution plans is ¥13 million ($111 thousand) and ¥13 million and the paid amounts by a prepaid termination allowance plan is ¥22 million ($191 thousand) and ¥23 million for the years ended December 31, 2015 and 2014, respectively.

## 12. Asset Retirement Obligations

(1) Asset retirement obligations recognized on the consolidated balance sheets

Asset retirement obligations are associated with restoration expenses for sales shops according to leasehold contracts, disposal cost of asbestos and PCB equipment according to law or regulation at the time of dismantlement and removal of the Company and consolidated subsidiaries’ buildings or machinery.

The obligations are calculated by using the lease terms as estimated period of use for restoration expenses and by using the useful lives as estimated period of use for legal disposal cost, and the yield rate of Japanese government bonds corresponding to each life time as discounted rate.

The following table provides a total asset retirement obligation for the years ended December 31, 2015 and 2014:

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2015 | 2014 | 2015 |
| Balance, beginning of year | ¥ 235 | ¥ 219 | $ 1,952 |
| Increase by fixed assets acquisition | 28 | 16 | 235 |
| Accretion expenses | 1 | 1 | 7 |
| Liabilities settled | (3) | (4) | (29) |
| Other | (39) | 2 | (324) |
| Balance, end of year | ¥ 221 | ¥ 235 | $ 1,841 |

(2) Asset retirement obligations not recognized on the consolidated balance sheets

The Group is not recognized the liabilities for asset retirement obligations for certain restoration expenses for its offices and sales shops because it is difficult to estimate the obligations reasonably since the period of use is not clear and there is no plan to movement.

**13. Net Assets**

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividend-in-kind) if the company has prescribed so in its articles of incorporation.

The Companies Act permits companies to distribute dividend-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. Under the Companies Act, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends.

The Companies Act provides certain limitations on the amounts available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥ 3 million.

The following dividends were paid during the year ended December 31, 2014 which was approved by the general meeting of shareholders held on March 28, 2014.

| | | |
|---|---|---|
| (a) | Total dividends | ¥114 million |
| (b) | Cash dividends per common share | ¥3 |
| (c) | Record date | December 31, 2013 |
| (d) | Effective date | March 31, 2014 |

The following dividends were paid during the year ended December 31, 2015 which was approved by the general meeting of shareholders held on March 27, 2015.

| | | |
|---|---|---|
| (a) | Total dividends | ¥114 million ($950 thousand) |
| (b) | Cash dividends per common share | ¥3 ($0.02) |
| (c) | Record date | December 31, 2014 |
| (d) | Effective date | March 30, 2015 |

The following dividends were approved by the general meeting of shareholders held on March 30, 2016 and paid after the balance sheet date but the record date for the payment belongs to the year ended December 31, 2015.

| | | |
|---|---|---|
| (a) | Total dividends | ¥114 million ($950 thousand) |
| (b) | Dividend source | Retained earnings |
| (c) | Cash dividends per common share | ¥3 ($0.02) |
| (d) | Record date | December 31, 2015 |
| (e) | Effective date | March 31, 2016 |

(b) Increases / decreases and transfer of common stock, reserve and surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold.

The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by specific formula. Under the Companies Act, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders' equity.

The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of shareholders' equity or deducted directly from stock acquisition rights.

## 14. Other Comprehensive Income

The reclassification adjustment and the related income tax effects allocated to each component of other comprehensive income for the years ended December 31, 2015 and 2014 are as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2015 | 2014 | 2015 |
| Net unrealized gain on available-for-sale securities: | | | |
| Arising during the year | ¥ (48) | ¥ (251) | $ (399) |
| Reclassification adjustment | — | 0 | — |
| Before tax amount | (48) | (251) | (399) |
| Tax benefit (expense) | 38 | 65 | 317 |
| Net-of-tax amount | (9) | (186) | (82) |
| Deferred gain on derivatives under hedge accounting: | | | |
| Arising during the year | — | (15) | — |
| Reclassification adjustment | — | (72) | — |
| Before tax amount | — | (88) | — |
| Tax benefit (expense) | — | 33 | — |
| Net-of-tax amount | — | (54) | — |
| Foreign currency translation adjustments: | | | |
| Arising during the year | (430) | 671 | (3,572) |
| Reclassification adjustment | — | — | — |
| Before tax amount | (430) | 671 | (3,572) |
| Tax benefit (expense) | — | — | — |
| Net-of-tax amount | (430) | 671 | (3,572) |
| Total other comprehensive income | ¥ (440) | ¥ 431 | $ (3,654) |

## 15. Leases

The Company and consolidated subsidiaries lease mainly information equipment, vehicles and software under finance leases.

Future lease payments for non-cancelable operating leases at December 31, 2015 and 2014 are as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2015 | 2014 | 2015 |
| Due within one year | ¥ 34 | ¥ 31 | $ 288 |
| Due after one year | 11 | — | 92 |
| Total | ¥ 45 | ¥ 31 | $ 380 |

## 16. Financial Instruments

(1) Conditions of financial instruments

(a) Management policy

The Company raises funds through bank borrowings, and surplus funds are invested in highly safe financial instruments. The Company uses derivatives to avoid risks mentioned below and does not enter into derivatives for speculative purposes.

(b) Financial instruments and risks

Trade notes and accounts receivable are exposed to customer's credit risk.

Investments in securities are mainly available-for-sale securities and equity securities held for business relations and are exposed to market fluctuation risk.

Lease deposits are deposits for leased properties and are exposed to counterparty's credit risk.

Maturities of trade notes and accounts payable are mostly within one year. Part of trade payables are denominated in foreign currency and are exposed to fluctuation risk of foreign exchange rates, and the Company uses foreign exchange contracts to hedge the risk.

Loans are mainly for financing of operating funds and loans with variable interest rate are exposed to fluctuation risk of interests.

Derivative transactions employed by the Company are foreign exchange contracts to hedge future fluctuation of foreign exchange rates of trade payables denominated in foreign currency mainly.

(c) Financial instruments risk management

a) Credit risk

To mitigate and quickly capture the collectability issues due to bad financial condition and so on, in-charge of each operating division monitors major customers' credit status, and performs due date controls and balance controls by each customer in accordance with credit control rules for controlling customer credit risk. The counterparties to derivative transactions are limited to financial institutions with high credit ratings.

b) Market risk

The Company uses a foreign exchange contract for hedging the cash flow fluctuation risk associated with trade payables and firm commitments denominated in foreign currencies, depending on foreign exchange rates.

For investments in securities, the Company regularly monitors a price and an issuer's financial condition, and continuously considers whether the Company holds the securities other than held-to-maturity bonds.

Derivative transactions are executed and controlled by the accounting department in accordance with internal rules which includes authorization regulation and transaction records were reported to the Board of Directors regularly.

c) Liquidity risk

To mitigate the liquidity risk, responsible department prepares and updates a funds management plan based on the report from each department, and maintains an appropriate level of liquidity.

(d) Supplemental explanation regarding fair value of financial instruments

Fair value of financial instruments are measured based on the quoted market price, if available, or reasonably assessed value if a quoted market price is not available. Fair value of financial instruments which quoted market price is not available is calculated based on certain assumptions, and the fair value might differ if different assumptions are used.

(2) Fair value of financial instruments

The carrying amounts on the consolidated balance sheets, fair value, and differences at December 31, 2015 and 2014 are as follows. Financial instruments, of which it is extremely difficult to measure the fair value, are not included. (Please see "(b) Financial instruments of which the fair value is extremely difficult to measure")

| December 31, 2015 | Millions of yen | | | Thousands of U.S. dollars (Note 3) | | |
|---|---|---|---|---|---|---|
| | Carrying amount | Fair value | Differences | Carrying amount | Fair value | Differences |
| Assets: | | | | | | |
| (1) Cash and time deposits | ¥ 4,912 | ¥ 4,912 | ¥ — | $ 40,756 | $ 40,756 | $ — |
| (2) Notes and accounts receivable-trade | 5,344 | | | 44,339 | | |
| Less: allowance for bad debts *1 | (3) | | | (31) | | |
| | 5,340 | 5,340 | — | 44,308 | 44,308 | — |
| (3) Short-term investments and investments in securities: | | | | | | |
| Available-for-sale securities | 3,022 | 3,022 | — | 25,075 | 25,075 | — |
| (4) Lease deposit | 1,039 | 1,039 | 0 | 8,627 | 8,627 | 0 |
| Total | ¥ 14,314 | ¥ 14,314 | ¥ 0 | $ 118,766 | $ 118,766 | $ 0 |
| Liabilities: | | | | | | |
| (1) Notes and accounts payable -trade | ¥ 3,768 | ¥ 3,768 | ¥ — | $ 31,268 | $ 31,268 | $ — |
| (2) Short-term loans | 500 | 500 | — | 4,148 | 4,148 | — |
| (3) Long-term loans *2 | 1,050 | 1,063 | 13 | 8,712 | 8,823 | 111 |
| Total | ¥ 5,318 | ¥ 5,332 | ¥ 13 | $ 44,128 | $ 44,239 | $ 111 |
| Derivative transactions *3 | ¥ (18) | ¥ (18) | ¥ — | $ (155) | $ (155) | $ — |

| December 31, 2014 | Millions of yen | | |
|---|---|---|---|
| | Carrying amount | Fair value | Differences |
| Assets: | | | |
| (1) Cash and time deposits | ¥ 3,120 | ¥ 3,120 | ¥ — |
| (2)Notes and accounts receivable-trade | 6,216 | | |
| Less: allowance for bad debts *1 | (8) | | |
| | 6,208 | 6,208 | — |
| (3)Short-term investments and investments in securities: | | | |
| Available-for-sale securities | 3,266 | 3,266 | — |
| (4)Lease deposit | 975 | 975 | 0 |
| Total | ¥ 13,570 | ¥ 13,571 | ¥ 0 |
| Liabilities: | | | |
| (1) Notes and accounts payable -trade | ¥ 4,509 | ¥ 4,509 | ¥ — |
| (2) Short-term loans | 150 | 150 | — |
| (3) Long-term loans | 1,400 | 1,415 | 15 |
| Total | ¥ 6,059 | ¥ 6,074 | ¥ 15 |
| Derivative transactions *3 | ¥ (2) | ¥ (2) | ¥ — |

*1 Allowance for bad debts provided individually for notes and accounts receivable-trade are deducted.

*2 Long-term loans includes current portion of long-term loans.

*3 Derivative receivables and payables are on net basis. Items that are net payables are shown in parenthesis.

(a) Fair value measurement of financial instruments

Assets:

(1) Cash and time deposits and (2) Notes and accounts receivable-trade

The fair value approximates the carrying amount because of the short maturity of these instruments.

(3) Investments in securities

The fair value of equity securities is calculated by quoted market prices and the fair value of debt securities is estimated based on quotes from counterparties. Please see note **7. Investments in Securities** for information by holding purpose.

(4) Lease deposit

The fair value is based on the present value calculated using a reasonably estimated time of refund of lease deposits and a reasonable discount rate.

Liabilities:

(1) Notes and accounts payable-trade and (2) Short-term loans

The fair value approximates the carrying amount because of the short maturity of these instruments.

(3) Long-term loans

The fair value is based on the present value of future cash flows of interests and principal payments discounted using the expected rate for similar loans.

Derivative transactions:

Please see note **17. Derivative Transactions** for details of derivative transactions.

(b) Financial instruments of which the fair value is extremely difficult to measure at December 31, 2015 and 2014 are as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2015 | 2014 | 2015 |
| Unlisted equity securities *1 | ¥ 71 | ¥ 27 | $ 591 |
| Lease deposit *2 | 734 | 833 | 6,093 |

*1 Because no quoted market prices are available and the fair value is extremely difficult to measure, these are not included in above (3) Short-term investments and investments in securities.

*2 Because it is extremely difficult to estimate substantive deposit terms of these lease deposits and the fair value is extremely difficult to measure, these are not included in above (4) Lease deposit.

(c) Projected future redemption of monetary claim and securities with maturities at December 31, 2015 and 2014

| | Millions of yen | | | |
|---|---|---|---|---|
| December 31, 2015 | Due within one year | Due after one year through five years | Due after five years through ten years | Due after ten years |
| Cash and time deposits | ¥ 4,912 | ¥ — | ¥ — | ¥ — |
| Notes and accounts receivable -trade | 5,344 | — | — | — |
| Short-term investments and investments in securities: | | | | |
| Available-for-sale securities with maturities: | | | | |
| Debt securities | — | 3 | — | — |
| Other | — | — | — | — |
| Lease deposit | 200 | 810 | 27 | — |
| | ¥ 10,457 | ¥ 814 | ¥ 27 | ¥ — |

| | Thousands of U.S. dollars (Note 3) | | | |
|---|---|---|---|---|
| December 31, 2015 | Due within one year | Due after one year through five years | Due after five years through ten years | Due after ten years |
| Cash and time deposits | $ 40,756 | $ — | $ — | $ — |
| Notes and accounts receivable -trade | 44,339 | — | — | — |
| Short-term investments and investments in securities: | | | | |
| Available-for-sale securities with maturities: | | | | |
| Debt securities | — | 31 | — | — |
| Other | — | — | — | — |
| Lease deposit | 1,668 | 6,728 | 231 | — |
| | $ 86,763 | $ 6,759 | $ 231 | $ — |

| December 31, 2014 | Millions of yen: Due within one year | Due after one year through five years | Due after five years through ten years | Due after ten years |
|---|---|---|---|---|
| Cash and time deposits | ¥ 3,120 | ¥ — | ¥ — | ¥ — |
| Notes and accounts receivable -trade | 6,216 | — | — | — |
| Short-term investments and investments in securities: | | | | |
| Available-for-sale securities with maturities: | | | | |
| Debt securities | 2 | 4 | — | — |
| Other | — | — | — | 200 |
| Lease deposit | 275 | 647 | 52 | — |
| | ¥ 9,615 | ¥ 651 | ¥ 52 | ¥ 200 |

(d) The annual maturities of the long-term loans at December 31, 2015 and 2014

| | Millions of yen: Due within one year | Due after one year through two years | Due after two years through three years | Due after three years through four years | Due after four years through five years | Due after five years |
|---|---|---|---|---|---|---|
| December 31, 2015 | | | | | | |
| Long-term loans | ¥ 500 | ¥ 200 | ¥ — | ¥ 350 | ¥ — | ¥ — |

| | Thousands of U.S. dollars (Note 3): Due within one year | Due after one year through two years | Due after two years through three years | Due after three years through four years | Due after four years through five years | Due after five years |
|---|---|---|---|---|---|---|
| December 31, 2015 | | | | | | |
| Long-term loans | $ 4,148 | $ 1,659 | $ — | $ 2,904 | $ — | $ — |

| | Millions of yen: Due within one year | Due after one year through two years | Due after two years through three years | Due after three years through four years | Due after four years through five years | Due after five years |
|---|---|---|---|---|---|---|
| December 31, 2014 | | | | | | |
| Long-term loans | ¥ — | ¥ 850 | ¥ 200 | ¥ — | ¥ 350 | ¥ — |

## 17. Derivative Transactions

(1) Derivative financial instruments to which hedge accounting is not applied

(a) Currency transaction

| | Millions of yen 2015 | | | |
|---|---|---|---|---|
| | Contract/ Notional amount | | | |
| | Total | Settled over one year | Fair value | Unrealized gain (loss) |
| Forward exchange contracts | | | | |
| Buying: | | | | |
| U.S. dollars | ¥ 130 | ¥ ― | ¥ 129 | ¥ (1) |
| EUR | 1,074 | ― | 1,056 | (18) |
| Total | ¥ 1,204 | ¥ ― | ¥ 1,185 | ¥ (18) |

| | Thousands of U.S. dollars (Note 3) 2015 | | | |
|---|---|---|---|---|
| | Contract/ Notional amount | | | |
| | Total | Settled over one year | Fair value | Unrealized gain (loss) |
| Forward exchange contracts | | | | |
| Buying: | | | | |
| U.S. dollars | $ 1,076 | $ ― | $ 1,071 | $ (5) |
| EUR | 8,913 | ― | 8,763 | (150) |
| Total | $ 9,989 | $ ― | $ 9,834 | $ (155) |

| | Millions of yen 2014 | | | |
|---|---|---|---|---|
| | Contract/ Notional amount | | | |
| | Total | Settled over one year | Fair value | Unrealized gain (loss) |
| Forward exchange contracts | | | | |
| Buying: | | | | |
| EUR | ¥ 270 | ¥ ― | ¥ 268 | ¥ (2) |
| Total | ¥ 270 | ¥ ― | ¥ 268 | ¥ (2) |

Fair value is calculated based on the prices, which are provided by the financial institution.

(b) Other

At December 31, 2014, Compound financial instruments with embedded derivatives whose derivative portion cannot be separately valued are reported at fair value in aggregate. The contract amount of the compound financial instruments was ¥200 million, while the fair value was ¥199 million and revaluation losses of ¥0 million. Changes in revaluation losses of ¥65 million were reported in the consolidated statements of income for the year ended December 31, 2014.

(2) Derivative financial instruments to which hedge accounting is applied

The Company had no derivative financial instruments to which hedge accounting was applied at December 31, 2015 and 2014.

## 18. Impairment Loss on Long-lived Assets

Impairment loss on long-lived assets for the years ended December 31, 2015 and 2014 consisted as follows:

2015:

| Location | Use | Balance sheet item |
|---|---|---|
| Minato-city, Tokyo and other locations | Assets for business use | Buildings and structures<br>Machinery and equipment<br>Tools, furniture and equipment<br>Long-term prepaid expenses |
| Shanghai-city, China | Common use assets | Machinery and equipment<br>Tools, furniture and equipment<br>Software |

2014:

| Location | Use | Balance sheet item |
|---|---|---|
| Shibuya-city, Tokyo and other locations | Assets for business use | Buildings and structures<br>Tools, furniture and equipment<br>Long-term prepaid expenses |
| Meguro-city, Tokyo | Common use assets | Software |

The Group identifies groups of assets on a store basis as the minimum independent cash-flow-generating unit.

Due to continuous losses in its operation or estimated losses in the future, impairment loss of ¥384 million ($3,192 thousand) and ¥112 million are recognized for the above assets for business use from the book value to the recoverable value, with the difference reported as other expenses, for the years ended December 31, 2015 and 2014, respectively.

Recoverable values are calculated according to estimated net sales values, which are mainly based on real estate appraisal values.

## 19. Commitments and Contingencies

The Company guaranteed its subsidiary's borrowings from financial institutions. At December 31, 2015, the guarantees amounted to ¥1 million ($14 thousand).

## 20. Business Combination

(1) Outline of the business divestiture

On January 23, 2015, the Company, TORY BURCH FAR EAST LIMITED (HK) and MITSUBISHI CORPORATION FASHION CO., LTD. agreed that the exclusive sales right of Tory Burch ladies' clothes and accessories in Japan should be terminated on July 31, 2015, when the date of expiry of the contract. According to the agreement, Tory Burch business was transferred to TORY BURCH JAPAN CO., LTD. with cash consideration on July 31, 2015.

(2) Outline of the accounting treatment

In the accompanying consolidated statements of income, the Company recorded a gain on business transfer of ¥321 million ($2,663 thousand) which is a difference between the consideration and net assets of transferred business.

Transferred assets and liabilities are as follows:

| | Millions of yen | Thousands of U.S. dollars (Note 3) |
|---|---|---|
| Current assets | ¥ 1,353 | $ 11,228 |
| Non-current assets | 472 | 3,922 |
| Total assets | ¥ 1,826 | $ 15,150 |
| Current liabilities | ¥ 39 | $ 328 |
| Total liabilities | ¥ 39 | $ 328 |

(3) The divested business was included in the apparel (Japan) business segment.

(4) The following table summarizes the estimated profit and loss amount of the divested business reported in the consolidated statement of income for the year ended December 31, 2015.

| | Millions of yen | Thousands of U.S. dollars (Note 3) |
|---|---|---|
| Net sales | ¥ 3,918 | $ 32,507 |
| Operating income | 87 | 729 |

(5) The Company and TORY BURCH JAPAN CO., LTD. entered into the contract for the consignment of operations.

## 21. Segment Information

The reported segments of the Company are the business units for which the Company is able to obtain respective financial information separately in order for the Board of Directors to conduct periodic investigation to determine distribution of management resources and evaluate their business results.

The Group engaged in planning, producing and selling apparel and its related accessories. The Company and three domestic consolidated subsidiaries manage the apparel related business in Japan and four foreign subsidiaries manage the apparel related business abroad. One domestic subsidiary manages the apparel producing and OEM business for the Group and other than for the Group. One domestic subsidiary manages the apparel distribution and storage business for the Group. One domestic subsidiary manufactures and sells gelatos. The Company established local business base in Japan, Korea, Hong Kong and China, and each base plans overall strategy for each brand and runs the business.

The Group's reported segments are six segments which are three geographical segments of "Japan," "Korea" and "Other abroad" (Hong Kong and China) which are based on its sales system for the apparel related business, and "Producing and OEM business," "Distribution business" and "Food and drink business."

Because FASHIONABLE FOODS INTERNATIONAL INC. is newly consolidated from the year ended December 31, 2015, "Food and drink business" is newly reported in the segment information. The reported segment information for the year ended December 31, 2014 has been made to conform with classifications for the year ended December 31, 2015.

Segment sales, income or loss, assets, liabilities and others are calculated by accounting methods similar to those employed to prepare the accompanying consolidated financial statements. Segment income is calculated based on operating income disclosed in the consolidated statements of income. Intersegment revenue and transfer are based on arms-length transactions or manufacturing costs.

The reported segment information for the years ended December 31, 2015 and 2014 is summarized as follows:

| | Millions of yen | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 | | | | | | | | | |
| | Apparel | | | | | | | | | |
| | Japan | Korea | Other abroad | Total | Producing and OEM | Distribution | Food and drink | Total | Adjustments | Consolidated |
| Net sales: | | | | | | | | | | |
| Outside customers | ¥ 31,210 | ¥ 13,623 | ¥ 364 | ¥ 45,198 | ¥ 608 | ¥ 71 | ¥ 123 | ¥ 46,002 | ¥ ― | ¥ 46,002 |
| Intersegment | 34 | 97 | ― | 132 | 3,291 | 1,213 | 0 | 4,636 | (4,636) | ― |
| Total | ¥ 31,244 | ¥ 13,721 | ¥ 364 | ¥ 45,330 | ¥ 3,899 | ¥ 1,284 | ¥ 124 | ¥ 50,638 | ¥(4,636) | ¥ 46,002 |
| Segment income (loss) | ¥ 94 | ¥ 457 | ¥ (113) | ¥ 438 | ¥ 51 | ¥ 8 | ¥ (56) | ¥ 441 | ¥ 74 | ¥ 516 |
| Segment assets | ¥ 18,847 | ¥ 9,814 | ¥ 755 | ¥ 29,417 | ¥ 770 | ¥ 243 | ¥ 33 | ¥ 30,464 | ¥ (795) | ¥ 29,669 |
| Others: | | | | | | | | | | |
| Depreciation and amortization | ¥ 530 | ¥ 479 | ¥ 12 | ¥ 1,022 | ¥ 2 | ¥ 28 | ¥ 12 | ¥ 1,066 | ¥ ― | ¥ 1,066 |
| Impairment loss | 254 | 14 | 22 | 291 | ― | ― | 93 | 384 | ― | 384 |
| Amortization of goodwill | 18 | 1 | ― | 20 | ― | 4 | ― | 24 | ― | 24 |
| Capital expenditures | 789 | 440 | 3 | 1,232 | 8 | 1 | 29 | 1,271 | ― | 1,271 |

| | Thousands of U.S. dollars (Note 3) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 | | | | | | | | | |
| | Apparel | | | | | | | | | |
| | Japan | Korea | Other abroad | Total | Producing and OEM | Distribution | Food and drink | Total | Adjustments | Consolidated |
| Net sales: | | | | | | | | | | |
| Outside customers | $ 258,943 | $ 113,033 | $ 3,026 | $ 375,002 | $ 5,045 | $ 590 | $ 1,027 | $ 381,664 | $ ― | $ 381,664 |
| Intersegment | 285 | 810 | ― | 1,095 | 27,308 | 10,064 | 2 | 38,469 | (38,469) | ― |
| Total | $ 259,228 | $ 113,843 | $ 3,026 | $ 376,097 | $ 32,353 | $ 10,654 | $ 1,029 | $ 420,133 | $(38,469) | $ 381,664 |
| Segment income (loss) | $ 784 | $ 3,797 | $ (944) | $ 3,637 | $ 425 | $ 69 | $ (465) | $ 3,666 | $ 620 | $ 4,286 |
| Segment assets | $ 156,368 | $ 81,427 | $ 6,272 | $ 244,067 | $ 6,389 | $ 2,022 | $ 281 | $ 252,759 | $ (6,604) | $ 246,155 |
| Others: | | | | | | | | | | |
| Depreciation and amortization | $ 4,401 | $ 3,978 | $ 106 | $ 8,485 | $ 22 | $ 234 | $ 106 | $ 8,847 | $ ― | $ 8,847 |
| Impairment loss | 2,108 | 123 | 187 | 2,418 | ― | ― | 774 | 3,192 | ― | 3,192 |
| Amortization of goodwill | 153 | 14 | ― | 167 | ― | 38 | ― | 205 | ― | 205 |
| Capital expenditures | 6,549 | 3,651 | 29 | 10,229 | 69 | 12 | 242 | 10,552 | ― | 10,552 |

| | Millions of yen | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2014 | | | | | | | | | |
| | Apparel | | | | | | | | | |
| | Japan | Korea | Other abroad | Total | Producing and OEM | Distribution | Food and drink | Total | Adjustments | Consolidated |
| Net sales: | | | | | | | | | | |
| Outside customers | ¥ 33,337 | ¥ 11,012 | ¥ 513 | ¥ 44,863 | ¥ 679 | ¥ 16 | ¥ — | ¥ 45,559 | ¥ — | ¥ 45,559 |
| Intersegment | 40 | 75 | — | 115 | 3,631 | 1,267 | — | 5,013 | (5,013) | — |
| Total | ¥ 33,377 | ¥ 11,088 | ¥ 513 | ¥ 44,978 | ¥ 4,310 | ¥ 1,283 | ¥ — | ¥ 50,572 | ¥(5,013) | ¥ 45,559 |
| Segment income (loss) | ¥ 655 | ¥ 530 | ¥ (171) | ¥ 1,014 | ¥ 36 | ¥ 25 | ¥ — | ¥ 1,076 | ¥ 101 | ¥ 1,177 |
| Segment assets | ¥ 20,058 | ¥ 9,699 | ¥ 884 | ¥ 30,642 | ¥ 953 | ¥ 248 | ¥ — | ¥ 31,845 | ¥ (838) | ¥ 31,007 |
| Others: | | | | | | | | | | |
| Depreciation and amortization | ¥ 524 | ¥ 339 | ¥ 27 | ¥ 891 | ¥ 0 | ¥ 4 | ¥ — | ¥ 896 | ¥ — | ¥ 896 |
| Impairment loss | 111 | 1 | — | 112 | — | — | — | 112 | — | 112 |
| Amortization of goodwill | 12 | 1 | — | 13 | — | 18 | — | 31 | — | 31 |
| Capital expenditures | 795 | 548 | 0 | 1,343 | 2 | 0 | — | 1,346 | — | 1,346 |

1. Adjustments are intersegment eliminations.
2. Segment income (loss) agrees with operating income disclosed in the consolidated statements of income.

**Related information**

(1) Information by products and services

Disclosures are omitted because the classification of products and services are same as the classification of the reported segments.

(2) Geographical information

(a) Sales

| Millions of yen | | | | |
|---|---|---|---|---|
| 2015 | | | | |
| Japan | Korea | Hong Kong | China | Total |
| ¥ 32,013 | ¥ 13,623 | ¥ 120 | ¥ 244 | ¥ 46,002 |

| Thousands of U.S. dollars (Note 3) | | | | |
|---|---|---|---|---|
| 2015 | | | | |
| Japan | Korea | Hong Kong | China | Total |
| $ 265,606 | $ 113,032 | $ 1,000 | $ 2,026 | $ 381,664 |

| Millions of yen | | | | |
|---|---|---|---|---|
| 2014 | | | | |
| Japan | Korea | Hong Kong | China | Total |
| ¥ 34,032 | ¥ 11,012 | ¥ 187 | ¥ 325 | ¥ 45,559 |

Geographical sales are classified by customer’s location.

(b) Property, plant and equipment

| Millions of yen 2015 | | | | |
|---|---|---|---|---|
| Japan | Korea | Hong Kong | China | Total |
| ¥ 2,264 | ¥ 1,277 | ¥ 3 | ¥ — | ¥ 3,544 |

| Thousands of U.S. dollars (Note 3) 2015 | | | | |
|---|---|---|---|---|
| Japan | Korea | Hong Kong | China | Total |
| $ 18,787 | $ 10,595 | $ 26 | $ — | $ 29,408 |

| Millions of yen 2014 | | | | |
|---|---|---|---|---|
| Japan | Korea | Hong Kong | China | Total |
| ¥ 2,813 | ¥ 1,418 | ¥ — | ¥ 3 | ¥ 4,235 |

(c) Information by major customers

Disclosures are omitted because no particular customer whose sales are over 10% of sales in the consolidated statements of income exists.

**Information of impairment loss on fixed assets by reported segments**

Disclosures are omitted because the information is disclosed in the reported segment information.

**Information of balance of goodwill and negative goodwill by reported segments**

Balance of goodwill is as follows:

| | Millions of yen 2015 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Apparel | | | | | | | | | |
| | Japan | Korea | Other abroad | Total | Producing and OEM | Distribution | Food and drink | Total | Adjustments | Consolidated |
| Balance | ¥ 61 | ¥ 4 | ¥ — | ¥ 65 | ¥ — | ¥ — | ¥ — | ¥ 65 | ¥ — | ¥ 65 |

| | Thousands of U.S. dollars (Note 3) 2015 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Apparel | | | | | | | | | |
| | Japan | Korea | Other abroad | Total | Producing and OEM | Distribution | Food and drink | Total | Adjustments | Consolidated |
| Balance | $ 509 | $ 35 | $ — | $ 544 | $ — | $ — | $ — | $ 544 | $ — | $ 544 |

| | Millions of yen 2014 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Apparel | | | | | | | | | |
| | Japan | Korea | Other abroad | Total | Producing and OEM | Distribution | Food and drink | Total | Adjustments | Consolidated |
| Balance | ¥ 79 | ¥ 6 | ¥ — | ¥ 86 | ¥ — | ¥ 4 | ¥ — | ¥ 90 | ¥ — | ¥ 90 |

Disclosures of goodwill amortization are omitted because the information is disclosed in the reported segment information.

**Negative goodwill incurred by reported segments**

No negative goodwill was incurred for both the years ended December 31, 2015 and 2014.

## 22. Per Share Information

The basis for the calculation of net income per share for the years ended December 31, 2015 and 2014 are as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2015 | 2014 | 2015 |
| Net income | ¥ 441 | ¥ 1,262 | $ 3,663 |
| Less: Components not pertaining to common shareholders | — | — | — |
| Net income pertaining to common stock | ¥ 441 | ¥ 1,262 | $ 3,663 |
| Average outstanding shares of common stock during the year (shares) | 38,176,979 | 38,210,835 | 38,176,979 |

The basis for the calculation of diluted net income per share is not disclosed because there were no potentially dilutive common shares that were outstanding for the years ended December 31, 2015 and 2014.

## 23. Supplemental Cash Flow Information

(1) Transferred assets and liabilities of Tory Burch business and La Perla business, transfer price and proceeds from the transfers are as follows:

| | Tory Burch business | | La Perla business | |
|---|---|---|---|---|
| | Millions of yen | Thousands of U.S. dollars (Note 3) | Millions of yen | Thousands of U.S. dollars (Note 3) |
| Current assets | ¥ 1,353 | $ 11,229 | ¥ 65 | $ 547 |
| Non-current assets | 472 | 3,922 | 40 | 336 |
| Current liabilities | (39) | (328) | — | — |
| Gain on business transfer | 321 | 2,663 | 7 | 62 |
| Transfer price of the business | 2,107 | 17,486 | 113 | 945 |
| Receivables | (13) | (114) | — | — |
| Proceeds from the transfers | ¥ 2,093 | $ 17,372 | ¥ 113 | $ 945 |

(2) Assets and liabilities of LAISSE PASSE CO., LTD., the newly consolidated subsidiary in 2014 by acquisition at the inception of consolidation, and net payment from the acquisition were as follows:

| | Millions of yen |
|---|---|
| Current assets | ¥ 1,110 |
| Non-current assets | 167 |
| Goodwill | 92 |
| Current liabilities | (920) |
| Non-current liabilities | (231) |
| Minority interests | (25) |
| Acquisition cost of stocks | 192 |
| Cash and cash equivalents held by acquired subsidiary | (481) |
| Net proceeds from acquisition of the subsidiary | ¥ 288 |

**24. Subsequent Event**

(1) On February 24, 2016, the Company, DENHAM GROUP B.V. and DENHAM THE JEANMAKER JAPAN agreed that the Company and DENHAM GROUP B.V. would jointly establish a new company and the newly established company would acquire the DENHAM THE JEANMAKER JAPAN business.

The overview is as follows:

(a) Purpose

To increase the DENHAM brand popularity and brand value in Japan and expand income by using the corporate power of the Company and DENHAM GROUP B.V.

(b) Acquiring business

Import, plan, produce and sales business of DENHAM brand clothes and accessories in Japan

(c) Acquiring assets and liabilities

A new company is scheduled to acquire mainly inventories and fixed assets. Assets and liabilities to be transferred have not been fixed yet at the time of preparation of the accompanying consolidated financial statements.

(d) Acquisition date

April 1, 2016

Followings are the overview of the newly established company

| | |
|---|---|
| (a) Name | DENHAM JAPAN INC. |
| (b) Address | Tokyo, Meguro-city |
| (c) Capital | ¥50 million ($415 thousand) |
| (d) The date of establishment | March 10, 2016 |
| (e) Acquired shares | 1,602 shares |
| (f) Acquired amount | ¥80 million ($665 thousand) |
| (g) Investment ratio | 80.1% |

(2) On March 22, 2016, the Board of Directors resolved the movement of the Osaka branch of the Company to aim the management efficiency enhancement.

The movement is scheduled to be in August 2016 and because the Company cannot reasonably estimate moving costs and restitution costs at the time of preparation of the accompanying consolidated financial statements.

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# Corporate Data

(As of December 31, 2015)

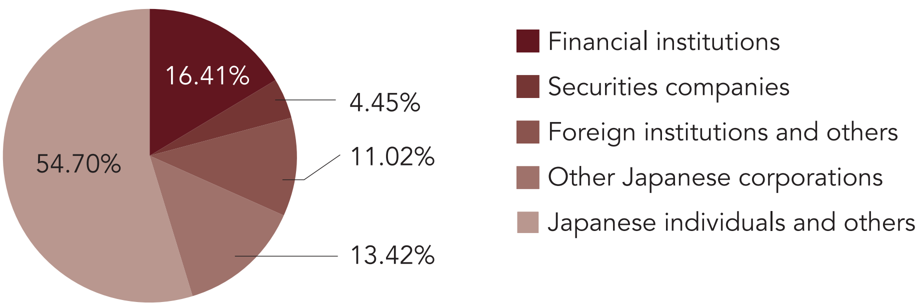
| | |
|---|---|
| Company Name | LOOK INCORPORATED |
| Date of Establishment | October 29, 1962 |
| Tokyo Head Office | 2-7-7 Nakameguro, Meguro-ku, Tokyo, Japan 153-8638<br>Tel: +81-3-3794-9100 |
| Paid-in Capital | 6,340.93 million yen |
| Major Business Activities | Planning, manufacturing, and sales of apparel merchandise |
| Number of Employees | 1,753 employees (Consolidated) |
| Common Stock | Authorized 120,000,000 shares<br>Issued 38,237,067 shares |
| Number of Shareholders | 5,219 |
| Stock Listing | Tokyo Stock Exchange, First Section |
| Fiscal Year-End | December |
| Main Financing Banks | Sumitomo Mitsui Banking Corporation<br>The Bank of Tokyo-Mitsubishi UFJ, LTD. |

## Major Shareholders

(As of December 31, 2015)

| Name | Number of shares held (Thousands) | Percentage of total outstanding shares |
|---|---|---|
| YAGI TSUSHO LIMITED | 3,105 | 8.13 |
| CBNY DFA INTL SMALL CAP VALUE PORTFOLIO | 815 | 2.13 |
| The Master Trust Bank of Japan, Ltd. (Trust account) | 784 | 2.05 |
| SUMITOMO LIFE INSURANCE COMPANY | 771 | 2.02 |
| Isetan Mitsukoshi Ltd. | 672 | 1.76 |
| Japan Trustee Services Bank, Ltd. (Trust account) | 664 | 1.74 |
| Sumitomo Mitsui Banking Corporation | 654 | 1.71 |
| GOLDMAN SACHS INTERNATIONAL | 590 | 1.55 |
| LOOK Board Members' Shareholding Association | 465 | 1.22 |
| UA ZENSEN LOOK UNION | 463 | 1.21 |

## Distribution of Ownership among Shareholders



## Directors, Operating Officers, and Auditors

(As of March 30, 2016)

| | | |
|---|---|---|
| Chairman and Representative Director | | Takehiko Maki |
| President and Representative Director | | Kazuhiro Tada |
| Senior Managing Director | | Sachio Kidokoro |
| Managing Director | | Eiji Takayama |
| Director | President of I.D. LOOK LTD. | Seung-Gon Cho |
| Director | | Kazuhiko Fukuchi |
| Director | | Yoichi Endo |
| Auditor (standing statutory auditor) | | Masatoshi Nagase |
| Auditor | | Toru Sugita |
| Auditor | | Shuichi Hattori |
| Operating Officer | General Manager of Osaka Branch | Shigeki Matsuo |
| Operating Officer | General Manager of SCAPA Division | Fumio Kikuya |
| Operating Officer | General Manager of Management Planning Department | Masaaki Saito |
| Operating Officer | General Manager of National Brand Division | Haruo Shibuya |
| Operating Officer | General Manager of Accounting & Finance Division | Masayuki Koyama |

## Consolidated Subsidiaries

(As of April 1, 2016)

**A.P.C. JAPAN LTD.**
2-7-7, Nakameguro, Meguro-ku,
Tokyo, Japan 153-8638
Tel: +81-3-6864-2603

**LOOK MODE INC.**
2-7-7, Nakameguro, Meguro-ku,
Tokyo, Japan 153-8638
Tel: +81-3-3794-9300

**I.D. JOY LTD.**
22, Gangnam-Daero, 136-gil,
Gang Nam-gu, Seoul, Korea
Tel: +82-70-7729-6008

**LAISSE PASSE CO., LTD.**
Créateur,
4-5, Motoyoyogi-cho, Shibuya-ku,
Tokyo, Japan 151-0062
Tel: +81-3-5790-7201

**L. LOGISTICS INC.**
2-3-1, Akanehama, Narashino-shi,
Chiba, Japan 275-0024
Tel: +81-47-455-2111

**LOOK (H.K.) LTD.**
Rm 2211-2212 Metro Centre Ⅱ
21 Lam Hing Street, Kowloon Bay,
Kowloon, Hong Kong
Tel: +852-2751-8773

**VERA BRADLEY STYLE LTD.**
2-7-7, Nakameguro, Meguro-ku,
Tokyo, Japan 153-8638
Tel: +81-3-3794-9322

**DENHAM JAPAN INC.**
3rd Floor, AK-1 Bldg., 1-15-1
Aobadai, Meguro-ku,
Tokyo, Japan 153-0042
Tel: +81-3-3496-1086

**LOOK CHINA CO., LTD.**
FL3, BLD4, No.1151 Lianxi Rd,
Pudong, Shanghai, China 200127
Tel: +86-21-5039-1533

**FFI INC.**
1F 2-5-1 Azabujuban, Minato-ku,
Tokyo, Japan 106-0045
Tel: +81-3-5772-3283

**I.D. LOOK LTD.**
580, Gangnam-Daero,
Gang Nam-gu, Seoul, Korea
Tel: +82-2-3438-9125