

To All Shareholders

1-3-5, Oji-cho, Fukuyama, Hiroshima

Aoyama Trading Co., Ltd.

President and Representative Director Osamu Aoyama

Notice of the Convocation of the 54th Ordinary General Meeting of Shareholders

Dear Shareholders:

We would like to take this opportunity to express our gratitude to all of our stakeholders for their patronage. Please be advised that the 54th Ordinary General Meeting of Shareholders of the Company will be held as described below and you are cordially requested to be present at this meeting.

If you are unable to attend the meeting, you may exercise your voting rights in writing or via the Internet. Please review the Reference Documents for General Meeting of Shareholders provided in a later section, and exercise your voting rights no later than Wednesday, June 27, 2018, 6:30 p.m. in accordance with the guidance presented in a later section.

- | | Description |
|---------------------------|---|
| 1. Date | June 28 (Thursday), 2018, at 10:00 a.m. |
| 2. Place | Meeting Room, 4th floor, Headquarters
Aoyama Trading Co., Ltd., 1-3-5, Oji-cho, Fukuyama, Hiroshima
(Please refer to the simplified map at the end of this document) |
| 3. Objects of the meeting | |
| Matters to be reported | <ol style="list-style-type: none">1. Report on the business report for the 54th term (from April 1, 2017 to March 31, 2018), the contents of the consolidated financial statements, and the results of audit of the consolidated financial statements by the account auditors and the Board of Corporate Auditors2. Report on the contents of the financial statements for the 54th fiscal year (from April 1, 2017 to March 31, 2018) |

Matters to be resolved

- | | |
|----------------|--|
| Proposal No. 1 | Appropriation of Retained Earnings |
| Proposal No. 2 | Partial Amendment to the Articles of Incorporation |
| Proposal No. 3 | Election of 1 Director |
| Proposal No. 4 | Determination of Amount of Post-delivery Type Stock Compensation for Directors |

4. Guidance on exercise of voting rights

(1) Exercising voting rights in writing

Please indicate your vote for or against the proposals on the enclosed Voting Rights Exercise Form and have it delivered to reach the Company no later than Wednesday, June 27, 2018, 6:30 p.m.

(2) Exercising voting rights via the Internet

To exercise your voting rights via the Internet, please read the “Guidance on exercise of voting rights via the Internet” on Page 3 through Page 4 and exercise those rights no later than Wednesday, June 27, 2018, 6:30 p.m.

(3) If you exercise your voting rights both in writing and via the Internet, the latter will be treated as being valid. If you exercise your voting rights via the Internet more than once, or both via personal computer and mobile phone, the latest vote will be treated as being valid.

End.

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- ⊙ When attending the meeting, please present the enclosed voting form to the receptionists at the meeting.
 - ⊙ Please note that if it becomes necessary to amend any matters related to the contents stated in the reference documents for the Ordinary General Meeting of Shareholders, Business Report, Consolidated Financial Statements, or Financial Statements, it will be presented on the Company's website at:
<http://www.aoyama-syouji.co.jp>

[Guidance on exercise of voting rights via the Internet]

If you intend to exercise your voting rights via the Internet, please consent to the followings in advance of doing so.

1. Website for exercising voting rights

You may exercise your voting rights only through the following voting rights exercise website designated by the Company.

Address of voting rights exercise website: <http://www.web54.net>

* This voting rights exercise website can be accessed using a bar code reading function-equipped mobile phone to read the QR Code® shown to the right.

For details of the usage method, please refer to the instruction manual of your mobile phone.

(QR Code is a registered trademark of Denso Wave Incorporated.)



2. Procedure for exercising voting rights

- (1) When exercising your voting rights via the Internet, please use the “Voting Rights Exercise Code” and “Password,” displayed on the Voting Rights Exercise Form enclosed, before voting for or against the proposals, in accordance with the guidance shown on the screen page.
- (2) The deadline for exercising voting rights is Wednesday, June 27, 2018, so you are kindly asked to exercise your voting rights at the earliest opportunity.
- (3) If you exercise your voting rights both in writing and via the Internet, the latter will be treated as being valid. If you exercise your voting rights via the Internet more than once, or both via personal computer and mobile phone, the latest vote will be treated as being valid.
- (4) Internet provider and telecom carrier fees (connection charge etc.) incurred for using the voting rights exercise website are borne by the shareholder.

3. Handling password and voting rights exercise code

- (1) Your password is important information with which to verify the identity of a voting shareholder, so please handle the password with care just as you would your official seal and personal identification number.
- (2) Your password is disabled if it is used erroneously more than a certain number of times. If you wish to be re-issued with a password, please follow the procedure described in the guidance shown on the screen page.
- (3) The voting rights exercise code shown on the Voting Rights Exercise Form is valid only for the General Meeting of Shareholders in question.

4. Contact point for inquiries on how to use your PC and other devices

- (1) If you have any questions or doubts about the operation of your PC or mobile phone to exercise voting rights via the voting rights exercise website, please contact the following for assistance:

Hotline for Stock Transfer Agency Web Support, Sumitomo Mitsui Trust Bank, Limited:

Telephone: 0120-652-031 (operating hours: 9:00 a.m. to 9:00 p.m., Japan Standard Time)

- (2) For any other inquiries, please contact the following for assistance:

A. Shareholder who has an account with a securities company:

Please contact the securities company with which you hold the account.

B. Shareholder who does not have an account with a securities company (shareholder with a special account)

Stock Transfer Agency Business Center, Sumitomo Mitsui Trust Bank, Limited

Telephone: 0120-782-031 (Operating hours: 9:00 a.m. to 5 p.m., Japan Standard Time, except for weekends and holidays)

5. Using the voting rights exercise platform (for institutional investors)

For this planned General Meeting of Shareholders, institutional investors may exercise their voting rights via the Internet using the Online Proxy Voting Platform operated by ICJ Incorporated.

Business Report

(From April 1, 2017
To March 31, 2018)

1. Matters concerning the situation of the Corporate Group

(1) Developments and results of business activities

During the consolidated fiscal year, the Japanese economy stayed on a gradual recovery path as seen in the improvement in corporate earnings and employment. However, the situation remained unclear due to concerns about the economies of Europe, the United States and emerging countries as well as rising geopolitical risk.

Under such circumstances, our Group implemented various measures to reinforce the profitability and competitiveness of Business wear business, and also enhanced the management base of the Group as well as its profitability.

(Unit: millions of yen)

	Net sales	Operating income	Ordinary income	Profit attributable to owners of the parent
Year ended March 2018	254,846	20,591	21,311	11,461
Year ended March 2017	252,777	20,210	21,084	11,568
Change year on year (%)	100.8	101.9	101.1	99.1

<Performance by business>

(Unit: millions of yen)

	Net sales				Segment income (Operating income)			
	The 54 th fiscal year (The current fiscal year) From April 1, 2017 to March 31, 2018	The 53 rd fiscal year (The current fiscal year) From April 1, 2016 to March 31, 2017	Amount of increase or decrease	Change year on year (%)	The 54 th fiscal year (The current fiscal year) From April 1, 2017 to March 31, 2018	The 53 rd fiscal year (The current fiscal year) From April 1, 2016 to March 31, 2017	Amount of increase or decrease	Change year on year (%)
Business wear business	188,728	188,426	301	100.2	19,064	19,464	-400	97.9
Casual wear business	15,145	16,684	-1,539	90.8	-840	-1,556	715	—
Credit card business	4,905	4,554	351	107.7	1,857	1,329	527	139.7
Printing and media business	11,602	11,430	171	101.5	281	279	1	100.7
Sundry sales business	15,939	15,822	117	100.7	639	602	37	106.1
Total repair business service	12,525	11,815	710	106.0	-506	163	-669	—
Others	9,972	7,754	2,217	128.6	22	-79	102	—
Adjustments	-3,973	-3,710	-262	—	72	6	65	—
Total	254,846	252,777	2,068	100.8	20,591	20,210	381	101.9

(Notes) 1. Amounts are rounded down to the nearest million yen.

2. Net sales by segment and segment income or loss (-) (operating income or loss(-)) are before eliminating inter-segment transactions.

3. Amounts under “adjustments” indicate transactions within the Group.

4. From the first quarter of the consolidated fiscal year under review, Aoyama Suits (Shanghai) Co., Ltd. and Shanghai Fukuryo Industry and Trade Co., Ltd., a subsidiary of Fukuryo Co., Ltd., have been included in the Business Wear business.

Net sales were 254,846 million yen, an increase of 2,068 million yen compared with the previous consolidated fiscal year.

This was mainly because of the aggressive store development for glob Co., Ltd., operates franchises such as Yakiniku King and Yuzu an run by The Monogatari GEO CORPORATION.

Gross profit was 141,691 million yen, an increase of 1,272 million yen compared to the previous consolidated fiscal year.

Same as reason of net sales, this was mainly because of the inclusion of sales by glob Co., Ltd., etc.

Operating income was 20,591 million yen, a increase of 381 million yen compared with the previous consolidated fiscal year.

This was mainly because while increased of expenses for business wear business and total repair service business, decreased degree of deficit for casual wear business and increased the operating income for the credit card business.

Ordinary income was 21,311 million yen, an increase of 227 million yen compared to the previous consolidated fiscal year.

This was mainly because the operating income increased compared to the previous consolidated fiscal year.

Regarding extraordinary income and loss, our Group recorded a loss on sales and retirement of non-current assets of 395 million yen and an impairment loss of 2,559 million yen as an extraordinary loss.

For these reasons, profit attributable to owners of parent for the current fiscal year stood at 11,461 million yen, a decrease of 106 million yen compared to the previous consolidated fiscal year.

(2) Situation by business

<Business wear business >

[Business wear business of Aoyama Trading Co., Ltd., Blue Rivers Co., Ltd., MDS Co., Ltd., Eisho Co., Ltd. and FUKURYO Co., Ltd., Aoyama Suits (Shanghai) Co., Ltd.]

Net sales of the business were 188,728 million yen (100.2 % of that of the previous year) and segment income (operating income) was 19,064 million yen (97.9 % of that of the previous year).

Regarding the Business Wear business of Aoyama Trading Co., Ltd., which is our core business, we opened 16 stores of “Yofuku-no-Aoyama” (including 5 relocated stores), 10 stores of “The Suit Company” (including 7 rebranded stores, of which 1 store was “Yofuku-no-Aoyama,” 5 stores were “Next Blue,” and 1 store was “Universal Language”), and 2 stores of “White The Suit Company,” a specialty store for womenswear, as we engaged in a steady store opening activities. On the marketing front, we asked Mr. Troy James, a Canadian performer, to appear in our new TV commercial for “Yofuku-no-Aoyama,” in which he emphasized the stretchability of the suit through surprising moves to stress the suit’s functionality. Furthermore, we also opened an official account on Line and Instagram and launched a sales campaign on the web through YouTube, etc. to increase new customers. In the product area, we enhanced our lineup of highly functional products such as leather shoes that are easy to run in, which feature tire technology of Bridgestone, and light walking shoes that adopt an insole developed by an educational-industrial complex to lead to correct walking.

For womenswear, we enhanced the product lineup by increasing the variation and size of clothes to suit each occasion and age, such as formal wear for married women. As a result, sales in this category performed favorably.

However, due to a decline in the number of customers, sales from existing stores were 97.5% of the previous year.

The number of men’s suits sold, our mainstay, was 2,126 thousand suits or 96.8% of that of the previous year, and the average sales unit price was 27,298 yen or 99.3% of that of the previous year.

For the opening and closing of stores, please refer to the description below.

<Number of stores opened and closed and stores at the end of the year of the business wear business by each business format (As of the end of March 2018)>
(Unit:store(s))

Name of business format	Aoyama Trading Co., Ltd. Business Wear Business								Aoyama Suits (Shanghai) Co., Ltd.
	Yofuku-no-Aoyama	NEXT BLUE	The Suit Company	Universal Language	Blue Grigio	Universal Language MEASURE'S	White The Suit Company	Total	Yofuku-no-Aoyama
Stores opened [Of which, relocated] (From April to March)	16[5]	0	10	0	0	0	2	28 [5]	6

Stores closed (From April to March)	4	8	1	1	1	1	0	16	4
Number of stores at the end of the year (At the end of March)	812	0	58	13	0	3	10	896	24

- (Notes) 1. Numbers under “The Suit Company” include the number of “TSC SPA OUTLET” formats and the numbers under “Universal Language” include “UL OUTLET” formats.
2. Of the 10 newly opened stores of “The Suit Company,” 7 are rebranded stores from another brand (“Yofuku-no-Aoyama” 1 store, “Next Blue” 5 stores, and “Universal Language” 1 store).
3. The “Next Blue” and “Blue Grigio” brands have been eliminated due to store closing as mentioned above.
4. Number of store openings and closings of Aoyama Suits (Shanghai) Co., Ltd. is the number recorded during the period from January to December 2017, and the number of stores at the end of year is as of the end of December 2017.

<Casual wear business> [Casual wear business of Aoyama Trading Co., Ltd. and Eagle Retailing Corporation]

In the Casual wear business, due mainly to the sluggish market of American-style casual wear, net sales were 15,145 million yen (90.8% of that of the previous year) and segment loss (operating loss) was 840 million yen (in the previous year, segment loss (operating loss) was 1,556 million yen).

Stores opened and closed as described below.

<Number of stores opened and closed and stores at the end of the year of the casual wear business by each business format (As of the end of March 2018)>

(Unit: store(s))

Name of business format	Casual wear business of Aoyama Trading Co., Ltd.		Eagle Retailing Corporation
	CALAJA	LEVY'S STORE	American Eagle Outfitters
Stores opened (From April to March)	0	0	0
Stores closed (From April to March)	3	0	0
Number of stores at the end of the year (At the end of March)	6	9	34

(Note) The figures for "American Eagle Outfitters" include the number of outlet stores.

<Credit card business> [Aoyama Capital Co., Ltd.]

We are developing this business for the main purpose of supporting efficient sales promotions in the business wear business. We expanded the financial service business with a focus on increasing "AOYAMA Card" memberships, and the number of effective members as of the end of February 2018 came to 4.14 million persons (an increase of 70,000 members compared with the previous fiscal year).

In the Credit card business, due to an increase in shopping transaction volume, net sales were 4,905 million yen (107.7 % of the previous year) and segment income (operating income) was 1,857 million yen (139.7 % of the previous year). Funds were acquired through loans from the parent company, Aoyama Trading Co., Ltd., and through the issuance of corporate bonds.

<Printing and media business> [ASCON Co., Ltd.]

In the Printing and media business, net sales totaled 11,602 million yen (101.5% of the previous year) and segment income (operating income) was 281 million yen (100.7% of the previous year).

<Sundry sales Business> [Seigo Co., Ltd.]

This business operates Daiso & Aoyama 100 Yen Plaza stores by using shuttered stores of Yofuku-no-Aoyama and CALAJA, and through establishing stores next to Yofuku-no-Aoyama stores with the aim of creating synergistic effect.

In the Sundry sales business, net sales were 15,939 million yen (100.7% of the previous year) and segment income (operating income) was 639 million yen (106.1% of the previous year) due to an increase in the line of expensive products (150~500 yen).

Regarding stores, the number of stores at the end of February 2018 was 118 (117 stores at the end of the previous year).

<Total repair service business> [Minit Asia Pacific Co., Ltd.]

In the total repair service business, net sales were 12,525 million yen (106.0% of the previous year) due to store opening, etc., but segment loss (operating loss) came in at 506 million yen (segment income (operating income) of 163 million yen was posted in the previous fiscal year) mainly due to prior investment for business expansion (diversification of service and accelerated store opening).

Stores opened and closed as described below.

<Number of stores opened and closed and stores at the end of the year of the Total repair service business by each business format (As of the end of March 2018)>

(Unit: store)

Name of business format	Mister Minit			
	Japan	Oceania	Others	Total
Stores opened (From April to March)	29	12	6	47
Stores closed (From April to March)	18	3	1	22
Number of stores at the end of the year (At the end of March)	310	276	37	623

(Note) Oceania includes Australia and Newzealand, and Others includes Singapore and Malaysia and China.

<Others> [Reuse business of Aoyama Trading Co., Ltd., glob Co., Ltd. and WTW Corporation]

In Other business, opened 1 new store of “2nd STREET”, 4 new stores of “Yakiniku king”, 2 new stores of “Yuzu An” and 1 new store of “WTW”, net sales were 9,972 million yen (128.6% of that of the previous year) and segment income (operating income) was 22 million yen (in the previous year, it was 79 million yen as segment loss (operating loss)).

Stores opened and closed are as described below.

<Number of stores opened and closed and stores at the end of the year of other business
by business format (As of the end of March 2018)>
(unit : stores)

Name of business format	Reuse business of Aoyama Trading Co., Ltd.		glob Co., Ltd.		WTW Corporation	
	2nd STREET	JUMBLE STORE	Yakiniku King	Yuzuan	WTW	WTW SURFCLUB
Stores opened (From April to March)	1	0	4	2	1	0
Stores closed (From April to March)	0	0	0	0	0	0
Number of stores at the end of the year (At the end of March)	11	2	28	11	5	1

(3) State of capital investment

The total amount of capital investments in major businesses during the current consolidated fiscal year came to 8,547 million yen.

The total amount of capital investments in the business wear business was 5,759 million yen, which was mainly for investments made in line with the opening of new stores and relocation of existing stores, etc.

The total amount of capital investments in the casual wear retail business came to 31 million yen, which was mainly for repairing existing stores, etc.

The total amount of capital investments in the credit card business was 56 million yen, which was mainly for investments made in systems related to credit card operations.

The total amount of capital investments in the printing and media business was 224 million yen, which was mainly for the expansion of production systems.

The total amount of capital investments in the sundry sales business was 167 million yen, which was mainly for repairing existing stores, etc.

The total amount of capital investments in the total repair service business was 1,160 million yen, which was mainly for Mister Minit's new store openings etc.

The total amount of capital investments in other businesses came to 1,150 million yen, which was mainly for the opening of new stores of 2nd STREET, Yakiniku King, and Yuzuan.

Stores newly open, relocated, etc. during the current consolidated fiscal year were as described below.

[1] <The Business wear business>

<<Stores newly opened>>

Area	Number of stores	Name of store
Kanto region	12	Ario kawaguchi store, Aeonmall Kasukabe store(change NB to TSC), Mallage Shobu store(change NB to TSC), Tokyu Plaza Kamata store, Shimachu Homes Senkawa store, Fuchu Le signe store(TSC), Tamachi Nishiguchi store(change Aoyama to TSC), Itoyokado Tsunashima store, Itoyokado Tsurumi store, Lala Terrace Musashikosugi store(change NB to TSC), Yokohama Joinus store(WHITE TSC), Lazona Kawasaki store(change UL to TSC)
Chubu region	2	Yoshizuya Tsushima store, Matsuzaka store
Kinki region	4	Yodobashi Umeda store, Lalaport Izumi store(change NB to TSC), Itoyokado Akashi store, Nishinomiya Gardens store(WHITE TSC)
Chugoku region	2	Aeonmall Kurashiki store(TSC), Seamall Shimonoseki store
Shikoku region	1	Emifull Masaki store(change NB to TSC)
Kyushu region	2	Kumamoto Shimotori store, COCOSA Kumamoto store(TSC)
Japan Total	23	—
China Total	6	Store names are omitted.
Total	29	—

<<Stores relocated>>

Area	Number of stores	Name of store
Tohoku region	1	Sendai Asutonagamachi store
Chubu region	2	Owariasahi store, Tsu Lut's store
Kinki region	2	Shinotsueta store, Shinimazato store
Total	5	—

<<Stores closed>>

Area	Number of stores	Name of store
Tohoku region	1	Fukushimaharamachi store
Kanto region	9	Itado store, Aeonmall Kasukabe store(change NB to TSC), Mallage Shobu store(change NB to TSC), Tamachi Nishiguchi store(change Aoyama to TSC), Yodobashi Kichijoji store(NB), Shibuya Miyashitako store(TSC), Shibuya Jinnan store(UL MEASURE'S), Lala Terrace Musashikosugi store(change NB to TSC), Lazona Kawasaki store(change UL to TSC)
Chubu region	1	Aeon Ngoyayagoto store(NB)

Kinki region	3	Higashiosaka Hyotanyama store(NB), Lalaport Izumi store(change NB to TSC), Umeda store(BG)
Chugoku region	1	Aeon Matsue(NB)
Shikoku region	1	Emifull Masaki store(change NB to TSC)
Japan Total	16	—
China Total	4	Store names are omitted.
Total	20	—

(Notes) 1. Stores having no parentheses after the names are “Yofuku-no-Aoyama” stores.

2. Name of business format

NB : Next Blue

TSC : The Suit Company

UL : Universal Language

BG : Blue Grigio

UL MEASURE'S: Universal Language Measure's

WHITE TSC : White The Suit Company

[2] <Casual wear business>

<< Stores closed >>

Area	Number of stores	Name of store
Chubu region	1	Toyama store(CALAJA)
Kinki region	2	Wakayama Tanabe store(CALAJA), Takarazuka store(CALAJA)
Total	3	—

[3] <Sundry sales business>

<< Stores newly opened >>

Area	Number of stores	Name of store
Kanto region	1	Itado store
Kyusyu region	1	Okinawayokatsu store
Total	2	—

<<Stores closed>>

Area	Number of stores	Name of store
Hokkaido region	1	Fukagawa store
Total	1	—

[4] **Total repair service business**

Area	Mister Minit					
	< New stores opened >			<Stores closed>		
	Number of stores			Number of stores		
	Total	Directly-managed stores	FC stores	Total	Directly-managed stores	FC stores
Japan	29	29	0	18	10	8
Oceania	12	5	7	3	0	3
Others	6	6	0	1	1	0
Total	47	40	7	22	11	11

- (Notes) 1. Oceania includes Australia and Newzealand, and Others includes Singapore and Malaysia and China.
2. The names of stores are omitted.
3. There are 26 stores in total which changed from directly-managed stores to FC stores (3 stores in Japan, 17 stores in Oceania, 6 stores in Others).

[5] **<Others>**

<<Stores newly opened>>

Area	Reuse business		Restaurant business		WTW	
	Number of stores	Name of store	Number of stores	Name of store	Number of stores	Name of store
Hokkaido region			1	Hakodatemihara store(Yuzu an)		
Chubu region					1	NAGOYA store
Kinki region	1	Himejitobori store(2 nd street)	1	Kobekotabayama store(Yuzu an)		
Chugoku region			2	Fukuyamaojicho store(Yakiniku king), Hiroshimaujina store(Yakiniku king)		
Shikoku region			1	Tokushimaokinohama store (Yakiniku king)		
Kyushu region			1	Nahakumoji store(Yakiniku king)		
Total	1	—	6	—	1	—

(4) State of procurement of funds

No corresponding item existed.

(5) Status of Business segment transfers, absorption-type splits, and incorporation-type splits

No corresponding item existed.

(6) Status of business segments transferred from other companies

No corresponding item existed.

(7) State of succession of rights and obligations in relation to business of other corporations, etc. as a result of absorption-type mergers or splits

No corresponding item existed.

(8) Status of acquisition or disposal of other company's shares, interests or share subscription rights

No corresponding item existed.

(9) Issues to be addressed

The Aoyama Group's operating environment has been undergoing numerous structural changes, as characterized by a decline in the working-age population, a shrinking suit market due to a trend to a more casual office fashion triggered by the Cool Biz campaign, etc., and changing consumer behavior toward customization, showrooming, and sharing. These changes have had a significant impact on the business wear business, which is at the core of the Group's operations. Working in this harsh operating environment, the Aoyama Group believes that reforming the business wear business, its core business, and creating next-generation businesses are crucial to sustaining growth as a company trusted by customers.

Against this backdrop, the Group formulated its medium-term management plan, "CHALLENGE II 2020", focusing on the vision the Group wants to realize 10 years from now. Over the next ten years, we aim to achieve total Group sales of 400 billion yen and have our core business account for only 60% of our total operations in a transition that will make us less dependent on a single business. Our latest medium-term management plan, "CHALLENGE II 2020", will enable us to build a foundation over the next three years as we work toward these goals. We plan to achieve 300 billion yen in net sales, 25 billion yen in operating income, and a return on equity (ROE) of 6.3% (excluding goodwill is 7%), all on a consolidated basis, by FY 2020, the final year of the plan.

During the period of the medium-term management plan, we will pay dividends to shareholders and buy back our shares with the aim of achieving a consolidated total payout ratio of 100%.

Although the business environment is expected to continue to change in the future as well, we intend to create a new growth track by taking advantage of the Aoyama Group's strengths by striving for steady growth for the vision the the Group wants to realize 10 years from now. By doing so, we intend to continue contributing to our customers, shareholders, business counterparties, employees, and local communities.

We do appreciate our shareholders' further understanding and support.

<<Reference>>

1. Key Strategies under the "CHALLENGE II 2020" Medium-term Business Plan

- (1) Reform the core business and take on new challenges
 - [1] Expand corporate sales and develop an organizational structure: shift from internal to external
 - [2] Accelerate efforts to digitize EC, sales promotions, store operations, etc.
 - [3] Make a full-scale entry into the uniform market
 - [4] Implement measures targeting people in their 20s and 30s, as well as stores in rural areas, and enhance merchandising
- (2) Create and grow next-generation businesses
 - [1] Expand the total repair service business (new store launches and M&As)
 - [2] Effectively use store assets across Japan
 - [3] Create new businesses (leverage customer bases to create synergies, work on out-of-the-box initiatives)
- (3) Develop infrastructure to improve productivity
 - [1] Maintain the new personnel system: improve motivation
 - [2] Aggressively invest in IT innovations

- (4) Work on ESG initiatives
 - [1] Environmental initiatives
 - [2] Personnel and social initiatives
 - [3] Governance enhancement

2. Medium-term Business Targets (Fiscal Year Ending March 2021)

	2017 estimate	2020 target	Difference
Consolidate net sales	254.8 billion yen	300 billion yen	+45.1 billion yen
Consolidated operating income	20.5 billion yen	25 billion yen	+4.4 billion yen
ROE (excluding goodwill)	5.0% (5.5%)	6.3% (7.0%)	+1.3p (+1.5p)

3. Dividend Policy

During the “CHALLENGE II 2020” period (FY 2018 - FY 2020), we will pay dividends to shareholders and buy back our shares with the aim of achieving a consolidated total payout ratio of 100%.

Dividends will be paid at a payout ratio of 70% of consolidated net income. More specifically, we will maintain a steady dividend payout of 100 yen. If the dividend amount calculated at the payout ratio of 70% is greater than 100 yen, the difference will be paid at the end of the fiscal year as a special performance-linked dividend.

We will buy back our shares valued at an amount equal to consolidated net income minus the total amount of dividends described above.

(10) Financial position and results of operations

[1] Financial position and results of operations of the Corporate Group (Unit: millions of yen)

By fiscal year Classification	51 st term (Fiscal year ended March 2015)	52 nd term (Fiscal year ended March 2016)	53 rd term (Fiscal year ended March 2017)	54 th term (The current consolidated fiscal year) (Fiscal year ended March 2018)
Net sales	221,712	240,224	252,777	254,846
Operating income	19,028	21,336	20,210	20,591
Ordinary income	21,683	21,639	21,084	21,311
Profit attributable to owners of parent	12,807	11,869	11,568	11,461
Net income per share	221.55	218.6	220.6	224.81
Total assets	350,752	399,651	391,369	397,381
Net assets	238,069	236,723	233,666	230,518

(Notes) 1. Amounts are rounded down to the nearest million yen.

2. Net sales per share is calculated based on the average number of shares during the term.

51st term

Because of a backlash from the rush of demand before the consumption tax hike, sales and profit decreased.

52nd term

Since Minit Asia Pacific Co., Ltd. became our wholly-owned subsidiary etc., we hit higher sales. However, since we recorded a gain on the valuation of derivatives and gain on sales of investment securities in previous fiscal year, sales profit decreased.

53rd term

Since Minit Asia Pacific Co., Ltd. became our wholly-owned subsidiary etc., we hit higher sales. However, since a poor business performance of “American Eagle Outfitters”, sales profit decreased.

54th term (the current consolidated fiscal year)

The performance for the 54th term is as described in “(1) Developments and results of business activities of 1. Matters concerning the situation of the Corporate Group.”

[2] Financial position and results of operations of the Company

(Unit: millions of yen)

By fiscal year Classification	51 st term (Fiscal year ended March 2015)	52 nd term (Fiscal year ended March 2016)	53 rd term (Fiscal year ended March 2017)	54 th term (The current fiscal year) (Fiscal year ended March 2018)
Net sales	181,480	189,700	189,650	188,853
Operating income	17,101	19,196	18,711	18,260
Ordinary income	20,089	20,087	19,798	18,578
Net income	12,249	11,513	8,665	11,438
Net income per share	211.89	211.52	164.84	224.35
Total assets	298,037	338,739	327,589	328,443
Net assets	227,524	226,512	220,502	219,001

(Notes) 1. Amounts are rounded down to the nearest million yen.

2. Net sales per share are calculated based on average number of shares during the term.

(11) Principal Parent Company and Subsidiaries (As of March 31, 2018)

- [1] Relationships with the parent company
No corresponding item existed.

- [2] State of principal subsidiaries

(Unit: millions of yen, %)

Name of company	Capital	Investment ratio of the Company	Major business descriptions
Aoyama Capital Co., Ltd.	5,000	100.0	Credit card business
MDS Co., Ltd.	50	100.0	Planning and procurement of displays
Eisho Co., Ltd.	40	100.0	Planning and procurement of sales supplies, etc.
glob Co., Ltd.	10	100.0	Development of restaurant businesses
FUKURYO Co., Ltd.	303	100.0	Production of suits, etc.
Minit Asia Pacific Co., Ltd.	100	100.0	Provision of comprehensive repair services to consumers in Japan including shoe repairs and key duplication
Minit Oceania and S.E.A. Pte. Ltd.	51,327,000 SG\$	100.0 (100.0)	Regional headquarter of "Mister Minit" in Oceania and Southeast Asia.
Minit Australia Pty Limited	11,369,000 AS\$	100.0 (100.0)	Provision of comprehensive repair services to consumers in Australia including shoe repairs and key duplication
Minit New Zealand Limited	50,000 NZ\$	100.0 (100.0)	Provision of comprehensive repair services to consumers in New Zealand including shoe repairs and key duplication
Mister Minit (Singapore) Pte. Ltd.	905,000 SG\$	100.0 (100.0)	Provision of comprehensive repair services to consumers in Southeast Asian countries including shoe repairs and key duplication
Eagle Retailing Corporation	100	90.0	Sales of casual clothing items
Ascon Co., Ltd.	720	56.1	Planning and production of commercial printings
Blue Rivers Co., Ltd.	10	100.0	Sewing and processing business
Seigo Co., Ltd.	200	40.0 [25.0]	Development of 100-yen shops
Shanghai Fukuryo Fashion Garment Co., Ltd.	23,477,000 yuan	100.0 (100.0)	Undertaking of production of suits, etc.
Shanghai Fukuryo International Trading Co., Ltd.	1,156,000 yuan	100.0 (100.0)	Supervision of cooperating factories for suits, etc.
PT. FUKURYO INDONESIA	76,840 million rupiah	90.0 (90.0)	Production of suits, etc.
WTW Corporation	10	100.0	Sales of sundry and interior decor shops
Aoyama Suits (Shanghai) Co., Ltd.	30,000 thousand yuan	100.0	Sales of businesswear across China

- (Notes) 1. The figure in parentheses under "Investment ratio of the Company" indicates the indirect investment ratio and is included in the investment ratio.
2. The figure in square brackets under "Investment ratio of the Company" indicates the ownership ratio of close parties, etc. and is excluded from the investment ratio.

(12) Major descriptions of business (As of March 31, 2018)

The Group consists of the Company, its 25 consolidated subsidiaries and 4 non-consolidated subsidiaries, and conducts business wear business, casual wear business, credit card business, printing and media business, sundry sales business, and Total repair business service and in addition to these 6 businesses, it conducts reuse business and restaurant business etc.

(13) Major sales offices and factories (As of March 31, 2018)**[1] Major business offices of the Company**

Name	Address
Principal office	1-3-5, Oji-cho, Fukuyama, Hiroshima
Tokyo Headquarters	TSC TOWER 7F, 4-5-10, Ueno, Taito-ku, Tokyo
TSC Sales Department	Shibuya Heiwa Bldg. 6F, 21-8, Udagawa-cho, Shibuya-ku, Tokyo
Stores	919 stores across Japan (889 stores for the business wear business and 30 stores for casual wear and reuse businesses)
Kannabe Product Center	1727-1, Fukami, Aza, Nishi Chujo, Oaza, Kannabe-cho, Fukuyama-shi, Hiroshima Prefecture
Ibara Product Center	1345-2, Oe-cho, Ibara-shi, Okayama Prefecture
Tagawa Product Center	2423-4, Ida, Oaza, Tagawa-shi, Fukuoka Prefecture
Chiba Center	32-22, Shin Minato, Mihama-ku, Chiba-shi, Chiba Prefecture

[2] Stores of the business wear business

(Unit: store(s))

By fiscal year Area	Number of stores as of the end of March 2017	Number of stores as of the end of March 2018	Aoyama Trading Co., Ltd. Business Wear Business					Aoyama Suits (Shanghai) Co., Ltd.
			Yofuku -no- Aoyama	T S C	U L	U MEASURE'S	WHITE T S C	Yofuku -no- Aoyama
Hokkaido region	36	36	34	1	1			—
Tohoku region	62	61	60	1				—
Kanto region	303	306	260	32	8	1	5	—
Chubu region	147	147	143	4				—
Kinki region	163	165	144	11	4	2	4	—
Chugoku region	54	55	50	5				—
Shikoku region	27	27	26	1				—
Kyushu region	97	99	95	3			1	—
Japan total	889	896	812	58	13	3	10	—
China total	—	24	—	—	—	—	—	24
Total	889	920	812	58	13	3	8	24

(Notes) 1. Name of business format

TSC : The Suit Company

UL : Universal Language

UL MEASURE'S : Universal Language Measure's

WHITE TSC : White The Suit Company

2. The number of stores of “The Suit Company” includes that of “TSC SPA OUTLET,” while the number of stores of “Universal Language” includes that of “UL OUTLET.”

3. The number of stores at the end of fiscal year of “Aoyama Suits (Shanghai) Co., Ltd.” is at December 31, 2017.

[3] Stores of the casual wear business

(Unit: store(s))

By fiscal year Area	Number of stores as of the end of March 2017	Number of stores as of the end of March 2018	CALAJA	Levi's store	American Eagle Outfitters
Hokkaido region	1	1			1
Tohoku region					
Kanto region	17	17		2	15
Chubu region	10	9	3	1	5
Kinki region	17	15		5	10
Chugoku region	5	5	3	1	1
Shikoku region	1	1			1
Kyushu region	1	1			1
Total	52	49	6	9	34

(Note) The number of stores of “American Eagle Outfitters” includes outlet stores.

[4] Stores of the Sundry sales business

(Unit: store(s))

By fiscal year Area	Daiso & Aoyama 100 Yen Plaza	
	Number of stores as of the end of February 2017	Number of stores as of the end of February 2018
Hokkaido region	15	14
Tohoku region	10	10
Kanto region	15	16
Chubu region	14	14
Kinki region	10	10
Chugoku region	16	16
Shikoku region	7	7
Kyushu region	30	31
Total	117	118

[5] Stores of the total repair service business

(Unit: store(s))

By fiscal year Area	MISTER MINIT	
	Number of stores as of the end of March 2017	Number of stores as of the end of March 2018
Hokkaido region	6	6
Tohoku region	6	7
Kanto region	182	189
Chubu region	22	23
Kinki region	44	44
Chugoku region	16	17
Shikoku region	3	3
Kyushu region	20	21
Japan total	299	310
Oceania	267	276
Others	32	37
Overseas total	299	313
Total	598	623

(Notes) 1. Oceania includes Australia and Newzealand, and Others includes Singapore and Malaysia and China.

2. The number of stores includes the following FC stores:

End of March 2017 324 stores (72 stores in Japan, 242 stores in Oceania and 10 stores in Others)

End of March 2018 336stores (65 stores in Japan, 255 stores in Oceania and 16 stores in Others)

[6] Stores of other businesses

(unit :store(s))

By fiscal year Area	Reuse business			
	Number of stores as of the end of March 2017	Number of stores as of the end of March 2018	2nd STREET	JUMBLE STORE
Hokkaido region				
Tohoku region				
Kanto region	1	1		1
Chubu region	3	3	3	
Kinki region	3	4	3	1
Chugoku region	2	2	2	
Shikoku region	1	1	1	
Kyushu region	2	2	2	
Total	12	13	11	2

(unit :store(s))

By fiscal year Area	Restaurant businesses			
	Number of stores as of the end of March 2017	Number of stores as of the end of March 2018	Yakiniku King	Yuzuan
Hokkaido region	1	2	1	1
Tohoku region	2	2	2	
Kanto region	2	2	1	1
Chubu region	16	16	8	8
Kinki region		1		1
Chugoku region	2	4	4	
Shikoku region	2	3	3	
Kyushu region	8	9	9	
Total	33	39	28	11

(unit :store(s))

By fiscal year Area	WTW			
	Number of stores as of the end of March 2017	Number of stores as of the end of March 2018	WTW	WTW SURFCLUB
Hokkaido region				
Tohoku region				
Kanto region	3	3	2	1
Chubu region		1	1	
Kinki region	2	2	2	
Chugoku region				
Shikoku region				
Kyushu region				
Total	5	6	5	1

[7] Major business offices and factories of subsidiaries

Company name	Name	Address
Aoyama Capital Co., Ltd.	Principal office	8-14, Funa-machi, Fukuyama-shi, Hiroshima Prefecture
	Sales office	Tokyo sales office (Chiyoda-ku, Tokyo)
MDS Co., Ltd.	Principal office	1345-1, Oe-cho, Ibara-shi, Okayama Prefecture
Eisho Co., Ltd.	Principal office	1345-1, Oe-cho, Ibara-shi, Okayama Prefecture
Ascon Co., Ltd.	Principal office	1-15-27, Minato-machi, Fukuyama-shi, Hiroshima Prefecture
	Branch office	Tokyo branch (Chuo-ku, Tokyo), Osaka branch (Kita-ku, Osaka-shi), and Kyushu branch (Hakata-ku, Fukuoka-shi)
Blue Rivers Co., Ltd.	Principal office	2-14-38, Oji-cho, Fukuyama-shi, Hiroshima Prefecture
Seigo Co., Ltd.	Principal office	2-14-38, Oji-cho, Fukuyama-shi, Hiroshima Prefecture
	Sales office	118 stores across Japan
Eagle Retailing Corporation	Principal office	7 th floor, Harajuku Sophia Bldg., 6-10-11, Jingu-mae, Shibuya-ku, Tokyo
	Sales office	39 stores across Japan
glob Co., Ltd.	Principal office	1-3-5, Oji-cho, Fukuyama-shi, Hiroshima Prefecture
	Sales office	33 stores across Japan
FUKURYO Co., Ltd.	Principal office	1-74, Issha, Meito-ku, Nagoya-shi, Aichi Prefecture
	Distribution center	Moriyama Distribution Center (Moriyama-ku, Nagoya-shi, Aichi Prefecture)
Shanghai Fukuryo Fashion Garment Co., Ltd.	Principal office and factory	Shanghai City, China
Shanghai Fukuryo International Trading Co., Ltd.	Principal office and factory	Shanghai City, China
PT. FUKURYO INDONESIA	Principal office and factory	Semarang Regency, Central Java, Indonesia
Minit Asia Pacific Co., Ltd.	Principal office	2 nd floor, Yanahashi First Bld., 2-19-6, Yanagibashi, Daito-ku, Tokyo
	Distribution center	705-4, Komakado, Gotenba-shi, Shizuoka
Minit Oceania and S.E.A. Pte. Ltd.	Principal office	16 New Industrial Road, #02-04, Hudson Technocentre, Singapore 536204
Minit Australia Pty Limited	Principal office	90-96 Bath Road, Kirrawee NSW Australia 2232
Minit New Zealand Limited	Principal office	90-96 Bath Road, Kirrawee NSW Australia 2232

Company name	Name	Address
Mister Minit (Singapore) Pte. Ltd.	Principal office	16 New Industrial Road, #02-04, Hudson Technocentre, Singapore 536204
WTW Corporation	Principal office	4 th floor, Gaea Ebisu Bld., 2-20-2, Ebisuminami, Shibuya-ku, Tokyo
	Sales office	6 stores (Minato-ku, Tokyo, Setagaya-ku, Tokyo, Shibuya-ku, Nagoya, Nakamura-ku, Tokyo, Nishi-ku, Osaka-shi, Chuo-ku, Kobe-shi)
Aoyama Suits (Shanghai) Co., Ltd.	Principal office	Shanghai City, China
	Sales office	24 stores across China (Shanghai city 11stores, Hangzhou city 4stores, other 9 stores)

(14) State of employees (As of the end of March 2018)

[1] State of employees of the Corporate Group

Number of employees	As of the end of the previous consolidated fiscal year
7,908 people (3,719 people)	7,527 people (3,740 people)

- (Notes) 1. The number of employees is the number of workers.
2. The figure in parentheses in the column for number of employees is the number of temporary employees counted based on 8 hours per day per person and is not included in the number of employees.

[2] State of employees of the Company

Number of employees	Increase or decrease from the end of the previous term	Average age	Average years of service
4,027 people	Increase of 138 people	35.1 years old	12.1 years

(15) Major lenders (As of the end of March 2018)

Lender	Debt payable
	Million yen
Mizuho Bank, Ltd.	19,800
Sumitomo Mitsui Banking Corporation	18,600
The Momiji Bank, Ltd.	11,800

(16) Other important matters concerning the Corporate Group

No corresponding item existed.

2. Matters related to the Company's stock (As of March 31, 2018)

- (1) Total number of shares authorized 174,641,100
to be issued
- (2) Total number of shares outstanding 55,394,016
- (3) Number of shares in 1 share unit 100
- (4) Number of shareholders 10,703 (Compared to the end of the
previous term: increase of 1,816)
- (5) Major shareholders

Shareholder	Number of shares held	Percentage
	thousand shares	%
Ichigo Trust Pte. Ltd.	4,982	9.84
The Master Trust Bank of Japan, Ltd. (Trust account)	3,767	7.43
HK Corporation	3,000	5.92
Japan Trustee Services Bank, Ltd. (Trust account)	2,851	5.63
Osamu Aoyama	1,661	3.28
Aoyama Bussan, Ltd.	1,660	3.27
Hoshino Shoji Limited	1,001	1.97
Sumitomo Mitsui Banking Corporation	1,000	1.97
DFA INTL SMALL CAP VALUE PORTFOLIO	958	1.89
Japan Trustee Services Bank, Ltd. (Trust account 9)	779	1.53

- (Notes) 1. Any number of shares held amounting to less than the minimum trading unit has been rounded down.
2. Percentage (%) represents the percentage of shareholdings against the number of shares outstanding (excluding treasury shares) as of March 31, 2018.
3. The Company holds 4,730 thousand shares of treasury shares, but the number of shares held is not included in the above list of major shareholders.

(6) Other important matters related to stock

The total number of treasury shares acquired during the current consolidated fiscal year is 1,486,900 shares (2.68% of the total number of shares outstanding after retirement (including treasury shares)), with a total acquisition cost of 5,999 million yen.

3. Matters related to warrants, etc.

(1) State of warrants as of the end of this fiscal year

No corresponding item existed.

(2) State of warrants held by directors and officers of the Company provided as consideration for the execution of duties as of the end of this fiscal year.

No corresponding item existed.

(3) State of warrants provided to employees, etc. as consideration for the execution of work during the fiscal year

No corresponding item existed.

(4) Other important matters related to warrants, etc.

The Company, at a meeting of the Board of Directors held on January 8, 2017, resolved to issue warrants as described below to the Company's Directors, Executive Officers, and employees, as well as to Directors of the Company's subsidiaries, pursuant to Articles 236, 238, and 240 of the Companies Act. Because shares will be issued to the receivers of rights at fair value in exchange for a consideration, and not on particularly favorable terms, the Company shall implement it without obtaining the approval of the General Meeting of Shareholders. Moreover, the warrants shall not be given as compensation for eligible persons, but shall be accepted based on the individual investment judgments of those persons.

<Purpose and reason for offering warrants >

Warrants shall be issued to the Company's Directors, Executive Officers, and employees, as well as to Directors of the Company's subsidiaries in exchange for a consideration, with the aim of enhancing incentives to achieve business goals (consolidated operating income of 27 billion yen for the fiscal year ending March 2018) under the medium-term management plan "CHALLENGE 2017" announced on January 28, 2015. If all of the warrants are exercised, the total number of common shares of the Company will increase by the equivalent to 0.47% of the total number of outstanding shares. However, the warrants may be exercised conditionally upon the achievement of business goals determined in advance, and achievement of the goal is deemed to contribute to improving the corporate value and shareholder value of the Company. Accordingly, the issuance of warrants is deemed to contribute to the interests of existing shareholders of the Company from a medium- to long-term perspective, while their impact on stock dilution is considered to be reasonable.

Date of resolution for issuance	January 8, 2016
Number of warrants	2,580
Type and number of shares subject to warrants	Common shares 258,000 shares (One hundred (100) shares per one (1) warrant)
Paid-in amount for warrants	For one (1) warrant 2,500 yen
Value of property to be invested upon the exercise of warrants	For one (1) warrant 447,000 yen (4,470 yen per share)
Period for exercising warrants	From July 2, 2018 to June 28, 2019
Conditions for exercise	(Note)
Persons eligible	Directors of the Company 6 persons 600 warrants
	Executive Officers of the Company 9 persons 450 warrants (excl. those concurrently serving as Director)
	Employees of the Company 30 persons 900 warrants
	Directors of the Company's subsidiaries 21 persons 630 warrants

- (Notes)
1. Warrant holders may exercise warrants only in cases where the operating income of the Company for the fiscal year ending March 2018 exceeds 27 billion yen. The operating income in the consolidated statement of income included in the annual securities report shall be referred to in judging the above operating income; if the concept of the item to be referred to is materially changed by the application etc. of International Financial Reporting Standards etc., the indicator to be referred to shall be determined separately by the Board of Directors.
 2. Warrant holders shall, as of the exercise of the warrants held thereby, continuously hold the same status as Company's Directors, Executive Officers, and employees, as well as to Directors of the Company's subsidiaries; provided, however, that the same shall not apply in any of the following events: resignation due to the expiration of term of office; retirement at mandatory retirement age; or, any other reason approved by the Board of Directors.
 3. In the case of the death of a warrant holder, only one heir-at-law to the said warrant holder may inherit the rights of the said warrant holder.
 4. Warrants may not be exercised if the total number of shares outstanding exceeds the number of authorized shares at the time as a result of the exercising of the said warrants.
 5. Warrants of less than one may not be exercised.
 6. The above warrants are expected to expire without fulfill conditions onn the consolidated results for the fiscal year ending March 31.

4. Matters related to directors and officers

(1) State of directors and auditors (As of March 31, 2018)

Position and responsibilities in the company	Name	Important posts held concurrently
Director and Vice President	Hiroaki Miyamae	Director, Blue Rivers Co., Ltd.
President (Representative Director)	Osamu Aoyama	Representative Director, Aoyama Bussan, Ltd. Director, Aoyama Capital Co., Ltd. Director, Seigo Co., Ltd. Director, MDS Co., Ltd. Director, Eisho Co., Ltd. Director, glob Co., Ltd. Chairman, Aoyama Suits (Shanghai) Co., Ltd.
Senior Managing Director	Makoto Miyatake	Director, MDS Co., Ltd. Director, Eisho Co., Ltd. Auditor, Aoyama Suits (Shanghai) Co., Ltd. Auditor, FUKURYO Co., Ltd. Director, Minit Asia Pacific Co., Ltd.
Director (Managing Executive Officer General Manager of Marketing and Sales Div.)	Yoshiyuki Matsukawa	Director, Blue Rivers Co., Ltd.
Director (Managing Executive Officer General Manager of Purchasing Div. and General Manager of Casual Wear/Reuse Business Div.)	Shinji Okano	Chairman, Aoyama Suits (Shanghai) Co., Ltd. Director, FUKURYO Co., Ltd.
Director	Seishi Uchibayashi	Lawyer Outside Director, Yasuhara Chemical Co., Ltd.
Director	Hiroaki Kobayashi	Representative Director, Nitto Seimo Co., Ltd. Representative Director, Nippon Turning Co., Ltd. Representative Director, Taito, Co., Ltd. Outside Director, ASEED HOLDINGS CO.,LTD.
Standing Corporate Auditor (full time)	Tomokazu Osako	Auditor, Aoyama Capital Co., Ltd.
Auditor	Hiroshi Ogi	Accountant Outside Auditor, Aki Kanko Golf Co., Ltd.
Auditor	Kiyoshi Takegawa	Certified Public Accountant Tax accountant
Auditor	Toru Watanabe	Lawyer Outside Director, SHO-BI Co., Ltd.

- (Notes) 1. Shozo Miyamae passed away on December 11, so he retired on the same date. His position is at the time of retirement.
2. Seishi Uchibayashi and Hiroaki Kobayashi, Directors, are outside directors as stipulated in Article 2-15 of the Company Law, and independent officers who filed in accordance with the regulations of Tokyo Stock Exchange, Inc.
3. Seishi Uchibayashi, Director, has abundant experience and high expertise as a lawyer as well as sufficient insight to monitor and supervise management from an objective viewpoint based on laws and regulations.
4. Hiroaki Kobayashi, Director, has gained a wealth of experience and knowledge as a corporate manager. Operating companies mainly in the field of manufacturing, he has sufficient insight to monitor and supervise the management of the Company from a viewpoint that is different from that of the Company.

5. Hiroshi Ogi, Kiyoshi Takegawa and Toru Watanabe, Auditors, are outside auditors as stipulated in Article 2-16 of the Companies Act, and independent officers who filed in accordance with the regulations of Tokyo Stock Exchange, Inc.
6. Hiroshi Ogi, Auditor, is a tax accountant with experience as director of a taxation office, and has sufficient knowledge of finance and accounting.
7. Kiyoshi Takegawa, Auditor, is a certified public accountant and tax accountant, and has sufficient knowledge of finance and accounting.
8. Toru Watanabe is qualified for the position and will be able to perform audits that will determine if operations are appropriate and in compliance with the law because he has a wealth of experience as a lawyer, are versed in corporate legal affairs, and has the superior insight needed to oversee corporate management.
9. The Company started using an executive officer system on June 29, 2005.
The following are the executive officers not concurrently holding the post of director as of March 31, 2018.

Position in the company	Name	Responsibility
Managing Executive Officer	Yasuhiro Fujii	General Manager of Store Development Div.
Managing Executive Officer	Yoshiyuki Maekawa	General Manager of TSC Business Div.
Managing Executive Officer	Shinji Zaitu	General Manager of General Planning and Policy Dept.
Executive Officer	Shozo Hirakawa	General Manager of General Affairs Dept.
Executive Officer	Michinori Fujii	General Manager of Advertising Dept.
Executive Officer	Satoshi Yomono	General Manager of IT and Systems Dept. and Information Controller
Executive Officer	Tadao Chiba	Vice General Manager of Marketing and Sales Div.
Executive Officer	Takayoshi Furuichi	Representative Director of glob Co., Ltd.
Executive Officer	Koichi Yamane	General Manager of General Planning and Policy Dept.
Executive Officer	Tatsunori Yamamoto	Vice Chief General Manager of Product Dept., and General Manager of Purchasing Dept. I
Executive Officer	Taizo Endo	General Manager of Personnel Dept.
Executive Officer	Takashi Senoguchi	General Manager of Kansai Region Management Dept.
Executive Officer	Kenji Aki	General Manager of Corporate Dept.
Executive Officer	Shosuke Suzuki	General Manager of Tokyo Head Office and General Manager of Human Resource Development Dept.
Executive Officer	Masayuki Miyamae	Officer in Charge of Special Issues
Executive Officer	Toshimitsu Miyamae	General Manager of Purchasing Dept. II

(2) Outline of liability limitation agreement

In accordance with Article 427-1 of the Company Law, the Company has concluded agreements to limit liability as stated in Article 423-1 of the same act with all outside directors and outside auditors. The limit of liability based on the agreement was set as the minimum liability defined by Article 425-1 of the same act.

(3) The amount of remuneration for directors and auditors for the fiscal year

Classification	Number of people	Amount of remuneration
Director	8	301 million yen
(including outside director)	(2)	(21 million yen)
Auditor	4	34million yen
(including outside auditors)	(3)	(23 million yen)
Total	12	335million yen

(Notes) 1. Regarding the limit of remuneration for directors, the Company resolved at the 42nd Ordinary General Meeting of Shareholders held on June 29, 2006 that the amount of remuneration for directors be within 60 million yen per year (excluding the amount of salary as an employee of an employee and director).

2. Regarding the limit of remuneration for auditors, the Company resolved at the 29th Ordinary General Meeting of Shareholders held on June 29, 1993 that the amount of remuneration for auditors be within 60 million yen per year.

3. Policy on determining the amount of directors' remuneration or method for calculating directors' remuneration

(1) Basic remuneration policy

The Company determines the directors' remuneration with an eye to ensuring that the remuneration system will enhance performance and continually increase corporate value and, allows the Company to share common interests with shareholders, and that remuneration is determined through an objective and highly transparent process. Working in line with this basic policy, the Company established the Compensation Advisory Committee, which discusses policies and systems concerning remuneration of directors and executive officers in consultation with the Board of Directors, which then makes any final decision based on recommendations given by the advisory committee. The advisory committee is chaired by an independent outside director and consists of a total of five members, including three other directors (excluding representative directors) and an outside director.

(2) Calculation method

The remuneration of directors (excluding outside directors) and executive officers consists of a fixed remuneration and performance-related remuneration, which are determined according to their roles and positions. The performance-related remuneration is paid to directors at the rate of zero to one hundred percent (zero to seventy percent for executive officers) of their fixed remuneration, depending on the Company's consolidated performance in a given year and the individual performance of duties assigned to their position. Remuneration of outside directors and auditors, who are independent from the Company's operations, consists solely of a fixed remuneration. Retirement benefits for directors and auditors were abolished at the 42nd Ordinary General Meeting of Shareholders held on June 29, 2006

4. The above amount includes the remuneration paid to one director who retired during the term.

5. At the conclusion of the 42nd Ordinary General Meeting of Shareholders held on June 29, 2006, the Company abolished the retirement benefits for directors and auditors, and it was resolved that the Company would pay the retirement benefits to directors and auditors who continue to serve even after the conclusion of the 42nd Ordinary General Meeting of Shareholders in the amount that correspond to their term of office up until the day the retirement benefits system was abolished. Based on this resolution, in addition to the above, the Company paid 372 million yen to one (1) director who retired during the current fiscal year.

(4) Matters related to outside officers

[1] The relationships between the companies where outside officers concurrently hold important posts and the Company

Job title	Name	The company where the outside officer concurrently holds an important post	Post	The relationship with other Group companies
Outside Director	Seishi Uchibayashi	Yasuhara Chemical Co., Ltd.	Outside Director	There are no important transactions or other relationships between the Company and Yasuhara Chemical Co., Ltd.
Outside Director	Hiroaki Kobayashi	Nitto Seimo Co., Ltd.	Representative Director	There are no important transactions or other relationships between the Company and Nitto Seimo Co., Ltd., Nippon Turning Co., Ltd., Taito, Co., Ltd., and ASEED HOLDINGS CO.,LTD.
		Nippon Turning Co., Ltd.	Representative Director	
		Taito, Co., Ltd.	Representative Director	
		ASEED HOLDINGS CO.,LTD.	Outside Director	
Outside Auditor	Hiroshi Ogi	Aki Kanko Golf Co., Ltd.	Outside Auditor	There are no important transactions or other relationships between the Company and Aki Kanko Golf Co., Ltd.
Outside Auditor	Toru Watanabe	SHO-BI Co., Ltd.	Outside Director	There are no important transactions or other relationships between the Company and SHO-BI Co., Ltd.

[2] Relationships between the Company and specific business operators

No corresponding item existed.

[3] Major activities during the fiscal year

Job title	Name	Board Meeting attendance	The Board of Auditors attendance	Speaking status
Outside Director	Seishi Uchibayashi	16times out of 16 times	—	At meetings of the Board of Directors and the Board of Auditor, he has made appropriate remarks mostly from a professional viewpoint as a lawyer.
Outside Director	Hiroaki Kobayashi	16 times out of 14 times	—	At meetings of the Board of Directors and the Board of Auditor, he has gained a wealth of experience and knowledge as a corporate manager.
Outside Auditor	Hiroshi Ogi	16 times out of 16 times	13times out of 13 times	At meetings of the Board of Directors and the Board of Auditors, he has made appropriate remarks mostly from a professional viewpoint as a tax accountant.

Outside Auditor	Kiyoshi Takegawa	16 times out of 16 times	13 times out of 13 times	At meetings of the Board of Directors and the Board of Auditors, he has made appropriate remarks mostly from a professional viewpoint as a certified public accountant and tax accountant.
Outside Auditor	Toru Watanabe	16 times out of 13 times	13 times out of 10 times	At meetings of the Board of Directors and the Board of Auditors, he has made appropriate remarks mostly from a professional viewpoint as a lawyer.

5. Matters related to the accounting auditors

(1) Name of accounting auditor KPMG AZSA LLC

(2) Amount of remuneration, etc., for the accounting auditor

- | | |
|--|----------------|
| [1] The amount of remuneration for the accounting auditors for the fiscal year | 56 million yen |
| [2] Total amount the Company and its subsidiaries owe to the Accounting Auditor and other financial profit | 83 million yen |

Notes 1 In accordance with the “Practical Guidelines for Cooperation with Accounting Auditors” published by the Japan Audit & Supervisory Board Members Association, the Board of Corporate Auditors of the Company has given its consent to the remuneration for Accounting Auditors pursuant to Article 399-1 of the Companies Act, as a result of obtaining the necessary documents from business execution departments and Accounting Auditors, receiving reports, and confirming and examining the execution of duties by Accounting Auditors, the contents of audit plans, and the grounds for calculating the estimate for remuneration, etc.

2 The audit agreement between the Company and KPMG AZSA LLC does not clearly distinguish the amount of remuneration for the accounting auditor in accordance with the Companies Act and the amount of remuneration for the audit in accordance with the Financial Instruments and Exchange Act. In addition, it is practically impossible to divide, so the total is used as the amount under [1] above.

(3) Description of non-audit tasks

No corresponding item existed.

(4) Policy for decisions on the dismissal or non-reappointment of the accounting auditor

When the Board of Corporate Auditors recognizes that an Accounting Auditor falls under the items stipulated in the clauses of Article 340-1 of the Company Law, the Board of Auditors shall discuss the matter, and based on the unanimous agreement of all of the Corporate Auditors, report the dismissal of the Accounting Auditor and its reason. Moreover, when it has judged that there is a difficulty in executing the duties of an Accounting Auditor, in such cases where the independence of Accounting Auditors, audit framework, or quality control system is not provided, the Board of Corporate Auditors shall consider dismissing or not reappointing the Accounting Auditor; and, if deemed necessary, it shall determine the contents of the proposal for dismissal or non-reappointment of the Accounting Auditor to be submitted to the General Meeting of Shareholders.

6. Systems to ensure the appropriateness of work and the operating status of systems

A summary of the decision of the Board of Directors on the system to ensure compliance in the execution of duties by directors with laws, regulations, and the Articles of Incorporation,

and other systems to ensure the appropriateness of the activities of association and the operating status of the systems are as follows:

Basic policy for establishing an internal control system

(1) System to ensure that the execution of the duties of directors and employees complies with laws, regulations, and the Articles of Incorporation

- [1] With the aim of fulfilling the Company's social responsibilities and corporate ethics, we establish rules (Compliance manual) as a code of conduct for officers and employees to comply with laws, regulations, and social mores, and thoroughly implement them.
- [2] The Company sets up the Compliance Committee with the President as chairman to address issues related to the legal compliance of the company's activities and various compliance issues.
- [3] An internal report system of the Group is established as a means for officers and employees to inform on suspicious conduct from the viewpoint of corporate ethics and legal compliance. Using the system, we strive to detect misconduct at an early stage, and rectify it.
- [4] Conducts internal audit department managed directly by the President, conducts internal audits.
- [5] In accordance with Organized Crime Exclusion Ordinances, the Company stands firm against antisocial forces and organizations, which threaten the order and safety of civic life and corporate activities. The Company does not associate with any such group and does not assist them in gaining any profits, including financial profit. If the Company directly or indirectly receives an inappropriate request from an antisocial force or organization, we cooperate with lawyers and the police, and handle it with a resolute attitude.

(2) System for the storage and management of information about the execution of work by directors

The information about the execution of work by directors is recorded and managed by the responsible department based on internal regulations ("Document management rules").

(3) Other systems including rules for the management of risk of loss

- [1] Among the various risks that occur during general business activities, the responsible department conducts risk analysis and considers management measures for risks in management strategies. Such risks are discussed at officer meetings and management meetings as required.
- [2] Business operation risks are managed through the collection of risk-related information, early detection of occurrence and information exchanges among concerned departments. In particular, for personal information, make information security basic policy and privacy policy, and offer a "personal information management officer" and The Company will reinforce the internal management system including the renewal of manuals, thorough internal training, and information systems.
- [3] When an unexpected incident has occurred, a headquarters led by the President will be established. In addition, a communication team and external advisory team including a legal adviser will be organized to react promptly in order to minimize losses attributable to the incident.

(4) System to ensure the efficient execution of the duties of directors

- [1] To promote the separation of management and execution, an executive officer system was adopted. The Company conducts quick decision-making and business execution by consigning significant responsibility and authority to executive officers.
- [2] Management meetings are basically held once a month, inviting directors, executive officers and auditors to discuss important matters of overall management, to enable total coordination of the activities of departments and obtain agreement on business execution.
- [3] The Board of Directors shall develop mid-term management plans and annual plans to clarify the goals the Company should achieve. In addition, it shall clarify the business goals of each department managed by each executive officer. Progress shall be periodically reported at management meetings, etc. to monitor the execution of duties by executive officers.
- [4] An officers' meeting, which consists of directors and auditors, shall be held once a week as a general rule as a review body to discuss important matters related to the execution of duties and the agenda of the Board of Directors, for the appropriate execution of duties and budgeting of each department, and faster decision-making.
- [5] The Company shall handle business efficiently based on the Regulations on the Segregation of Duties.

(5) System to ensure the appropriateness of the work of the corporate Group, consisting of the Company and its subsidiaries

- [1] While respecting the autonomy and independence of the management of subsidiaries, for the Company to ensure a system for efficiently executing the duties of directors of subsidiaries, etc., and a system for managing risks of losses, the Company shall dispatch directors or auditors as required. In addition, the Company shall internally establish a managing department. The managing department shall exchange information and discuss important matters related to business operations with subsidiaries.
- [2] The Company shall discuss important matters related to the subsidiaries' management based on the Affiliate Management Regulations. In addition, the Company shall require subsidiaries to report periodically on the execution of duties and their financial status.
- [3] Companies that are subject to consolidated financial status shall be added to the Compliance Committee to check if Group companies are conducting business properly and efficiently.
- [4] Internal Audit Department shall audit the status of each Group company periodically.

(6) Matters related to employees who assist auditors in their duties

- [1] Auditors of the Company shall have employees to assist them in their duties. Auditors and directors shall discuss the number and selection of employees.
- [2] The Company shall obtain the approval of the auditors in advance regarding the transfer of employees who will assist the duties of the auditors.

- (7) System for directors and employees of the Company and subsidiaries to report to auditors and other systems for reporting to auditors
- [1] Directors and employees of the Company shall immediately report to auditors when a matter that may significantly damage the Company will or may occur, or when they detect illegal or dishonest conduct by directors or employees. In addition, a request for a managerial decision or a report related to any other important matter shall be circulated to the Standing Corporate Auditor.
 - [2] In principle, auditors shall attend meetings such as those of the Board of Directors and Compliance Committee to receive reports on the execution of duties, etc. from the directors and employees of the Company.
 - [3] Directors and employees of subsidiaries shall report immediately to the responsible department when a matter that will or may significantly damage the Company occurs, or when they detect illegal or dishonest conduct by directors or employees. The responsible department shall report the matter to an auditor of the Company.
 - [4] Auditors shall attend the Audit Report Meetings of the Audit Department of the Company, etc., to receive reports on the risk management status, etc. of subsidiaries.
 - [5] Auditors may, as required, request the directors and employees of the Company and its subsidiaries to submit reports, explanations, or related information on the execution of duties.
- (8) System to ensure that a person who has made a report mentioned in (7) above does not receive unfair treatment due to the report
The Company shall prohibit any officer or employee of a Group company who makes a report to auditors from being treated unfairly for the reason they submit such a report, and shall make this known to everyone without exception.
- (9) Matters related to the treatment of costs or debts generated by the execution of the duties of auditors of the Company
- [1] When auditors request advance payment of costs to execute their duties, the Company shall immediately process the payment of costs or debts unless the responsible department judges that it is not necessary.
 - [2] When it is deemed necessary for the auditors to execute duties, the Company shall approve the necessary audit costs such as fees to obtain opinions and advice from experts such as lawyers and certified public accountants.
- (10) Other systems to ensure the efficient execution of audits by auditors
- [1] To improve the audit function of auditors, the Company shall ensure not only expertise, but also independence in the selection of outside auditors.
 - [2] Directors shall make efforts to deepen the understanding of audits by auditors and facilitate an environment for audits by auditors.
 - [3] The auditors shall periodically have meetings with the Representative Director to exchange opinions on facilitating audits of the execution of duties by directors and audit systems.
 - [4] Auditors shall periodically hold meetings to exchange information and comments with the accounting auditor and Internal Audit Department to establish close cooperation.

(Implementation status of systems to ensure the appropriateness of duties)

The following is a summary of the Company's implementation of systems to ensure the appropriateness of duties.

(1) System to ensure that the execution of the duties of directors and employees complies with laws, regulations, and the Articles of Incorporation

In addition to education through the comprehensive dissemination of internal rules and internal training, the Company endeavors to spread awareness of compliance throughout the group through the activities of the Compliance Committee, as well as to identify inappropriate events using the internal reporting system of the Group at an early stage, and rectify them quickly. Moreover, the Company changed the Inspection Department to the Internal Audit Department to strengthen the internal audit system.

(2) System for storing and managing information on the execution of duties by directors

Minutes of the Board of Directors meetings are prepared for each meeting the Board of Directors to be stored at the Board of Directors' secretariat. Moreover, requests for managerial decisions are also stored by responsible developments in accordance with "Document management rules."

(3) Other systems including rules for managing risk of loss

Risks in management strategies are discussed at management meetings and officers' meetings according to their importance, and necessary management measures are taken for the risks as required according to the case. Moreover, for risks in business management, the Company is developing various rules, disseminating them thoroughly, and visualizing risks including those of affiliates.

(4) System to ensure the efficient execution of the duties of directors

The management meeting and the officers' meeting are operated smoothly in accordance with their objectives. From fiscal year 2015, following up the medium-term management plan was added to their agendas, with progress checked and shared quarterly.

(5) System to ensure the appropriateness of the activities of the corporate Group, consisting of the Company and its subsidiaries

The management department for operations is developing risk management systems at subsidiaries, in an effort to identify and take measures for potential risks. Moreover, to strengthen the internal audit system, the Inspection Department was replaced by the Internal Audit Department, which is developing a system to audit the activities of each Group company periodically.

(6) Matters related to employees who assist the auditors in their duties

Employees in the Internal Audit Department, with the appropriate abilities and knowledge requested by auditors, assist auditors.

(7) System for directors and employees of the Company and subsidiaries to report to auditors and other systems for reporting to auditors

A system is in place to thoroughly notify the existence of the internal reporting system of the Group and immediately report to auditors when a matter that could significantly damage the Company will or may occur. Moreover, auditors attend meetings such as those of the Board of Directors and Compliance Committee to receive reports on the

execution of duties, and actively express their opinions, as necessary.

- (8) **System to ensure that a person who makes a report based on (7) above does not receive unfair treatment due to that report**

Everyone is informed without exception that, in accordance with internal regulations, the Company prohibits any officer or employee who makes such a report from being treated unfairly for the reason that they submit such a report.

- (9) **Matters related to the treatment of costs or debts generated by the execution of the duties by auditors of the Company**

In accordance with the audit standards for auditors, the Company has budgeted in advance the costs required for executing the duties of auditors.

The Company also immediately processes costs incurred urgently or extraordinarily if they are judged necessary.

- (10) **Other systems to ensure the efficient execution of audits by auditors**

In accordance with the independence criteria of the Company, when selecting outside auditors, we ensure not only their expertise but also their independence. Moreover, the Company is striving to improve the effectiveness of visiting audits by auditors in cooperation with them, including the cooperation of each department with visiting audits by auditors, as well as reporting to auditors by accounting auditors and the Internal Audit Department, as necessary.

Consolidated Balance Sheet

(As of March 31, 2018)

(Unit: million yen)

Assets		Liabilities	
Titles	Amount	Titles	Amount
Current assets	212,918	Current liabilities	76,059
Cash and deposits	59,437	Notes and accounts payable-trade	21,059
Notes and accounts –receivable-trade	20,346	Electronically recorded obligations	16,631
Securities	20,499	Short-term loans payable	17,550
Merchandise and finished goods	53,110	Accounts payable	9,140
Deferred tax assets	1,696	Income tax payable	4,549
Operating loans	55,100	Provision for bonuses	1,886
Other	2,993	Other	5,276
Allowance for doubtful accounts	-266		
Non-current assets	184,379	Non-current liabilities	90,803
Property, plant and equipment	107,148	Bonds payable	24,000
Buildings and structures	59,253	Long-term loans payable	47,500
Machinery, equipment and vehicles	1,673	Net defined benefit liability	9,314
Land	37,684	Provision for point card certificates	3,158
Leased assets	3,095	Other	6,830
Construction in progress	91		
Other	5,348		
Intangible non-current assets	19,444	Total liabilities	166,862
Leasehold interest in land	890	Net assets	
Trademark rights	3,878	Shareholders' equity	242,510
Software	2,134	Capital stock	62,504
Telephone subscription rights	137	Capital surplus	62,533
Goodwill	11,404	Retained earnings	137,137
Other	1,000	Treasury shares	-19,665
Investments and other assets	57,786	Accumulated other comprehensive income	-15,076
Investment securities	12,422	Valuation difference on available-for-sale securities	3,436
Long-term loans receivable	3,438	Deferred gains or losses on hedges	-17
Deferred tax assets	9,591	Revaluation reserve for land	-16,015
Lease and guarantee deposits	26,728	Foreign currency translation adjustment	-257
Net defined benefit asset	270	Remeasurements of defined benefit plans	-2,221
Real estate for investment	4,405	Subscription rights to shares	3,085
Other	987	Non-controlling interests	
Allowance for doubtful accounts	-57		
Deferred assets	83	Total net assets	230,518
Bond issue costs	83	Total liabilities and net assets	397,381
Total assets	397,381		

Consolidated Statements of Income

(From April 1, 2017 to
March 31, 2018)

(Unit: million yen)

Title	Amount	
Net sales		254,846
Cost of sales		113,154
Gross profit		141,691
Selling, general and administrative expenses		121,099
Operating income		20,591
Non-operating income		
Interest income	123	
Dividend interest	227	
Real estate rent	1,123	
Foreign exchange gains	51	
Other	457	1,983
Non-operating expenses		
Interest expenses	128	
Rent cost of real estate	866	
Loss on variation of derivatives	155	
Other	113	1,264
Ordinary income		21,311
Extraordinary losses		
Loss on sales and retirement of non-current assets	395	
Impairment loss	2,559	
Loss on valuation of investments in capital	72	3,027
Income before income taxes and minority interests		18,283
Income taxes – current	7,272	
Income taxes deferred	-772	6,499
Net income		11,784
Profit attributable to non-controlling interests		322
Profit attributable to owners of parent		11,461

Consolidated Statement of Changes in Equity

(From April 1, 2017 to
March 31, 2018)

(Unit: million yen)

Item	Shareholder equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Shareholders' equity
Balance at the beginning of the year	62,504	62,533	134,291	-13,701	245,628
Changes of items during period					
Dividends of surplus			-8,554		-8554
Profit attributable to owners of parent			11,461		11,461
Reversal of revaluation reserve for land			-126		-126
Purchase of treasury shares				-6,001	-6,001
Disposal of treasury shares		-18		37	19
Linkage of scope of consolidation			83		83
Transfer to capital surplus from retained earnings		18	-18		—
Changes of items other than shareholders' equity (net)					
Total changes of items during period	—	—	2,845	-5,963	-3,118
Balance at the end of the year	62,504	62,533	137,137	-19,665	242,510

Item	Other accumulated comprehensive income					
	Valuation difference on available –for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total other cumulative comprehensive income
Balance at the beginning of the year	1,829	21	-16,142	-162	-301	-14,755
Changes of items during period						
Dividends of surplus						
Profit attributable to owners of parent						
Reversal of revaluation reserve for land						
Purchase of treasury shares						
Disposal of treasury shares						
Linkage of scope of consolidation						
Transfer to capital surplus from retained earnings						
Changes of items other than shareholders' equity (net)	1,606	-39	126	-94	-1,920	-321
Total changes of items during period	1,606	-39	126	-94	-1,920	-321
Balance at the end of the year	3,236	-17	-16,015	-257	-2,221	-15,076

Item	Subscription rights to shares	Non- controlling interests	Total net assets
Balance at the beginning of the year	8	2,785	233,666
Changes of items during period			
Dividends of surplus			-8,554
Profit attributable to owners of parent			11,461
Reversal of revaluation reserve for land			-126
Purchase of treasury shares			-6,001
Disposal of treasury shares			19
Linkage of scope of consolidation			83
Transfer to capital surplus from retained earnings			—
Changes of items other than shareholders' equity (net)	-8	300	-29
Total changes of items during period	-8	300	-3,148
Balance at the end of the year	—	3,085	230,518

Notes on the Consolidated Financial Statements

(Notes on important matters that provide a basis for preparing the consolidated financial statements)

1. Scope of consolidation

Number of consolidated subsidiaries and names of main consolidated subsidiaries

[1] Number of consolidated subsidiaries: 25 companies

[2] Names of major consolidated subsidiaries:

Blue Rivers Co. Ltd., Aoyama Capital Co., Ltd., ASCON Co., Ltd., Seigo Co., Ltd., MDS Co., Ltd., Eisho Co., Ltd., Eagle Retailing Corporation, glob Co., Ltd., FUKURYO Co., Ltd., Minit Asia Pacific Co., Ltd., WTW Corporation and 14 other companies
For Aoyama Suits (Shanghai) Co., Ltd., due to increased importance, included the company in scope of consolidation from this consolidated fiscal year.

Names of major non-consolidated subsidiaries:

Taiwan Aoyama Shoji Co., Ltd.

(Reasons for excluding non-consolidated subsidiaries from the scope of consolidation)

The non-consolidated subsidiaries listed above are small, and their total assets, net sales, net profits and losses (proportional amount of equity), retained earnings (proportional amount of equity) and others do not materially impact the consolidated financial statements.

2. Application of equity method

Number of non-consolidated subsidiaries accounted for by equity method — companies

Number of affiliated companies accounted for by equity method — companies

Major non-consolidated subsidiaries not accounted for by equity method Taiwan Aoyama Shoji Co., Ltd.

(Reason for not applying the equity method)

Neither of the non-consolidated subsidiaries not accounted for by the equity method listed above has a net income (proportional amount of equity), retained earnings (proportional amount of equity), or other results, and is not important to overall operations. Accordingly, these companies are excluded from the scope of application of the equity method.

3. Matters concerning accounting policy

(1) Valuation standards and methods for significant assets

[1] Securities

Held-to-maturity bonds Stated at amortized cost (straight-line method)

Other securities Securities with fair market values:

Market value method based on the market price as of the last day of the consolidated fiscal period.
(Unrealized holding gains and losses are reported as a component of shareholders' equity with the cost of securities sold calculated using the moving-average method.)

Securities without fair market values: Stated at cost using the moving-average method.

[2] Derivatives Stated at market value

- [3] Merchandise and finished goods
 Historical cost (reduction of book value from decline in profitability)
 Goods: In principle, the specific identification method
 Finished goods and work in process: Specific identification method
 Raw materials: Moving-average method
 Supplies: Stated at cost using the last purchase price method
- (2) Depreciation method for significant depreciable assets
- [1] Property, plant and equipment (excluding leased assets) and real estate for investment
- a. Those acquired before March 31, 2007
 The former declining balance method
 However, for consolidated subsidiaries' buildings (excluding facilities attached to a building), the former straight-line method is mainly used.
- b. Those acquired on and after April 1, 2007
 The declining balance method
 However, facilities attached to buildings and structures acquired on or after April 1, 2016 are amortized using the straight-line method for consolidated subsidiaries' buildings (excluding facilities attached to a building).
 Major useful lives are as described below.
- | | |
|-----------------------------------|----------------------------|
| Buildings and structures | 6 to 39 years and 50 years |
| Machinery, equipment and vehicles | 3 to 12 years |
| Other | 3 to 20 years |
- [2] Intangible non-current assets (excluding leased assets)
 The straight-line method
 Trademark rights and contract-related assets are amortized based mainly on economic useful lives (15 years).
 Internally used software is amortized using the straight-line method based on the internally usable period (five years).
- [3] Leased assets
 For leased assets related to financing and leasing transactions other than those in which ownership is deemed to transfer to the lessee
 The straight-line method is used with a residual value of zero (In cases where an agreement is made concerning residual value in the lease contract, the residual value), with the lease period deemed to be equivalent to the useful life of the asset.
- (3) Basis of accounting for significant allowances
- [1] Allowance for doubtful accounts
 To provide a reserve for bad debt expenses, a general allowance is provided using a rate determined from past experience of bad debts, and specific allowances are provided for the estimated amounts considered to be uncollectible after reviewing the individual collectability of certain doubtful accounts.
- [2] Provision for bonuses
 The Company provides an allowance for bonuses for employees based on the estimated payment in the current consolidated fiscal year, out of the estimated payments for the future.
- [3] Provision for point card certificates
 Based on the point card system for the purpose of sales promotion, the Company provides an allowance for point card certificates based on the estimated use of points in the future at the end of the current consolidated fiscal year.
- (4) Method of amortizing goodwill and amortization period
 Goodwill is amortized using the equal-installment method for 5 to 15 years.
- (5) Important matters that form the base for preparation of other consolidated financial statements
- [1] Treatment method for deferred assets
 Bond issue costs Straight line method over the period until maturity
- [2] Method of accounting for retirement benefits
- The attribution method for estimated retirement benefits
 For the calculation of retirement benefit obligations, estimated retirement benefits are attributed to the period until the end of the current consolidated fiscal year mainly based on the projected benefit basis.

- Actuarial differences and the method for amortizing unrecognized prior service liabilities
Actuarial differences are amortized in the year subsequent to their occurrence using the straight-line method over a certain period (three to ten years) not exceeding the average remaining service life of employees as of the time of their occurrence.
Unrecognized prior service liabilities are amortized using the straight-line method over a certain period (eight to ten years) not exceeding the average remaining service life of employees as of the time of their occurrence.

[3] Accounting method for consumption tax, etc.

National and local consumption taxes are excluded from revenue and expense accounts subject to taxes.

However, asset-related national and local consumption taxes that cannot be excluded are expensed in the consolidated fiscal year in which they arise.

(Additional information)

The Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26 of March 28, 2016) was adopted from the consolidated fiscal year under review.

(Notes on the consolidated balance sheets)

1. Cumulative amount of depreciation for property, plant and equipment 110,954 million yen
2. Cumulative amount of depreciation for real property for investment 4,039 million yen
3. Revaluation of land for business use

The Company and a consolidated subsidiary revalued land for business use pursuant to the Act of Land Revaluation (Act No. 34, March 31, 1998) and reported the revaluated reserve for land in net assets.

- Method of revaluation: Computed from the assessed value of fixed assets for property tax provided by Article 2-3 of the Enforcement Ordinance for the Act of Land Revaluation (Ordinance No. 119, March 31, 1998).
- Date of revaluation: March 31, 2002
- Difference in the revalued land between the fair value at the end of the current consolidated fiscal year and the book value after revaluation: -4,895 million yen

(Notes on the consolidated statements of income)

Impairment losses

The Company recorded impairment losses on the following asset groups.

Use	Type	Location
Stores for business use	Buildings and structures tools, equipment and fixtures	A total of 62 cases including Kawasaki City, Kanagawa Prefecture etc.
Stores for lease (closed down stores)	Land	A total of 2 cases including Fukuyama City, Hiroshima Prefecture etc.

The Company groups stores as the minimum units that create cash flows. Concerning leased assets, the Company groups property of each closed down store.

The Company reduced the book value of properties whose profitability is lower due to intensified competition or a decrease in the rental market to the collectable amount and reported the decrease as an impairment loss (2,559 million yen) under extraordinary losses. The impairment loss is divided into 2,148 million yen for buildings and structures and 411 million yen for others.

The collectable amount of each asset group is assessed by the net realizable value that is calculated with the assessed value of fixed assets for property tax.

(Notes on the consolidated statement of changes in equity)

1. Class and total number of outstanding shares at the end of the current consolidated fiscal year
Common stock 55,394,016 shares

2. Matters concerning dividends

(1) Payout amount of dividends

Resolution	Class of shares	Total amount of dividends (in million yen)	Dividend per share (in yen)	Record date	Effective date
Regular general shareholders meeting on June 29, 2017	Common stock	5,996	115	March 31, 2017	June 30, 2017
Board of Directors meeting on November 10, 2018	Common stock	2,557	50	September 30, 2017	November 28, 2017

Total dividends approved by the Ordinary General Meeting of Shareholders held on June 29, 2017 included 21 million yen in dividends for shares held by trusts in the Company.

Total dividends approved by the Board of Directors meeting held on November 10, 2017 included 9 million yen in dividends for shares held by trusts in the Company.

- (2) Of the dividends whose record date belongs to the current consolidated fiscal year, dividends whose effective date belongs to the following consolidated fiscal year.

Resolution	Class of shares	Fund of dividend	Total amount of dividends (in million yen)	Dividend per share (in yen)	Record date	Effective date
Regular general shareholders meeting on June 28, 2018	Common stock	Retained earnings	6,079	120	March 31, 2018	June 29, 2017

Total dividends to be approved by the Ordinary General Meeting of Shareholders held on June 28, 2018 include 22 million yen in dividends for shares held by trusts in the Company.

3. The class and number of shares subject to subscription rights to shares at the end of the current consolidated fiscal year (excluding rights for which the first date of the exercise period has not arrived.)
Common stock — shares

(Notes on financial products)

1. Matters concerning the status of financial products

(1) Policy for handling financial products

The Group has a policy of limiting fund management to short-term deposits, relatively risk-free bonds, and commercial papers, etc. To raise funds, the Group depends on loans from banks and bond issues. Derivatives are used to avoid foreign exchange fluctuations in accounts receivable-trade in the denomination of foreign currencies, and no speculative transactions are carried out.

Our consolidated subsidiaries are engaged in the financial service business accompanying the credit card business. To run the said business, the subsidiaries depend on indirect financing such as loans from the parent company and banks as well as the issue of bonds.

(2) The nature of financial products, their risks and risk management system

Bills receivable and accounts receivable as trade receivables are exposed to the credit risk of customers. Regarding said risk, the Group has a system for monitoring the due dates and remaining amount of each client and checking their credit situation as required in accordance with the Group's credit management regulations.

Operating loans to domestic clients and individuals are exposed to the credit risks caused by default. Regarding said risk, the Group has and operates a system for credit screening, credit limits, credit information management, internal ratings, the establishment of guarantees and collateral, measures for bad debts, etc., and in terms of individual cases, in accordance with the management regulations for credit risk of consolidated subsidiaries. This credit control is conducted by Business Planning Headquarters and is deliberated and reported on at regular meetings of the Board of Directors. In addition, Internal Audit Department checks the state of credit control. Of all operating loans, 99% are made to specific debtors.

Shares, which are investment securities, are exposed to the fluctuation risk of market values. They are mainly shares of companies that the Group has business relations with. Their fair values are obtained regularly and reported on at meetings of the Board of Directors.

Long-term loans receivable and lease and guarantee deposits are construction assistance funds, guarantees and deposits that are provided to a lessor when a new store is opened in a rental property, which are exposed to the credit risk of the lessor. Regarding said risk, the Group has a system in which responsible departments monitor the credit situation of each lessor as required.

Trade payables, which are notes payable, accounts payable, and electronically recorded obligations and other accounts payable, are due within one year.

Out of loans payable, short-term loans payable are mainly for fund raising for business transactions, and bonds and long-term loans payable (within five years in principle) are mainly for fund raising related to capital investment. Loans payable with variable interest rates are exposed to interest rate risk. To avoid the fluctuation risk of interest payments and fix payment methods, derivative transactions (interest rate swaps) may be made for each contract as hedging. In the method to assess the effectiveness of hedging, the assessment of effectiveness is omitted for contracts if they meet special treatment of interest rate swaps.

Derivative transactions are executed and controlled in accordance with internal regulations that specify the authority to trade, and in using derivatives, transactions are entered into only with financial institutions with a high rating to reduce credit risk.

Trade payables, bonds and loans payable are exposed to liquidity risk. The Group manages these through methods according to which each company prepares a monthly financing plan, etc.

2. Matters concerning the fair value of financial products, etc.

(Unit: million yen)

	Reported amount in the consolidated balance sheet	Fair value	Difference
(1) Cash and deposits	59,437	59,437	—
(2) Notes and account receivable – trade	20,346	20,346	—
(3) Operating loans	55,100	54,910	-190
(4) Securities and investment securities			
[1] Held-to-maturity securities	20,499	20,499	—
[2] Available-for-sale securities	10,829	10,829	—
(5) Lease and guarantee deposits	26,728	26,728	-0
Total assets	192,942	192,751	-190
(1) Notes and accounts payable	21,023	21,023	—
(2) Electronically recorded obligations	16,631	16,631	—
(3) Short-term loans payable	17,550	17,550	—
(4) Accounts payable	9,140	9,140	—
(5) Bonds payable	24,000	24,137	137
(6) Long-term loans payable	47,500	47,514	14
Total liabilities	135,846	135,998	152
Derivative transactions (*)			
[1] Not applicable to hedge accounting	—	—	—
[2] Applicable to hedge accounting	(25)	(25)	—
Total of derivative transactions	(25)	(25)	—

(*) Net assets and liabilities caused by derivative transactions are stated at net values, and values of items that have more liabilities than assets are stated as zero.

(Note 1) Calculation methods for the fair value of financial products and matters concerning securities and derivative transactions

Assets

(1) Cash and deposits and (2) Notes and accounts receivable

As they are settled in a short period of time, their fair values are approximately equivalent to their book values. Therefore, the book values are regarded as the fair values.

(3) Operating loans

Because operating loans with variable interest rates are immediately affected by the movement of market rates, the fair values of these loans are approximately equivalent to the book values in cases where the credit risks of debtors have not significantly changed from the time of execution of the loans. Therefore, the book values are regarded as the fair values. Fixed-rate loans are segmented by loan type, internal rating, and period, and their fair value is determined by discounting the total amount of principal and interest by the assumed interest rate on new lending of a similar type. For loans to debtors who are possibly bankrupt, an allowance for doubtful accounts calculated from the current value of expected future cash flows or from the amount expected to be collected through disposal of collateral or the execution of guarantees is provided. Therefore, their fair values are approximately equivalent to the book values of claims minus the book value of the allowance for doubtful accounts on the balance sheet at the time of the consolidated account closing date. Therefore that amount is regarded as the fair value. Concerning operating loans that do not have fixed maturities due to loan characteristics, such as limited loan amounts within the value of pledged assets, their fair values are considered to approximate the book values due to their expected repayment and interest conditions. Accordingly, the book values are regarded as the fair values.

(4) Securities and investment securities

Their fair values are measured using quoted market prices in stock markets. The fair values of bonds are measured at the quoted market prices in bond markets or the quoted prices obtained from financial institutions. Fair values of trust beneficiary rights and commercial papers are approximately equivalent to their book values because their maturity is short. Therefore, the book values are regarded as the fair values.

(5) Lease and guarantee deposits

The credit risk of lease and guarantee deposits for which future cash flows can be estimated is small. Therefore, the fair value is calculated by discounting the planned collection amount by the yield of safe bonds that have similar maturity periods.

Liabilities

(1) Notes and accounts payable, (2) Electronically recorded obligations, (3) Short-term loans payable,

(4) Accounts payable

As they are settled in a short period of time, their fair values are approximately equivalent to their book values. Therefore, the book values are regarded as their fair values.

(5) Bonds and (6) Long-term loans payable

Their fair values are determined by discounting the total amount of principal and interest by the assumed interest rate on new lending of a similar type.

Derivative transactions

Their fair values are measured at the quoted prices obtained from financial institutions.

(Note 2) Financial products for which the fair value is considered to be extremely difficult to determine

Unlisted shares (the reported amount in the consolidated balance sheet is 1,526 million yen) and Capital investment in an Investment Limited Partnership (Reported amount in the consolidated balance sheet 65million yen) have no market price. Their future cash flows cannot be estimated, and their fair values are considered to be extremely difficult to measure. Therefore, they are not included in “(4) Securities and investment securities, [2] available-for-sale securities.”

(Notes on information per share)

1. Net assets per share 4,505.53 yen
2. Net income per share 224.81 yen

(Note 1) Basis for calculating profit per share

Profit attributable to owners of parent in consolidated statements of income	11,461 million yen
Amount not attributable to common shareholders	— million yen
Profit attributable to owners of parent associated with common shares	11,461 million yen
Average number of outstanding common stock in the fiscal year	50,985,093 shares

(Note 2) Treasury shares that are recorded by application of the total amount method is included in the treasury shares that are excluded from the average number of outstanding common shares for calculation of profit per share.

For calculation of net assets per share, said treasury shares are included in the treasury shares that are excluded from the number of outstanding common shares at the end of the fiscal year.

The number of said treasury shares at the end of the fiscal year: 184,600 shares

The average number of said treasury shares during the fiscal year: 185,191 shares

(Significant subsequent events)

No corresponding item existed.

Audit Report of the Accounting Auditors Concerning the Consolidated Financial Statements (Certified Copy)

Independent Auditor's Audit Report

May 8, 2018

To: The Board of Directors
Aoyama Trading Co., Ltd.

KPMG AZSA LLC

Designated limited liability partner and managing partner	Certified public accountant	Motoharu Iyomasa	(Seal)
Designated limited liability partner and managing partner	Certified public accountant	Ichiro Suruga	(Seal)
Designated limited liability partner and managing partner	Certified public accountant	Satoru Komatsuno	(Seal)

Pursuant to Article 444, Paragraph 4 of the Companies Act, we have audited the accompanying consolidated financial statements, which comprise the consolidated balance sheet, the consolidated statements of income, the consolidated statement of changes in equity and the notes to the consolidated financial statements of Aoyama Trading Co., Ltd., applicable to the consolidated fiscal year from April 1, 2017 to March 31, 2018.

Management responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements based on accounting principles generally accepted in Japan, and for designing and operating such internal controls as management determines is necessary to enable the preparation and fair presentation of consolidated financial statements free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts of disclosures in the consolidated financial statement. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal controls relevant to the entity's preparation and fair presentation of consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material aspects, the state of the property, and the profit and loss, of the Corporate Group, which consists of Aoyama Trading Co., Ltd. and its consolidated subsidiaries, applicable to the consolidated fiscal year in conformity with accounting principles generally accepted in Japan.

Conflicts of interest

Neither KPMG AZSA LLC nor its managing partners have any interest in the Company which should be disclosed in compliance with the provisions of the Certified Public Accountants Act.

Balance sheet

(March 31, 2018)

(Unit: million yen)

Assets		Liabilities	
Item	Amount	Item	Amount
Current assets	145,608	Current liabilities	56,953
Cash and deposits	46,697	Accounts payable - trade	13,130
Accounts receivable - trade	14,023	Electronically recorded obligations	16,401
Securities	20,499	Short-term loans payable	10,000
Merchandise and finished goods	44,259	Accounts payable - other	8,852
Raw materials and supplies	574	Accrued expenses	1,366
Advance payments - trade	37	Advances received	123
Short-term loans receivable from subsidiaries and associates	17,300	Deposits received	220
Prepaid expenses	618	Income taxes payable	3,800
Deferred tax assets	925	Provision for bonuses	1,213
Accrued income	3	Lease obligations	304
Other	674	Asset retirement obligations	6
Allowance for doubtful accounts	-7	Other	1,533
Non-current assets	182,835	Non-current liabilities	52,488
Property, plant and equipment	93,541	Long-term loans payable	40,000
Buildings	44,312	Provision for retirement benefits	5,231
Structures	6,177	Provision for share grants	250
Machinery and equipment	546	Provision for point card certificates	3,147
Vehicles	15	Lease obligations	351
Tools, furniture and fixtures	4,602	Asset retirement obligations	867
Land	35,290	Other	2,641
Construction in progress	86	Total liabilities	109,441
Leased assets	2,509		
Intangible Assets	2,802	Shareholders' equity	231,382
Leasehold right	858	Capital stock	62,504
Trademark right	226	Capital surplus	62,526
Software	1,604	Legal capital surplus	62,526
Telephone subscription right	112	Retained earnings	126,017
Investments and other assets	86,492	Legal retained earnings	2,684
Investment securities	10,938	Other retained earnings	123,333
Shares of subsidiaries and associates	27,000	General reserve	111,100
Investments in capital of subsidiaries and associates	395	Retained earnings brought forward	12,233
Long-term loans receivable of associates	5,500	Treasury shares	-19,665
Long-term loans receivable	3,345	Valuation and translation adjustments	-12,380
Long-term prepaid expenses	630	Valuation difference on available-for-sale securities	3,434
Deferred tax assets	7,684	Revaluation reserve for land	-15,814
Lease and guarantee deposits	25,109		
Real estate for investment	10,465	Total net assets	219,001
Other	39		
Allowance for doubtful accounts	-4,617	Total liabilities and net assets	328,443
Total assets	328,443		

Statements of Income

(From April 1, 2017to
March 31, 2018)

(Unit: million yen)

Item	Amount	
Net sales		188,853
Cost of sales		76,000
Gross profit		112,853
Selling, general and administrative expenses		94,592
Operating income		18,260
Non-operating income		
Interest income	179	
Interest on securities	0	
Dividend income	643	
Real estate rent	3,521	
Foreign exchange gains	132	
Other	256	
		4,735
Non-operating expenses		
Interest expenses	116	
Rent cost of real estate	3,249	
Loss on valuation of derivatives	155	
Provision of allowance for doubtful accounts	847	
Other	48	
		4,417
Ordinary income		18,578
Extraordinary losses		
Loss on sales and retirement of non-current assets	306	
Impairment loss	1,335	
Loss on valuation of investments in capital	72	
		1,715
Net income before income taxes		16,862
Income taxes-current	5,749	
Income taxes-deferred	-325	
		5,423
Net income		11,438

Statement of Changes in Equity

(From April 1, 2017 to
March 31, 2018)

(Unit: million yen)

Item	Shareholders' equity			
	Capital stock	Retained earnings		
		Legal capital surplus	Other capital surplus	Total capital surplus
Balance at the beginning of the year	62,504	62,526	—	62,526
Changes of items during period				
Dividends of surplus				
Net income				
Reversal of revaluation reserve for land				
Purchase of treasury shares				
Disposal of treasury shares			-18	-18
Transfer to capital surplus from retained earnings			18	18
Changes of items other than shareholders' equity (net)				
Total changes of items during the term	—	—	—	—
Balance at the end of the year	62,504	62,526	—	62,526

Item	Shareholders' equity					
	Legal retained earnings	Retained earnings			Treasury shares	Total shareholders' equity
		Other retained earnings		Total retained earnings		
		General reserve	Retained earnings brought forward			
Balance at the beginning of the year	2,684	111,100	9,491	123,275	-13,701	234,605
Changes of items during period						
Dividends of surplus			-8,554	-8,554		-8,554
Net income			11,438	11,438		11,438
Reversal of revaluation reserve for land			-124	-124		-124
Purchase of treasury shares					-6,001	-6,001
Disposal of treasury shares					37	19
Transfer to capital surplus from retained earnings			-18	-18		—
Changes of items other than shareholders' equity (net)						
Total changes of items during period	—	—	2,741	2,741	-5,963	-3,222
Balance at the end of the year	2,684	111,100	12,233	126,017	-19,665	231,382

Item	Valuation and translation adjustments			Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Total valuation and translation adjustments		
Balance at the beginning of the year	1,828	-15,939	-14,111	8	220,502
Changes of items during period					
Dividends of surplus					-8,554
Net income					11,438
Reversal of revaluation reserve for land					-124
Purchase of treasury shares					-6,001
Disposal of treasury shares					19
Transfer to capital surplus from retained earnings					—
Changes of items other than shareholders' equity (net)	1,605	124	1,730	-8	1,721
Total changes of items during period	1,605	124	1,730	-8	-1,500
Balance at the end of the year	3,434	-15,814	-12,380	—	219,001

Notes on the Non-consolidated Financial Statements

(Notes on matters concerning significant accounting policies)

1. Valuation standards and methods for major assets

(1) Valuation standards and methods for securities

Held-to-maturity bonds	Stated at amortized cost (straight-line method)
Stocks of subsidiaries and affiliates	Stated at cost determined by the moving-average method
Other securities	Securities with fair market values: Market value method based on the market price as of the last day of the fiscal period (stated at the market value method based on quoted market prices at the end of the fiscal year. Unrealized holding gains and losses are reported as a component of shareholders' equity, with the cost of securities sold calculated using the moving-average method.) Securities without fair market values: Stated at cost based using the moving-average method

(2) Valuation standards and methods for derivatives

Stated at market value

(3) Valuation standards and methods for inventory assets

Historical cost (reduction of book value from decline in profitability)

Goods: Specific identification method

Supplies: Stated at cost using the last purchase price method

2 Depreciation method for significant depreciable assets

- | | | | | | | | |
|--|--|--------------------------|----------------------------|-----------------------------------|---------------|-------|---------------|
| [1] Property, plant and equipment (excluding leased assets) and real estate for investment | <p>a. Those acquired before March 31, 2007
The former declining balance method
However, for consolidated subsidiaries' buildings (excluding facilities attached to a building), the former straight-line method is mainly used.</p> <p>b. Those acquired on and after April 1, 2007
The declining balance method
However, facilities attached to buildings and structures acquired on or after April 1, 2016 are amortized using the straight-line method for consolidated subsidiaries' buildings (excluding facilities attached to a building).
Major useful lives are as described below.</p> <table border="0" style="margin-left: 20px;"> <tr> <td>Buildings and structures</td> <td>6 to 39 years and 50 years</td> </tr> <tr> <td>Machinery, equipment and vehicles</td> <td>3 to 12 years</td> </tr> <tr> <td>Other</td> <td>3 to 20 years</td> </tr> </table> | Buildings and structures | 6 to 39 years and 50 years | Machinery, equipment and vehicles | 3 to 12 years | Other | 3 to 20 years |
| Buildings and structures | 6 to 39 years and 50 years | | | | | | |
| Machinery, equipment and vehicles | 3 to 12 years | | | | | | |
| Other | 3 to 20 years | | | | | | |

[2] Intangible non-current assets (excluding leased assets)
The straight-line method
However, depreciation of software for use in the Company is calculated using the straight-line method based on the usable period within the Company (five years).

[3] Leased assets
For leased assets related to financing and leasing transactions other than those in which ownership is deemed to transfer to the lessee
The straight-line method is used with a residual value of zero (In cases where an agreement is made concerning residual value in the lease contract, the residual value), with the lease period deemed to be equivalent to the useful life of the asset.

3. Basis for accounting for allowances

- (1) Allowance for doubtful accounts
To provide a reserve for bad debt expenses, a general allowance is provided using a rate determined from past experience of bad debts, and specific allowances are provided for the estimated amounts considered to

be uncollectible after reviewing the individual collectability of certain doubtful accounts.

- | | |
|---|---|
| (2) Provision for bonuses | The Company provides an allowance for bonuses for employees based on the estimated payment in the current consolidated fiscal year. |
| (3) Provision for retirement benefits | <p>To prepare for the provision of retirement benefits for employees, the Company sets aside an estimated amount for retirement benefit obligations as of the end of the current fiscal year.</p> <p>The accounting method for refinement benefits and expenses is as follows.</p> <ul style="list-style-type: none">• The attribution method for estimated retirement benefits
For the calculation of retirement benefit obligations, estimated retirement benefits are attributed to the period until the end of the current fiscal year based on the projected benefit basis.• The method for amortization of actuarial differences and unrecognized prior service cost are charged off by the certain number of years (15 years) within the rest of average working term.
Actuarial differences are amortized in the year subsequent to their occurrence using the straight-line method over a certain period (three years) not exceeding the average remaining service life of employees as of the time of their occurrence.• The accounting method for unrecognized differences in mathematical calculations on the non-consolidated balance sheet differ from those on the consolidated balance sheet. |
| (4) Provision for employee stock ownership plan | To provide for employees' benefits of the employee stock ownership plan, the Company sets aside an estimated amount for the obligations of the employee stock ownership plan. |
| (5) Provision for point card certificates | Based on the point card system for the purpose of sales promotion, the Company provides an allowance for point card certificates based on the estimated use of points in the current consolidated fiscal year. |
4. Other significant matters for the purpose of preparing non-consolidated financial statements
- Accounting method for consumption tax, etc.
- National and local consumption taxes are excluded from revenue and expense accounts subject to taxes.
- However, asset-related national and local consumption taxes that cannot be excluded are expensed in the consolidated fiscal year in which they arise.

(Notes on the non-consolidated balance sheet)

1. Cumulative amount of depreciation for tangible non-current assets 96,428 million yen
2. Cumulative amount of depreciation for real property for investment 6,646 million yen
3. Monetary claims and monetary liabilities for subsidiaries and affiliates
The amounts of monetary claims and monetary liabilities for subsidiaries and affiliates not displayed in segments are as follows:
Monetary claims for subsidiaries and affiliates 119 million yen
Monetary liabilities for subsidiaries and affiliates 3,813 million yen

(Notes on the non-consolidated statements of income)

Amounts of transactions with affiliates

- Amount of operating transactions 20,821 million yen
Amount of non-operating transactions 2,957 million yen

(Notes on the non-consolidated statements of changes in net assets)

1. Type and number of shares outstanding of treasury shares

Type of share	As of April 1, 2018	Increase during the fiscal year ended March 31, 2018	Decrease during the fiscal year ended March 31, 2018	As of March 31, 2018
Common stock (share)	3,437,602	1,487,427	9,800	4,915,229

(Reasons for the above changes)

The details of the increase and decrease are as follows.

- Increase due to purchase of treasury shares based on a resolution passed at a meeting of the Board of Directors 1,486,900 shares
Increase due to the purchasing of shares of less than one unit 527 shares
Decrease due to benefits of stock Benefit Trust 1,300 shares
Decrease due to the exercise of stock options 8,500 shares

2. Matters concerning transactions granting Company stock to employees through a trust account
 - [1] The numbers of shares of the Company held by a trust account included in treasury shares as of the beginning and end of the fiscal year under review
Beginning of the fiscal year under review: shares 185,900
End of the fiscal year under review: 184,600 shares
 - [2] The number of shares of the Company acquired, sold or granted by a trust that are included in the number of treasury shares that increased or decreased during the fiscal year under review
Decreased 1,300 shares

(Notes on tax effect accounting)

1. Significant components of deferred tax assets and liabilities

(Deferred tax assets)

Accrued enterprise taxes	314million yen
Provision for bonuses	364million yen
Allowance for doubtful accounts	16million yen
Provision for retirement benefits	1,593million yen
Long –term accounts payable	127million yen
Provision for point certificate program	959million yen
Asset retirement obligations	266million yen
Depreciation and amortization	3,967million yen
Impairment loss	2,542million yen
Loss on valuation of investment securities	350million yen
Loss on valuation of shares of subsidiaries and associates	27million yen
Allowance for doubtful accounts related to loans receivable from subsidiaries and associates	1,392million yen
Other	310million yen
Deferred tax assets subtotal	12,238million yen
Valuation allowance	-2,186million yen
Total Deferred tax assets	10,051million yen

(Deferred tax liabilities)

Asset retirement obligations	-73million yen
Valuation difference on other securities	-1,367million yen
Total deferred tax liabilities	-1,441million yen
Net deferred tax assets	8,610million yen

2. Major items of significant difference between the statutory effective tax rate and the corporate tax rate after adoption of deferred tax accounting

Statutory effective tax rate	30.70%
------------------------------	--------

(Reconciliation)

Entertainment and other permanently non-deductible expenses	0.08%
Dividends and other permanently non-taxable income	-0.84%
Per capita inhabitant tax, etc.	1.97%
Change in valuation allowances	1.81%
Other	-1.55%
Corporate tax rate after adoption of deferred tax accounting	32.17%

(Notes on non-current assets under leases)

In addition to non-current assets recorded on the non-consolidated balance sheet, some business equipment and manufacturing facilities are used under finance lease contracts that do not transfer ownership of the leased assets to the lessees.

(Notes on transactions with related parties)
Subsidiaries, affiliates and other parties

(Unit: million yen)

Attribute	Company name or name	Ratio of holding voting rights (voting right held by)	Relationship with related party		Contents of transaction	Amounts of transaction	Account name	Balance as of March 31, 2015
			Sharing of concurrent positions by board members, etc.	Business relationship				
Subsidiary	Aoyama Capital Co., Ltd.	Possession Direct 100.0%	Sharing of concurrent positions by three (2) board members	Make loans (Note 1)	Make loans	—	Short-term loans receivable from subsidiaries and associates	7,500
Subsidiary	Eagle Retailing Corporation	Possession Direct 90.0%	—	Make loans (Note 1) (Note 2)	Make loans	—	Long-term loans receivable from subsidiaries and associates	5,500
Subsidiary	FUKURYO Co., Ltd.	Possession Direct 100.0%	Sharing of concurrent positions by two (2) board members	Make loans (Note 1)	Make loans	—	Short-term loans receivable from subsidiaries and associates	4,000
Subsidiary	Minit Asia Pacific Co., Ltd.	Possession Direct 100.0%	Sharing of concurrent positions by one (1) board member	Make loans (Note 1)	Make loans	—	Short-term loans receivable from subsidiaries and associates	5,100

Policy on the determination of the terms and conditions of transactions, etc.

(Note 1) The Company decides interest rates for loans to Aoyama Capital Co., Ltd., Eagle Retailing Corporation, FUKURYO Co., Ltd. and Minit Asia Pacific Co., Ltd. after reasonably considering market interest rates.

(Note 2) The Company records 4,568 million yen as allowance for doubtful accounts for these loans, and also records same amount as Provision of allowance for doubtful accounts at this fiscal year.

(Per share information)

1. Net assets per share 4,338.49 yen
2. Net income per share 224.35 yen

(Note 1) Basis for calculation of profit per share

Net income in non-consolidated statement of income	11,438 million yen
Amount not attributable to common shareholders	— million yen
Net income associated with common stock	11,438 million yen
Average number of common stock outstanding during the year	50,985,093 shares

(Note 2) Treasury shares is included among treasury shares to be deducted in calculations of the average number of shares outstanding during the year for the purpose of calculating profit per share.

Treasury shares is also included among treasury shares to be deducted in calculations of the total number of outstanding shares at the end of the fiscal year for the purpose of calculating net assets per share.

Total number of outstanding shares at the end of the fiscal year of said treasury shares:
184,600 shares

Average number of shares outstanding during the year of said treasury shares: 185,191 shares

(Significant subsequent events)

No corresponding item existed.

Audit Report of the Accounting Auditors (Certified Copy)

Independent Auditor's Audit Report

May 8, 2018

To the Board of Directors of
Aoyama Trading Co., Ltd.

KPMG AZSA LLC

Designated limited liability partner and managing partner	Certified public accountant	Motoharu Iyomasa	(Seal)
Designated limited liability partner and managing partner	Certified public accountant	Ichiro Suruga	(Seal)
Designated limited liability partner and managing partner	Certified public accountant	Satoru Komatsuno	(Seal)

Pursuant to Article 436, Paragraph 2, Item 1 of the Companies Act, we have audited, the financial statements of Aoyama Trading Co., Ltd. ("the Company") which consist of the balance sheet, the statement of income, the statement of changes in net equity, the notes to the financial statements and supplementary schedules thereof for the 54st fiscal year from April 1, 2017 to March 31, 2018.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements and supplementary schedules thereof that give a true and fair view in accordance with accounting principles generally accepted in Japan. This responsibility includes implementing and maintaining internal controls deemed necessary by management relevant to the preparation and fair presentation of the financial statements and supplementary schedules thereof that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements and supplementary schedules thereof based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and supplementary schedules thereof are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and supplementary schedules thereof. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the financial statements and supplementary schedules thereof, whether due to fraud or error. In making those risk assessment, the auditors consider the Company's internal controls relevant to the preparation of the financial statements and supplementary schedules thereof that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and supplementary schedules thereof.

We believe that the audit evidence we have obtained provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements and supplementary schedules thereof present fairly, in all material respects, the financial position of the Company as of March 31, 2012 and the results for the year then ended in conformity with accounting principles generally accepted in Japan.

Other Matters

Neither KPMG AZSA LLC nor its managing partners have any interest in the Company which should be disclosed in compliance with the provisions of the Certified Public Accountants Act.

Corporate Auditors' Report (Certified Copy)

Audit Report

The Board of Corporate Auditors discussed the execution of duties by Directors for the 53rd fiscal year from April 1, 2017 to March 31, 2018, based on the audit reports prepared by the respective Corporate Auditors, and prepared this Audit Report. The Board hereby reports the details as follows.

1. Audit Method of the Corporate Auditors and the Board of Auditors and the Details of the Audits
 - (1) The Board of Corporate Auditors established audit policies and the allocation of duties, etc., for the fiscal year under review, received reports from each Corporate Auditor about the state of implementation and the results of audits, as well as reports from the Directors and independent auditors about the state of execution of their duties, and requested them to provide explanations when needed.
 - (2) Each Corporate Auditor confirmed the auditing standards decided by the Board of Corporate Auditors, the auditing policies, and the allocation of duties; held dialogues with Directors, Internal Audit Department, and employees; strove to establish an environment for collecting information and auditing, and implemented audits according to the following methods:
 - a. Each Corporate Auditor attended meetings of the Board of Directors and other important meetings; received reports from Directors, employees, and other staff on the performance of their duties; requested explanations whenever necessary; inspected important written approvals and other documents; and examined the state of operations and assets at headquarters and principal offices. Meanwhile, the Board of Corporate Auditors communicated and exchanged information with Directors and other staff of subsidiaries, and received reports from subsidiaries whenever necessary.
 - b. Each Corporate Auditor also received reports on the establishment and operations thereof from Directors and employees, and sought explanations as necessary to express opinions about the system to ensure that the performance of duties by Directors as stated in the Business Report conforms to relevant laws, regulations, and the Articles of Incorporation; and the state of systems established based on resolutions of meetings of the Board of Directors concerning the establishment of the system stipulated in Article 100, Paragraph 1 and Paragraph 3 of the Enforcement Regulations of the Companies Act, which is required to ensure the appropriateness of a corporate group consisting of joint-stock companies and their subsidiaries' operations (internal control system).
 - c. In addition, the Board of Corporate Auditors monitored and verified whether the Accounting Auditor maintained its independence and implemented appropriate audits; received reports from the Accounting Auditors on the performance of their duties, and sought explanations whenever necessary. Furthermore, the Board of Corporate Auditors received notice from the Accounting Auditor that the "System for ensuring that duties are performed properly" (matters set forth in each item of Article 131 of the Company Accounting Regulations) is established in accordance with the "Quality Management Standards Regarding Audits" (Business Accounting Council; October 28, 2005) and other standards, and sought explanations whenever necessary.

Based on the above method, the Board of Corporate Auditors examined the business report and the supporting schedules for the current fiscal year, the non-consolidated financial statements (balance sheet, statements of income, statement of changes in net assets, and notes to financial statements), the supporting schedules, and the consolidated financial statements (balance sheet, statements of income, statement of net assets, and notes to financial statements) for the current fiscal year.

2. Audit Results

- (1) Audit results of Business Report and Others
 - a. The Board of Corporate Auditors acknowledges that the business report and the supporting schedules fairly present the Company's conditions in accordance with laws, regulations and the Articles of Incorporation.
 - b. With regard to the performance of duties by Directors, the Board of Corporate Auditors finds no significant evidence of wrongful acts, nor violations of laws, regulations, or the Articles of Incorporation.
 - c. The Board of Corporate Auditors acknowledges that the content of resolutions by the Board of Directors concerning the internal control system is appropriate. In addition, the Board finds no matters on which to remark with regard to the performance of duties by Directors regarding the internal control system.
- (2) Audit results on the Non-consolidated Financial Statements and the Supporting Schedules
The Board of Corporate Auditors acknowledges that the audit method of the Accounting Auditor, KPMG AZSA LLC, and the results thereof are appropriate.
- (3) Audit results of Consolidated Financial Statements
The Board of Corporate Auditors acknowledges that the audit method of the Accounting Auditor, KPMG AZSA LLC, and the results thereof are appropriate.

May 11, 2018

Board of Auditors
Aoyama Trading Co., Ltd.

Corporate Auditor (full time)	Tomokazu Osako	(Seal)
Outside Corporate Auditor	Hiroshi Ogi	(Seal)
Outside Corporate Auditor	Kiyoshi Takegawa	(Seal)
Outside Corporate Auditor	Toru Watanabe	(Seal)

Reference Document for the General Meeting of Shareholders

Proposal No. 1: Appropriation of Retained Earnings

We recognize that returning profits to shareholders is an important management issue, and pay dividends with a targeted consolidated total return ratio of 130% and purchase treasury shares during the period of our medium-term management plan (fiscal year ended March 2016 to fiscal year ending March 2018), aiming to return further profits.

<Our policy for returning profits to shareholders>

[1] Dividend policy

- We target a consolidated dividend payout ratio of 70%.
- We pay 100 yen per share as an ordinary dividend (50 yen for an interim dividend and 50 yen for the year-end dividend), which is a stable dividend, and in case the dividend calculated based on the targeted dividend payout ratio stated above exceeds 100 yen, we pay the difference as a special dividend at the fiscal year-end as a dividend linked to performance. However, the Company may consider the amount of ordinary dividend in case a capital policy is implemented that affects earnings per share including capital increase and stock split.

[2] Policy on purchase of treasury shares

- Purchases of treasury shares will be implemented targeting the amount calculated by excluding the total amount of dividends from 130% of profit attributable to owners of parent.

In accordance with the dividend policy, with respect to the year-end dividend for the current year, as a result of our calculations based on business performance in the current year, we plan to pay 50 yen per share as an ordinary dividend and 70 yen per share as a special dividend, a total of 120 yen per share. We paid 50 yen per share as an interim dividend; therefore the annual dividend per share, including the interim dividend is 170 yen per share.

1. Matters regarding the year-end dividend

(1) Type of dividend property

Cash

(2) Allocation of dividends and total amount of dividends

120 yen per common stock of the Company

Allocation

Ordinary dividend	50 yen
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Special dividend	70 yen
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Total dividends	6,079,606,440 yen
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(3) Effective date on which dividends will be disbursed from retained earnings

June 29, 2018

Proposal No. 2: Partial Amendment to the Articles of Incorporation

1. Reason for the proposal

- (1) Due to the spread of the Internet, in accordance with the applicable ordinance of the Ministry of Justice, we propose to newly establish Article 15 (Internet-based Disclosure of Reference Document for General Meeting of Shareholders and Deemed Provision) to enable the deemed provision of documents by disclosing reference documents for the general meeting of shareholders, etc. via the Internet.
- (2) Other than the above, we propose to change the number of articles following the above amendment and to add, delete and revise some sentences.

2. Content of the amendment

The content of the amendment is as follows.

(Amended parts are underlined.)

Current articles of incorporation	Proposed amendments
Chapter III General Meeting of Shareholders (Newly established)	Chapter III General Meeting of Shareholders <u>(Internet-based Disclosure of Reference Document for General Meeting of Shareholders and Deemed Provision)</u> <u>Article 15</u> In convening a general meeting of shareholders, the Company may deem to have supplied information about matters to be stated or indicated in reference documents for the general meeting, business report, non-consolidated financial statements and consolidated financial statements to shareholders, by disclosing the information via an Internet-based method in accordance with the applicable ordinance of the Ministry of Justice.
Article <u>15</u> – <u>16</u> (Omitted)	Article <u>16</u> – <u>17</u> (Unchanged)
Chapter IV Directors and Board of Directors	Chapter IV Directors and Board of Directors
Article <u>17</u> – <u>18</u> (Omitted) (Term of Office of Directors)	Article <u>18</u> – <u>19</u> (Unchanged) (Term of Office of Directors)
Article <u>19</u> The term of office of each of the Directors shall expire at the close of the ordinary general meeting of shareholders held for the last business year that ends within two years from assumption of office; provided, however, that the term of office of the Director who is elected as a substitute <u>or</u> due to an increase in the fixed number <u>shall be the remaining term of office of the predecessor.</u>	Article <u>20</u> The term of office of each of the Directors shall expire at the close of the ordinary general meeting of shareholders held for the last business year that ends within two years from assumption of office; provided, however, that the term of office of the Director who is elected as a substitute <u>shall be the remaining term of office of the predecessor and the term of office of the Director who is elected due to an increase in the fixed number shall be the remaining term of the other current Directors.</u>
Article <u>20</u> – <u>42</u> (Omitted)	Article <u>21</u> – <u>43</u> (Unchanged)

Proposal No. 3: Election of One (1) Director

The term of office of the Company Director, Mr. Hiroaki Kobayashi will expire at the conclusion of this General Meeting of Shareholders. Accordingly, the Company requests the election of one (1) Director.

The candidate for Director is as follows.

The candidate for Director has been selected in consultation with the Nomination Advisory Committee. *The Nomination Advisory Committee has been established to deliberate and verify personnel matters concerning Directors and Corporate Auditors in order to ensure the objectivity and transparency of the Company's management. The Committee provides the Board of Directors with recommendations on proposals concerning the appointment or dismissal of Directors and Corporate Auditors to be submitted to the General Meeting of Shareholders. The Committee is chaired by an Independent Outside Director and consists of a total of five members, including three other Directors (excluding Representative Directors) and an Outside Director.

Name (Date of birth)	Brief profile and position at the Company (Significant concurrent positions)	Number of the Company's shares owned
Hiroaki Kobayashi (Jul 12 1975)	April 2000 Joined The Hiroshima Bank, Ltd. March 2002 Joined Nitto Seimo Co., Ltd. May 2002 The Head of the President's Office, Nitto Seimo Co., Ltd., July 2005 Director, Nitto Seimo Co., Ltd. January 2007 President, Nitto Seimo Co., Ltd. (current position) Significant concurrent position Representative Director, Nitto Seimo Co., Ltd. Representative Director, Nippon Turning Co., Ltd. Representative Director, Taito Co., Ltd. Outside Director, Aseed Holdings Co., Ltd.	--shares

- (Notes)
- There are no special conflicts of interest between the candidate and the Company.
 - Mr. Hiroaki Kobayashi is a candidate for Outside Director. He is registered as an Independent Officer with the Tokyo Stock Exchange (TSE) since he meets the TSE's independence criteria for outside directors as well as the Company's independence standard for appointing outside directors.
<Independence standard for appointing outside directors>
 - The outside director has never worked for our Group.
 - The outside director's spouse or any relative within the second degree of relationship has never worked for our Group.
 - The outside director has never been affiliated with any of the following organizations that have relationships with the Company.
 - Organizations that are major shareholders
 - Major banks or securities companies
 - Major accounting auditors, business consultants, law firms, etc.
 - Major suppliers and other business partners that have business relationships with the Company
 - Companies and organizations of which the Company is a major business client.
 - The outside director's spouse or any relative within the second degree of relationship has never worked for any of the organizations listed in the preceding paragraph (3).
 - Special remarks regarding the candidate for Outside Director are as follows.
 - Mr. Hiroaki Kobayashi has gained a wealth of experience and knowledge as a corporate manager and runs companies mainly in the field of manufacturing. Therefore, we believe that he is capable of giving us appropriate advice and proposals from a perspective different from that of the Company.
The term of office of Mr. Kobayashi as Outside Auditor, will have been eight (2) years at the conclusion of this General Meeting of Shareholders.

- (2) Regarding the candidates' service over the past five years as Director, Executive Officer, or Auditor of other companies, no corresponding item existed regarding records of violations of Articles of Incorporation or other inappropriate actions by these companies during the candidates' term of office therein.
- (3) Article 28 of the Articles of Incorporation of the Company stipulates that the Company may enter into an agreement with Outside Directors to limit liability due to negligence in performing their duties in order to enable them to do their utmost. Accordingly, the Company concluded a limitation of liability agreement with Mr. Hiroaki Kobayashi. The maximum amount of liability under the agreement is the minimum amount set forth in Article 425, Paragraph 1 of the Companies Act.

Proposal No. 4: Determination of Amount of Post-delivery Type Stock Compensation for Directors

The Company, with a view to granting incentive to Directors of the Company (excluding Outside Directors, hereinafter referred to as “Subject Directors”) to achieve the Company’s medium-term management plan “CHALLENGE II 2020,” proposes to introduce a post-delivery-type stock compensation scheme (hereinafter referred to as “the Scheme”) as described in the “Content of the Scheme” below.

Outline of the Scheme (*Refer to the below “Content of the Scheme” for details.)

- | | |
|--|---|
| Name: | Post-delivery type stock incentive scheme |
| Persons subject to the Scheme: | Subject Directors |
| Number of shares to be delivered: | 2,000 ordinary shares of the Company per Subject Director |
| Major conditions for stock delivery: | |
| 1) Performance target | |
| Consolidated operating income of over 25,000 million yen in the fiscal year ending March 31, 2021 | |
| 2) Condition of incumbency | |
| The term of office must be continued up until the Company’s 57th Ordinary General Meeting of Shareholders to be held in late June 2021. | |
| (Including the case where the term of office continues even after positions of subject Directors are changed to Executive Officers of the Company or Directors or Executive Officers of the Company’s domestic consolidated subsidiaries.) | |

The Company, with a view to granting incentive to Subject Directors to achieve the Company’s medium-term management plan “CHALLENGE II 2020” appropriately, proposes to grant cash remuneration claim as remuneration, etc. on the scheme within the limit of 600 million yen per year as resolved at the 42nd Ordinary General Meeting of Shareholders held on June 29, 2006. (The amount includes officers’ bonuses but does not include the portion of employee’s salary for Directors who concurrently serve as employees .).

The Scheme contributes to giving the Subject Directors incentive to achieve the Company’s medium-term management plan “CHALLENGE II 2020,” and the Company believes that its content is appropriate in this light.

It should be noted that there are now seven (7) Directors (of which two (2) are Outside Directors) in the Company, and this number will remain unchanged even if Proposal 3 is approved as originally proposed.

Content of the Scheme

(1) Outline of the Scheme

The Scheme is a post-delivery type stock compensation scheme. In the case where the Company achieves the performance target of consolidated operating income of over 25,000 million yen and other targets in the final year of the Company's medium-term management plan "CHALLENGE II 2020" (fiscal year ending March 31, 2021), it shall grant 2,000 shares of the Company's ordinary stock to each of the Subject Directors after the day of General Meeting of Shareholders held for the final fiscal year as remunerations, etc. for the period from the next day of the Company's General Meeting of Shareholders held in the first year up until the day of the Company's General Meeting of Shareholders held in the last year of the medium-term management plan (hereinafter referred to as "the Day of General Meeting of Shareholders in the Final Fiscal Year") (hereinafter referred to as the "Subject Period").

(2) Mechanism of the Scheme

Details on how the Scheme works are as follows.

- [1] The Company, in the case where delivery condition of (4) below is fulfilled, shall grant the Company's ordinary stock whose number is defined in (3) below as remunerations, etc. for the Subject Period after the Day of General Meeting of Shareholders in the Final Fiscal Year. It should be added that if condition (4) below is not fulfilled, the Company shall not grant the ordinary stock of the Company if the delivery condition defined in (4) is not met.
- [2] The Company, when delivering the Company's ordinary shares to each of the Subject Directors as stipulated in (1) above, shall grant cash remuneration claim for investment in kind to each of the Subject Directors in accordance with the number of the Company's ordinary shares to be delivered to each of them, and each of the Subject Directors shall be allocated the Company's ordinary shares by paying all of the said cash remuneration claim in the method of investment in kind. In this case, the paid-in amount of the Company's ordinary shares shall be determined by the Board of Directors based on the closing price of the Company's ordinary stock listed on the Tokyo Stock Exchange on the previous business day of the Company's Board of Directors meeting day, in which the resolution for the issuance or disposal of the shares was reached (in the case where no transaction was executed on the said day, the closing price of the most recent transaction date prior to the said day), within a price range that will not give a particular advantage to each of the Subject Directors.

(3) Number of the Company's ordinary shares to be delivered to the Subject Directors based on the Scheme

Based on the Scheme, the number of the Company's ordinary shares to be delivered to each of the Subject Directors in the case where the delivery condition of (4) below is met shall be 2,000*. The Company set the number of shares that it deems to be appropriate as incentives by considering the current level of total remuneration amount for each of them.

*For Directors who have newly acquired the position of Subject Director during the Subject Period, the number of shares to be granted by the Company shall be determined by the Company's Board of Directors based on a rational method in proportion to their period of term of office.

However, in the case where the Company's shares undergo a share split (including allotment of ordinary shares without contribution) or reverse share split, etc. after the resolution day of this proposal and the number of issued shares increases or decreases, the number of shares to be delivered to each of the Subject Directors shall be adjusted according to the split ratio or reverse split ratio, etc. rationally.

Furthermore, if the 600 million yen annual upper limit of Directors' remuneration falls short of the total paid-in amount based on the number of the Company's ordinary shares calculated by the above, the number of shares to be delivered to each of the Subject Directors shall be reduced using a rational method such as proportional division stipulated by the Board of Directors until the total paid-in amount becomes 600 million yen per year.

(4) Delivery conditions of the Company's ordinary shares in the Scheme

In the Scheme, the Company shall deliver the Company's ordinary shares to each of the Subject Directors in the number calculated based on the above (3) after the Day of General Meeting of Shareholders in the Final Fiscal Year in case the following conditions are met.

When the Company delivers the Company's ordinary shares, it shall be done by the method of share issuance or disposition of treasury shares, and the Subject Directors to whom the Company's ordinary shares would be delivered and the number of shares to be delivered shall be determined in the Company's Board of Directors meeting after the Day of the General Meeting of Shareholders in the Final Fiscal Year in accordance with the conditions described in 1) through 4) below and above (3).

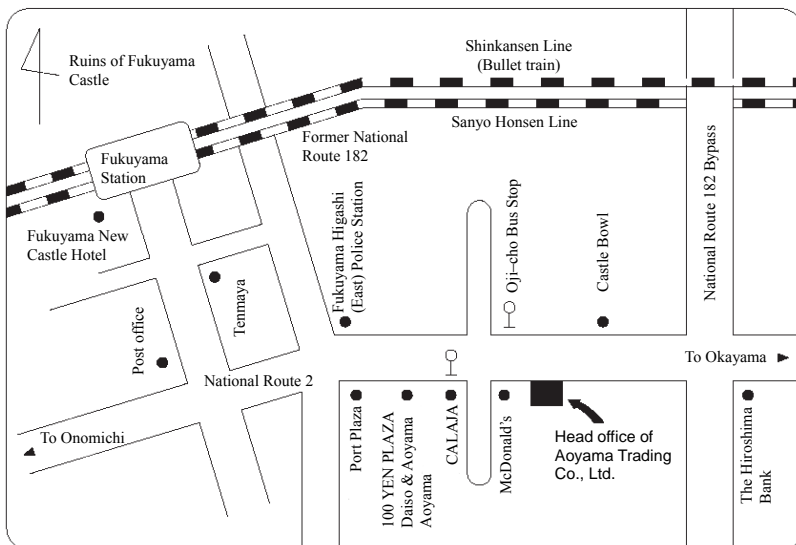
- [1] Consolidated operating income of 25,000 million yen or more in the final fiscal year of the medium-term management plan "CHALLENGE II 2020" has been achieved.
- [2] The Subject Directors have continued to assume the position of the Company's Directors or Executive Officers or domestic consolidated subsidiaries' Directors or Executive Officers until the Day of General Meeting of Shareholders in the Final Fiscal Year.
- [3] There have been no illegal activities stipulated by the Company's Board of Directors.
- [4] No proposal concerning reorganization, etc. such as a merger agreement in which the Company would be absorbed, or share exchange agreement or share transfer plan in which the Company would become a wholly-owned subsidiary, or any other plans stipulated by the Company's Board of Directors, has been approved by the Company's General Meeting of Shareholders (provided, however, that in the case where the said reorganization, etc. does not require approval at the Company's General Meeting of Shareholders, then no proposal has been approved by the Company's Board of Directors).

Reference

The Company intends to introduce a similar post-delivery type stock incentive scheme for the Company's Executive Officers and Representative Directors of the Company's domestic consolidated subsidiaries on condition that this proposal is approved.

(Map to the venue of the General Meeting of Shareholders)

Venue 4F, Meeting Room of Head Office,
Aoyama Trading Co., Ltd.
1-3-5 Oji-cho, Fukuyama-shi, Hiroshima
Phone: 084-920-0050



◎ Public Transportation 2 km from Fukuyama Station on JR Sanyo Shinkansen Line and Sanyo Honsen Line
In front of Oji-cho Bus Stop of Chugoku Bus and Ikasa Bus