ZENSHO

Financial Results (Consolidated) for Fiscal Year Ended March 2016 (Japanese accounting standards)

May 12, 2016

Name of listed firm:	**Zensho Holdings Co., Ltd.**	Exchange: TSE	
Code no.:	7550	URL http://www.zensho.co.jp/	
Representative:	(title) Chairman of the Board and CEO	(name) Kentaro Ogawa	
Address any inquiries to:	(title) Senior General Manager of Group Finance and Accounting Division	(name) Kiyohiko Niwa	(tel.) 03 (6833) 1600

Date of annual general meeting of shareholders (planned): June 24, 2016
Starting date of dividend payment (planned): June 27, 2016
Date of submittal of securities report (planned): June 27, 2016
Supplemental explanatory materials on consolidated financial results prepared? Y / N
Investors meeting held on settlement of accounts? Y / N (for institutional investors)

(Figures rounded down to the nearest million yen)

1. Consolidated financial performance in the fiscal year ended March 2016 (April 1, 2015 – March 31, 2016)

(1) Consolidated business performance (Percentages [%] indicate changes from the previous year)

	Sales		Operating profit		Ordinary profit		Net profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY 2016	525,709	2.7	12,113	384.9	11,380	295.8	4,026	–
FY 2015	511,810	9.3	2,498	(69.3)	2,875	(63.9)	(11,138)	–

(Reference) Comprehensive income FY 2016: 2,035 million yen (–%) FY 2015: (5,632) million yen (–%)

	Net profit per share	Net profit per share–assuming dilution	Return on equity (ROE)	Return on assets (ROA)	Operating profit ratio
	yen	yen	%	%	%
FY 2016	27.09	–	6.6	4.0	2.3
FY 2015	(74.97)	–	(17.2)	1.0	0.5

(Reference) Gain/loss on equity-method investments FY 2016: – million yen FY 2015: – million yen

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
	Millions of yen	Millions of yen	%	yen
FY 2016	278,340	75,060	22.2	412.18
FY 2015	289,467	74,233	21.0	410.09

(Reference) Equity capital FY 2016: 61,668 million yen FY 2015: 60,929 million yen

(3) Consolidated cash-flow position

	Cash flow from operating activities	Cash flow from investing activities	Cash flow from financing activities	Ending balance of cash and cash equivalents
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
FY 2016	25,455	(20,814)	(13,138)	20,925
FY 2015	17,368	(23,111)	(9,352)	29,428

2. Dividend position

	Annual dividends					Total dividends (full-year)	Payout ratio (consolidated)	Dividend on equity ratio (consolidated)
	End of Q1	End of Q2	End of Q3	Year-end	Total			
	yen	yen	yen	yen	yen	Millions of yen	%	%
FY 2015	–	0.00	–	0.00	0.00	–	–	–
FY 2016	–	4.00	–	5.00	9.00	1,342	33.2	2.2
FY 2017 (forecast)	–	8.00	–	8.00	16.00		34.1	

3. Consolidated business performance forecasts for FY 2017 (April 1, 2016 – March 31, 2017)

(Percentages [%] indicate changes from the previous year for annual figures and year-on-year changes for quarterly figures.)

	Sales		Operating profit		Ordinary profit		Net profit		Net profit per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	yen
Q2 (cumulative)	277,679	5.4	9,552	51.5	9,099	55.3	4,631	86.6	30.95
Full year	558,861	6.3	17,710	46.2	16,772	47.4	7,029	74.6	46.98

Notes

(1) Important changes in subsidiaries (changes in specified subsidiaries involving changes in scope of consolidation) during this fiscal year — Y / [N]

New: ____ company(ies); name: ____________ Removed: ____ company(ies); name: ____________

(2) Changes in accounting policies, changes in accounting estimates, corrections

(i) Changes in accounting policies involving revisions of accounting standards: [Y] / N

(ii) Other changes in accounting policies: Y / [N]

(iii) Change in accounting estimates: Y / [N]

(iv) Corrections Y / [N]

Note: See "5. Consolidated financial statements (5) Notes on consolidated financial statements (Changes in accounting policies)" on p. 21.

(3) Shares issued and outstanding (common stock)

(i) Number of shares issued and outstanding (including treasury stock) at the end of the period	FY 2016	149,640,445	shares	FY 2015	148,600,000	shares
(ii) Number of shares of treasury stock at the end of the period	FY 2016	23,991	shares	FY 2015	23,823	shares
(iii) Average number of shares during the fiscal year	FY 2016	148,618,714	shares	FY 2015	148,576,277	shares

Note: See "Per-share information" on p. 26 concerning the number of shares on which calculations of net profit per share (consolidated) are based.

1. Non-consolidated financial performance in the fiscal year ended March 2016 (April 1, 2015 – March 31, 2016)

(1) Non-consolidated business performance (Percentages [%] indicate changes from the previous year)

	Sales		Operating profit		Ordinary profit		Net profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY 2016	249,797	7.2	3,767	(8.5)	5,142	(28.2)	3,994	—
FY 2015	233,113	9.9	4,116	205.1	7,161	83.0	(4,588)	—

	Net profit per share	Net profit per share–assuming dilution
	yen	yen
FY 2016	26.88	—
FY 2015	(30.88)	—

(2) Non-consolidated financial position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
	Millions of yen	Millions of yen	%	yen
FY 2016	284,746	56,954	20.0	380.67
FY 2015	280,819	52,051	18.5	350.34

(Reference) Equity capital FY 2016: 56,954 million yen FY 2015: 52,051 million yen

Notes on implementation of audit procedures

These Financial Results are not subject to audit procedures under the Financial Instruments and Exchange Act. Audit procedures were underway for financial statements at the time of release of these Financial Results.

Notes on appropriate use of forecasts of business performance and other notes

The forecast figures indicated above are projections based on the information available at the time they were prepared. They include some degree of uncertainty. Actual business performance and other results may differ from the forecast figures indicated above. See p. 3 of the Appendix for information on the above forecast figures.

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1. Business performance and financial position

(1) Analysis of business performance

In this consolidated fiscal year (from Apr. 1, 2015 to Mar. 31, 2016), the Japanese economy moved into a gradual recovery phase with continued improvements in corporate earnings and the employment situation, however, uncertainty remained with concerns of an economic slowdown in emerging Asian countries, including China, and resource-rich countries.

In the restaurant industry, business conditions remain harsh as the sluggish growth in real wages, etc. are inhibiting recovery in consumer spending.

Under these circumstances, the sales of existing stores in the Gyudon category such as Sukiya, the Family Dining category such as Coco's and Jolly Pasta and the Fast Food Service category such as Hamasushi were 102.9% year-on-year, 98.0% year-on-year, and 99.2% year-on-year, respectively. Regarding the profit, despite the rise in ingredient prices including beef prices, there was an increase in profit compared to the previous year as the late-night store operations of the Gyudon chain, "Sukiya," have been resumed and other reasons.

At the end of this consolidated fiscal year, the Group's number of stores stood at 4,812 locations. Events contributing to this figure included the opening of 140 restaurants and the closing of 58 restaurants.

Consequently, the business performance in this consolidated fiscal year showed sales of 525,709 million yen (up 2.7% year-on-year), operating income of 12,113 million yen (up 384.9% year-on-year), ordinary income of 11,380 million yen (up 295.8% year-on-year), and profit attributable to owners of parent of 4,026 million yen (loss attributable to owners of parent of 11,138 million yen in the previous year).

An overview of conditions by business segment is provided below.

① Restaurant business

The sales of the restaurant business in this consolidated fiscal year were 464,258 million yen (up 1.3% year-on-year), and operating income was 11,979 million yen (up 239.4% year-on-year).

The performance of the restaurant business for each major category is as follows.

Gyudon category

With the opening of 70 restaurants and the closing of 34 restaurants, the number of restaurants in the Gyudon category at the end of this consolidated fiscal year totaled at 2,617. This figure includes 1,969 outlets in the Sukiya chain and 470 outlets (including 15 franchised outlets) in Nakau chain.

Sukiya, a gyudon chain operated by Sukiya Co., Ltd., revised the recipe of Gyudon, increasing the amount of beef and onion, under the concept of "New Value," and changed its price from 291 yen (270 yen plus tax) to 350 yen (tax included) on April 15, 2015. In addition, Sukiya has made efforts to improve its performance by launching new and seasonal dishes, including "Gyu-bibinba-don-teishoku (set meal with a beef bibimbap rice bowl)" (regular size: 580 yen (tax included)) and "Gyu-sukinabe-teishoku (beef sukiyaki pot set meal)" (regular size: 680 yen (tax included)), and implementing the campaign titled "Autumn Meat Festival (discounting 60 yen from the gyudon price)," "Gyudon-tonjiru-oshinko" (set meal composed of a gyudon, pork soup and pickled vegetables) and "Gyudon-tonjiru-tamago" (set meal composed of a gyudon, pork soup and egg) (regular size: 490 yen) to promote more customers to enjoy the gyudon with "New Value." Sukiya is striving to strengthen quality controls and improve its service to allow customers to continue to enjoy safe and delicious products.

Nakau, rice bowl dishes and Kyoto-style udon noodle chain operated by Nakau Co., Ltd., sought to improve business performance by undertaking various sales promotions while strengthening the attraction of its products by introducing new and seasonal products and improving existing products.

Due to these efforts, sales in the Gyudon category in this consolidated fiscal year totaled 186,886 million yen (up 7.7% year-on-year).

Family Dining category

With the opening of 7 restaurants and the closing of 5 restaurants, the number of restaurant locations in the Family Dining category stood at 1,367 outlets (including 78 franchised outlets) at the end of this consolidated fiscal year.

Coco's, the standard restaurant chain operated by Coco's Japan Co., Ltd., has made efforts to improve its business performance, by enriching the menu, introducing dainty campaign menus, and improving the standard of service across the chain.

Big Boy, the chain of hamburg steak and grill restaurants and other chain operated by Big Boy Japan Inc. sought to improve business performance in various ways, such as improving their main products, enhancing salad bar and soup bar, and adding special menus.

Jolly Pasta, the pasta specialty restaurant chain, operated by Jolly Pasta Co., Ltd., sought to make its menus even more delicious by enriching menus and introducing new dishes using seasonal ingredients. Jolly Pasta have pursued the chain's identity as a pasta specialist, under the slogan "When you want pasta, it's Jolly Pasta".

To increase customer satisfaction, Hanaya Yohei, the Japanese-cuisine restaurant chain operated by Hanaya Yohei Co., Ltd. targeted various improvements, including improving service by strengthening training of in-store employees, improving labor productivity, and developing products that use seasonal ingredients.
As for the restaurant business in the U.S., all shares of the company operating this business were transferred at the end of the previous consolidated fiscal year.
Due to these efforts, sales in the Family Dining category in this consolidated fiscal year totaled 131,240 million yen. (down 13.7% year-on-year)

Fast Food Service category
With the opening of 62 restaurants and the closing of 14 restaurants, the number of restaurant locations in the Fast Food Service category at the end of this consolidated fiscal year stood at 730 outlets.
"Hamasushi", kaiten-sushi restaurants (sushi restaurants with conveying belts) operated by Hamazushi Co., Ltd., sought to expand their businesses by increasing the number of restaurants, enhancing quality of products and strengthening services at the restaurants.
Due to these efforts, sales in the Fast Food Service category in this consolidated fiscal year totaled 118,710 million yen (up 12.4% year-on-year).

Other category
Sales in the Other category in this consolidated fiscal year totaled 27,421 million yen (up 1.2% year-on-year).
Main businesses in this category include Tolona Japan Co., Inc., which sells frozen pizza, etc.; Global Fresh Supply Co., Ltd., a company which handles logistics functions for the Zensho Group; and Global Table Supply Co., Ltd., which procures uniforms, equipments etc.

② Retail business
Sales in retail business in this consolidated fiscal year were 61,451 million yen (up 14.8% year-on-year) and operating income was 134 million yen (operating loss of 1,077 million yen in the same period of the previous year).
The retail business of our company in this consolidated fiscal year is operated by Maruya Co., Ltd., Maruei Co., Ltd., and VERY FOODS -Owariya-, which operates the supermarket business, and United Veggies Co., Inc., which sells fruits and vegetables.

As for the outlook for the next term, there will be continuing uncertainty, with concerns that a fall in real income level from the raising of the consumption tax could lead to a downturn in consumer confidence.
Given these conditions, as an enterprise providing safe, delicious food at reasonable cost to people all around the world, the Zensho Group will continue to strengthen the brands within each of its business types. Efforts targeting this goal include the pursuit of food safety, improvements in the quality of restaurants, and the development of a comfortable working environment for employees. In pursuit of group synergies, the Zensho Group will also seek to achieve sustained improvements in product quality and cost through a mass-merchandising system (MMD), through which it implements integrated design and management of activities ranging from procurement of food materials through production, logistics, and in-store sales.
The Group projects the following full-year business performance figures: 558,861 million yen in net sales (up 6.3% from the previous year); 17,710 million yen in operating income (up 46.2% from the previous year); 16,772 million yen in ordinary income (up 47.4% from the previous year); and 7,029 million yen in profit attributable to owners of parent (up 74.6% from the previous year).

(2) Analysis of financial position

(i) Position of assets, liabilities, and net assets

(Assets)
At the end of this consolidated fiscal year, the assets decreased by 11,127 million yen from the end of the previous consolidated fiscal year to 278,340 million yen, mainly due to the decrease in cash and deposits resulting from the repayment of borrowings.

(Liabilities)
At the end of this consolidated fiscal year, liabilities decreased by 11,953 million yen from the end of the previous consolidated fiscal year to 203,280 million yen, mainly due to the decrease in borrowings and consumption tax payable.

(Net assets)
At the end of this consolidated fiscal year, net assets increased by 826 million yen from the end of the previous consolidated fiscal year to 75,060 million yen, mainly due to the increase in retained earnings.

(ii) Cash-flow position

	Amount
Beginning balance in cash and cash equivalents	29,428 million yen
Operating cash flow	25,455 million yen
Investing cash flow	(20,814 million yen)
Financing cash flow	(13,138 million yen)
Ending balance in cash and cash equivalents	20,925 million yen
(Reference) Free cash flow	4,640 million yen

Cash and cash equivalents (“funds” hereinafter) totaled 20,925 million yen at the end of this consolidated fiscal year. This was due to the expenses for opening new stores, the repayment of debts, the payment of interests, corporate income tax, dividends, etc. despite the increase in funds by posting of net profit before taxes and other adjustments and depreciation and amortization.

(Cash flow from operating activities)

Cash flow from operating activities resulted in an increase in funds of 25,455 million yen. This was mainly due to the posting of net profit before taxes and other adjustments and depreciation and amortization.

(Cash flow from investing activities)

Cash flow used in investment activities resulted in a decrease in funds of 20,814 million yen. This was mainly due to expenditures on acquisition of tangible fixed assets to open new restaurants.

(Cash flow from financing activities)

Cash flow from financing activities resulted in a decrease in funds of 13,138 million yen. This was mainly due to the repayment of debts and lease obligations, the payment of dividends, etc.

(Reference) Trends in cash flow indicators

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Equity ratio (%)	16.2	16.5	23.4	21.0	22.2
Equity ratio on market price basis (%)	52.1	58.1	51.2	59.7	72.5
Debt repayment period (years)	6.0	6.9	7.5	9.2	5.5
Interest coverage ratio (times)	10.3	10.3	11.6	9.9	21.4

Notes: 1. Equity ratio: equity capital/total assets

Market value basis equity ratio: total market value of stock/total assets

Debt repayment period: interest-bearing debt/operating cash flow

Interest coverage ratio: operating cash flow/interest payments

2. Each of the above indicators is calculated using financial figures on a consolidated basis.
3. The total market value of stock is calculated as follows: year-end closing price × year-end number of shares issued and outstanding (after subtracting treasury stock).
4. The figure for cash flow from operating activities on the consolidated statement of cash flows is used as operating cash flow. The figure for payment of interest on the consolidated statement of cash flows is used as interest payments.
5. Interest-bearing debt includes lease obligations.

(3) Basic policy on distribution of profits and dividends for the current year and next year

Regarding the stable return of profits to its shareholders as among its key management goals, the Zensho Group applies a basic policy of distributing profits in accordance with business performance while actively expanding its lines of business and enhancing internal reserves.

In accordance with the above policy, the annual dividend for this consolidated fiscal year is estimated to be 9 yen per share: an interim dividend of 4 yen per share and a term-end dividend of 5 yen per share.

As for dividends in the next fiscal year, in accordance with the above policy, plans call for payment of 16 yen per share, consisting of 8 yen per share in an interim dividend and 8 yen per share in a term-end dividend.

(4) Business risks and other risks

Provided below is an overview of business risks and various other risks Zensho Holdings and the Zensho Group face that may have a significant impact on management decisions. Recognizing the possibility of these risks, the Company will seek to avoid them while preparing to respond appropriately in the event that they do occur. This information includes forward-looking statements that reflect judgments made as of the end of this consolidated fiscal year.

(i) Procurement of raw materials

Events such as supply instabilities or the rising cost of food materials in the event of disease outbreaks (past examples include bovine spongiform encephalopathy (BSE) or avian influenza), unseasonable weather, or natural disasters may harm the business performance and financial position of Zensho Holdings and the Zensho Group.

(ii) Control of safety of food products

While the Group pursues thorough quality and sanitation control to provide safe, delicious products to its customers, factors such as damage to the corporate image in the event of mass food poisoning or other health and safety problems may harm the business performance and financial position of Zensho Holdings and the Zensho Group.

(iii) Regulatory environment

In addition to the Companies Act, the Financial Instruments and Exchange Act, the Corporation Tax Act, and other generally applicable laws and regulations, the Group is also subject to various legal regulations and systems governing restaurant management, including the Food Sanitation Act, the Labor Standards Act, and the Container and Packaging Recycling Act. New costs required to comply with future strengthening in these regulations may harm the business performance and financial position of Zensho Holdings and the Zensho Group.

(iv) Dependence on main businesses

The Zensho Group currently consists of Gyudon category, Restaurant category, Fast food category, and other categories. Through expansion, the Group is in the process of building a structure less dependent on any single business type. Nevertheless, events affecting the performance of a single business type, including problems in procuring food materials or other risks, may still harm the business performance and financial position of Zensho and the Zensho Group.

(v) Securing of human resources

It is important for Zensho Holdings and the Zensho Group to secure human resources, in order to keep operating stores that can satisfy customers. Accordingly, we concentrate on securing personnel by maintaining a comfortable working environment for employees, but if it becomes impossible to secure adequate employees due to the poor balance between labor supply and demand, this may affect the business performance and financial status of Zensho Holdings and the Zensho Group.

(vi) Business performance of businesses subject to M&A activities

Through now, the Zensho Group has endeavored to grow its lines of business through mergers and acquisitions (M&A) in addition to opening new restaurants. While in an M&A dedicated sections carefully research the subject business from multifaceted points of view through the due-diligence process, there is a possibility that revenue improvements could not be implemented as originally planned or that it would not be possible to maintain the management team, employees, or customer base following the merger or acquisition. It is also possible that contingent liabilities or unrecognized liabilities could arise after an M&A, the occurrence of which may harm the business performance and financial position of Zensho Holdings and the Zensho Group.

(vii) Risk of natural disasters

In the event of a natural disaster such as a large-scale earthquake, flood, or typhoon in regions that include locations of Zensho Group restaurants or plants, the scope of the actual damage may render it difficult to carry out ordinary business activities, harming the business performance and financial position of Zensho Holdings and the Zensho Group.

(viii) Increase in energy costs, including electricity charges

Since the Zensho Group operates stores nationwide and owns factories, Energy Strategy Division was established in February 2014, for designing energy strategies and promoting energy saving. However, if energy costs, including electricity charges, augment considerably due to the skyrocketing of prices of energy resources, such as crude oil, this may affect the business performance and financial status of Zensho Holdings and the Zensho Group.

(ix) Rising interest rates

Until now, the Zensho Group has raised some of the funds used for capital investments in restaurants and other facilities and in M&A activities by borrowing from financial institutions. This is intended to make the most of the historically low interest rates of recent years. While the Group does hedge against rising interest rates by employing a ratio of fixed assets to net worth of 97.6%, from a long-term perspective, rising cost burdens due to rising interest rates may harm the business performance and financial position of Zensho Holdings and the Zensho Group.

(x) Asset-impairment accounting

Impairment losses recorded by the Group in the future based on asset-impairment accounting for fixed assets may harm the business performance and financial position of Zensho Holdings and the Zensho Group.

(xi) Dependence on leased restaurant properties

The Zensho Group leases the land and buildings for its offices and most of its restaurants. While leases can be renewed with the agreement of the lessor, the lessor may terminate the lease agreement for his or her own reasons. It is also possible that a restaurant may be forced into unplanned closure due to the early termination of a lease for the lessor’s own reasons. These events may harm the business performance and financial position of Zensho Holdings and the Zensho Group.

(xii) Store establishment strategies and restaurant operation

The Zensho Group predicts sales based on the population, traffic volume, and the situations of competitors’ stores in the trading area of each candidate site for opening a store, and discusses conditions, including rent, before selecting a site for establishing a store. However, if the sites that satisfy the conditions for opening stores decrease and store establishment plans are revised or the location environment changes, this may affect the business performance and financial status of Zensho Holdings and the Zensho Group.

(xiii) Foreign exchange risks

Zensho Holdings and the Zensho Group purchase some raw materials from overseas. Exchange rate fluctuations affect the cost of such materials. While the Group seeks to minimize its exposure to foreign exchange risk through forward foreign exchange contracts and other means, there is no guarantee that it will be able to hedge against all foreign exchange risk in a timely manner in accordance with growth in business performance. Thus, rising costs in the event of short-term violent fluctuations in exchange rates may harm the business performance and financial position of Zensho Holdings and the Zensho Group.

2. Group position

The Zensho Group consists of 70 companies—Zensho Holdings and 69 subsidiaries—and carries out a broad range of business activities in the food business.

① Restaurant business (share of Group sales: 88.3%)

(1) Gyudon category (share of Group sales: 35.5%)

Sukiya Co., Ltd. and its subsidiaries run directly operated outlets of Sukiya, a family Gyudon chain, across Japan, striving to provide a broad range of customers, including families, with an abundant choice of value-priced products and satisfying service.

Nakau Co., Ltd. offers both directly operated and franchised outlets of Nakau, rice bowl dishes and Kyoto-style udon noodle chain that provide customers with high quality food.

(2) Restaurant category (share of Group sales: 25.0%)

Coco's Japan Co., Ltd. offers both directly operated and franchised outlets of Coco's, a standard restaurant selling meals in the 1,000-yen price range, across Japan.

Big Boy Japan Inc. directly operates hamburg steak, grill and salad-bar restaurants. It directly operates Big Boy restaurants chiefly in the Kanto, Kansai, and Tohoku regions of Japan and the Victoria Station restaurants in Hokkaido.

Jolly-Pasta Co., Ltd. directly operates Jolly Pasta, pasta specialty restaurant chain, primarily in the Kanto and Kansai regions.

Hanaya Yohei Co., Ltd. directly operates the Hanaya Yohei chain of Japanese-cuisine restaurants in the Kanto region.

(3) Fast food category (share of Group sales: 22.6%)

Hamazushi Co., Ltd. directly operates the Hamasushi chain of conveyer-belt sushi restaurants.

A- Dining Co., Ltd. directly operates the udon restaurant "Kyubeiya" and "Seto Udon," the ramen restaurant "Denmaru," etc. mainly in Kanto and Kansai regions.

(4) Other (share of Group sales: 5.2%)

The main businesses of Tolona Japan Co., Ltd. are the sale of sells frozen pizza, etc..

The main businesses of Sanbishi Co., Ltd. are the production and sale of soy sauce and other seasonings.

The main businesses of Techno Support Co., Ltd. are facilities and maintenance.

The main businesses of Zensho Tradings Co., Ltd. are the purchase and sale of food materials.

The main business of Global Fresh Supply Co., Ltd. is the nationwide distribution of food materials.

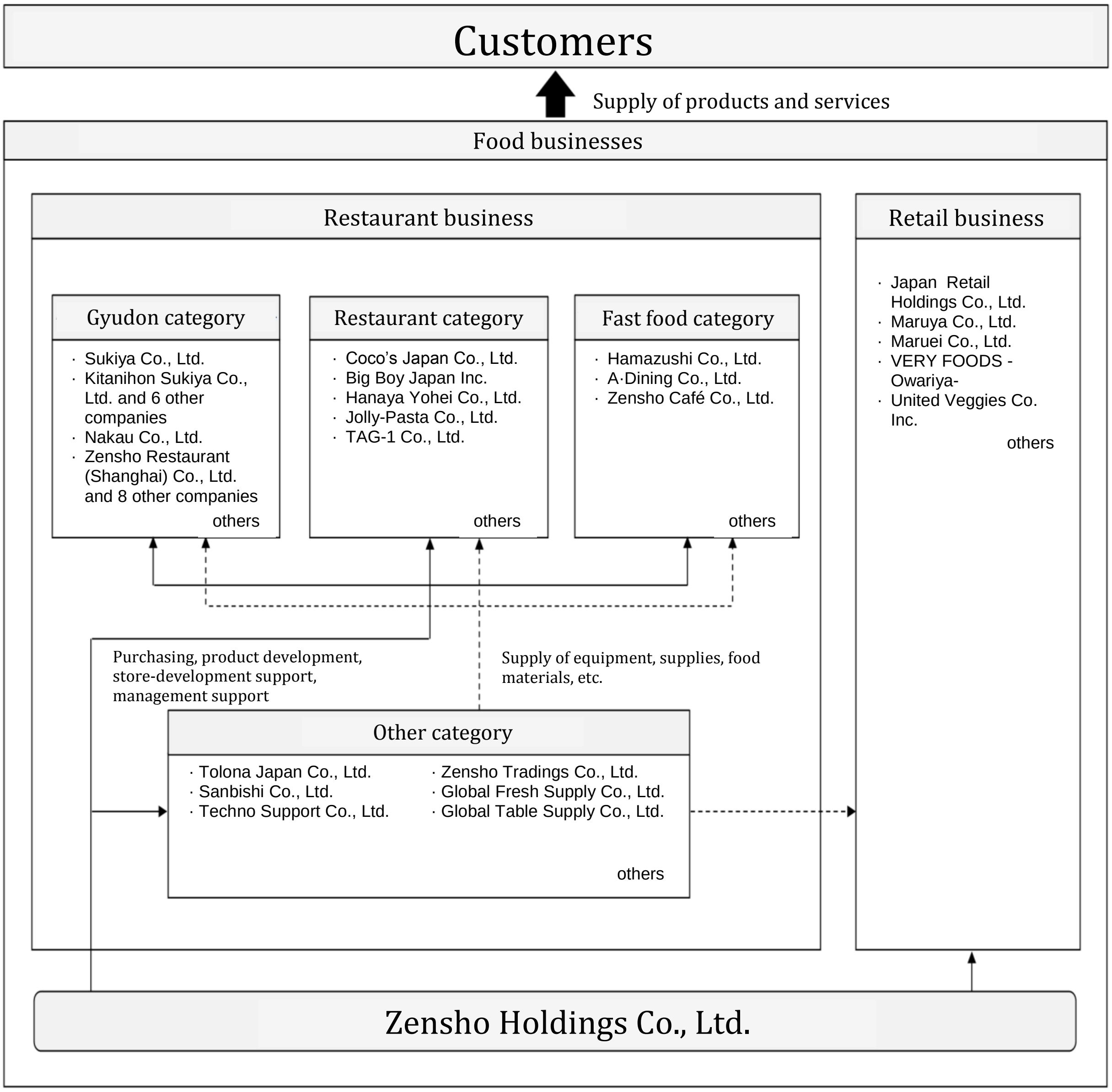
The main business of Global Table Supply Co., Ltd. is the sale of supplies and equipment.

② Retail business (share of Group sales: 11.7%)

The main business of Maruya Co., Ltd., Maruei Co., Ltd., and VERY FOODS -Owariya- is the operation of supermarkets.

The main business of United Veggies Co. Inc. is the sale of fruits and vegetables.

The following diagram illustrates the business structure of Zensho Group.



3. Management policies

(1) The Company's basic management policies

Based on the fundamental philosophy of eradicating hunger and poverty from the world, the Zensho Group does business around the world. Its mission is to provide people around the world with safe, delicious food at reasonable price by developing a broad range of food businesses. To provide safe, high quality products and services to its customers, it strives to develop a mass-merchandising system (MMD) to plan and design all processes ranging from menu development through procurement of food materials, production and processing, logistics, and sales, and to implement integrated control of these processes.
By putting this MMD into practice, we strive to develop restaurants that can be used safely and conveniently by a wide range of customers at any time. We also strive to expand our lines of business and increase efficiency and to increase shareholder value.

(2) Target management indicator

As an important management indicator for increasing returns to shareholders and improving corporate value, the Zensho Group targets an ordinary profit ratio of 10%.

(3) Mid- to long-term Company management strategies and topics

Zensho Group will address the following points as key topics:

(i) Progress on MMD

To allow its customers to enjoy safe, delicious products with peace of mind and to ensure safety from the raw materials stage through the MMD, the Zensho Group has sought to improve business performance, expand its lines of business, and pursue group synergies. By further strengthening these efforts, we will pursue food safety, improve product quality, and improve costs.

(ii) Growth by opening new restaurants and through M&A activities

In addition to an ongoing energetic program to open new restaurants in categories in which it offers competitive strengths, both in Japan and worldwide, the Group will also make it possible to open new restaurants in other categories by strengthening their competitive capabilities. We will also consider further strengthening the MMD through M&A activities.

(iii) Brand progress

We will build our brands by pursuing quality, quick service, and cleanliness (QQSC) in all our businesses, while moving ahead to build spaces in which customers can enjoy their food in comfort.

(iv) Food safety

We regard assuring food safety on behalf of our customers as the most important issue we face. Through our Food Safety Pursuing Division, responsible for food safety group-wide, we will pursue food safety by strengthening efforts in areas including sanitary management in restaurants, securing traceability of food materials, and quality testing of food materials.

(v) Improvement of the working environment of "Sukiya"

Since the issues regarding the working environment at Sukiya, which is operated by our consolidated subsidiary Sukiya Co., Ltd., came to the surface in February 2014, we have been continuously implementing a number of improvement measures, including thorough personnel management to prevent long working hours, the establishment of multiple work systems for the late night shift, further compliance training for managerial levels, and further opportunities for communicating with store personnel. As a result, the working environment at the stores has been improving.
In this fiscal year, we will work to achieve thorough compliance with the Labor Standards Act and other related laws, by reinforcing the working hour management system, etc.

4. Basic policy on selection of accounting standards
Most stakeholders of our corporate groups are shareholders, creditors, business partners, et al. in Japan. Accordingly, the Japanese accounting standards have been adopted.

5. Consolidated financial statements

(1) Consolidated balance sheet

(Units: Millions of yen)

	Previous consolidated fiscal year (March 31, 2015)	This consolidated fiscal year (March 31, 2016)
Assets		
Current assets		
Cash and deposits	29,428	20,925
Notes and accounts receivable – trade	4,837	5,443
Merchandise and products	19,171	17,988
In-process inventories	571	515
Raw materials and supplies	3,457	3,808
Deferred income taxes	1,212	3,485
Other receivables	13,974	12,523
Allowance for doubtful accounts	(8)	(16)
Total current assets	72,645	64,675
Noncurrent assets		
Property, plant, and equipment		
Buildings and structures	165,755	170,269
Accumulated depreciation	(87,732)	(93,982)
Buildings and structures (net)	78,023	76,286
Machinery and vehicles	10,222	12,830
Accumulated depreciation	(5,188)	(6,371)
Machinery and vehicles (net)	5,034	6,459
Tools, appliances, and fixtures	50,115	53,995
Accumulated depreciation	(31,797)	(36,170)
Tools, appliances, and fixtures (net)	18,318	17,824
Land	15,268	15,676
Lease assets	17,042	17,360
Accumulated depreciation	(8,595)	(8,661)
Lease assets (net)	8,447	8,698
Construction in progress	1,663	2,495
Total property, plant, and equipment	126,755	127,440
Intangible assets		
Goodwill	14,135	13,199
Other	3,034	2,998
Total intangible assets	17,170	16,197
Investments and other assets		
Investment securities	2,500	1,848
Guarantee deposits	33,647	33,511
Long-term loans receivable	95	144
Long-term prepaid rents	21,576	21,918
Deferred income taxes	12,058	9,016
Other	2,881	3,519
Allowance for doubtful accounts	(18)	(14)
Total investments and other assets	72,739	69,946
Total noncurrent assets	216,664	213,583
Deferred assets		
Stock issuance expenses	84	40
Bond issuance expenses	73	40
Total deferred assets	157	81
Total assets	289,467	278,340

(Units: Millions of yen)

	Previous consolidated fiscal year (March 31, 2015)	This consolidated fiscal year (March 31, 2016)
Liabilities		
Current liabilities		
Notes and accounts payable – trade	15,877	16,548
Short-term loans payable	9,214	3,870
Current portion of bonds	5,490	9,750
Current portion of long-term loans payable	32,791	33,207
Lease obligations	1,857	1,683
Accrued income taxes	2,179	1,849
Allowance for bonuses	1,368	1,587
Other	30,235	25,775
Total current liabilities	99,014	94,271
Noncurrent liabilities		
Corporate bonds	13,255	3,505
Long-term loans payable	88,432	89,467
Lease obligations	7,379	7,963
Net defined benefit liability	715	748
Asset retirement obligations	1,839	2,109
Other	4,596	5,215
Total noncurrent liabilities	116,219	109,008
Total liabilities	215,233	203,280
Net assets		
Shareholders' equity		
Capital stock	23,470	23,470
Capital surplus	24,023	24,261
Retained earnings	12,469	15,697
Treasury stock	(21)	(21)
Total shareholders' equity	59,941	63,408
Accumulated other comprehensive income		
Net unrealized holding gains on securities	(306)	(283)
Deferred hedging gains/losses	261	(1,209)
Remeasurements of defined benefit plans	(9)	(63)
Foreign currency translation adjustments	1,041	(184)
Total accumulated other comprehensive income	987	(1,740)
Non-controlling interests	13,304	13,391
Total net assets	74,233	75,060
Total liabilities and net assets	289,467	278,340

(2) Consolidated statement of profit and loss and consolidated statement of comprehensive income
(Consolidated statement of profit and loss)

(Units: Millions of yen)

	Previous consolidated fiscal year (April 1, 2014 – March 31, 2015)	This consolidated fiscal year (April 1, 2015 – March 31, 2016)
Sales	511,810	525,709
Cost of sales	220,192	228,015
Gross profit	291,617	297,693
Sales and general administrative expenses	289,119	285,580
Operating income	2,498	12,113
Non-operating income		
Interest income	447	402
Dividend income	48	6
Lease income	343	257
Foreign exchange gains	1,388	68
Other	501	646
Total non-operating income	2,728	1,381
Non-operating expenses		
Interest expenses	1,549	1,296
Lease expenses	249	161
Other	553	656
Total non-operating expenses	2,351	2,114
Ordinary profit	2,875	11,380
Extraordinary income		
Gains on sale of noncurrent assets	122	0
Gain on sales of investment securities	94	0
Compensation	88	98
Gain on liquidation of subsidiaries	—	272
Insurance income	—	157
Other	93	9
Total extraordinary income	398	539
Extraordinary losses		
Loss on retirement of noncurrent assets	924	802
Impairment losses	1,850	907
Loss on closing of stores	443	68
Loss on business restructuring	12,607	—
Other	992	734
Total extraordinary losses	16,818	2,513
Net profit (loss) before income taxes	(13,545)	9,405
Corporate, residence, and enterprise taxes	4,729	3,062
Income taxes – deferred	(8,013)	1,557
Total corporate taxes	(3,283)	4,620
Net profit (loss) before non-controlling interests	(10,261)	4,785
Profit attributable to non-controlling interests	876	758
Net profit (loss) attributable to owners of parent	(11,138)	4,026

(Consolidated statement of comprehensive income)

(Units: Millions of yen)

	Previous consolidated fiscal year (April 1, 2014 – March 31, 2015)	This consolidated fiscal year (April 1, 2015 – March 31, 2016)
Net profit (loss) before non-controlling interests	(10,261)	4,785
Other comprehensive income		
Valuation difference on available-for-sale securities	405	20
Deferred hedging gains/losses	516	(1,471)
Remeasurements of defined benefit plans	(38)	(53)
Foreign currency translation adjustments	3,746	(1,245)
Total other comprehensive income	4,629	(2,749)
Comprehensive income	(5,632)	2,035
(Breakdown)		
Comprehensive income attributable to owners of parent	(6,558)	1,299
Comprehensive income attributable to non-controlling interests	926	736

(3) Consolidated statement of changes in shareholders' equity

Previous consolidated fiscal year (April 1, 2014 – March 31, 2015)

(Units: Millions of yen)

	Shareholder's Equity				
	Capital stock	Capital Surplus	Retained earnings	Treasury stock	Total Shareholder's Equity
Beginning balance	23,470	24,023	24,796	(20)	72,268
Change during this fiscal year					
Dividends declared			(1,188)		(1,188)
Net loss attributable to owners of parent			(11,138)		(11,138)
Acquisition of treasury stock				(0)	(0)
Change during this fiscal year (net) in accounts other than shareholders' equity					
Total change during this fiscal year	–	–	(12,326)	(0)	(12,326)
Ending balance	23,470	24,023	12,469	(21)	59,941

	Accumulated other comprehensive income/(loss)					Non-controlling interests	Total Net Assets
	Valuation difference on available-for-sale securities	Deferred hedging gains/losses	Remeasurements of defined benefit plans	Foreign currency translation adjustments	Total other comprehensive income		
Beginning balance	(711)	(254)	28	(2,655)	(3,592)	12,614	81,291
Change during this fiscal year							
Dividends declared							(1,188)
Net loss attributable to owners of parent							(11,138)
Acquisition of treasury stock							(0)
Change during this fiscal year (net) in accounts other than shareholders' equity	404	516	(38)	3,696	4,579	690	5,269
Total change during this fiscal year	404	516	(38)	3,696	4,579	690	(7,057)
Ending balance	(306)	261	(9)	1,041	987	13,304	74,233

This consolidated fiscal year (April 1, 2015 – March 31, 2016)

(Units: Millions of yen)

	Shareholder's Equity				
	Capital stock	Capital Surplus	Retained earnings	Treasury stock	Total Shareholder's Equity
Beginning balance	23,470	24,023	12,469	(21)	59,941
Change during this fiscal year					
Increase by share exchanges		227			227
Dividends declared			(594)		(594)
Net profit attributable to owners of parent			4,026		4,026
Acquisition of treasury stock				(0)	(0)
Disposal of treasury stock		0		0	0
Change of scope of consolidation			(203)		(203)
Purchase of shares of consolidated subsidiaries		10			10
Change in treasury shares of parent arising from transactions with non-controlling shareholders		0			0
Change during this fiscal year (net) in accounts other than shareholders' equity					
Total change during this fiscal year	–	238	3,228	(0)	3,466
Ending balance	23,470	24,261	15,697	(21)	63,408

	Accumulated other comprehensive income/(loss)					Non-controlling interests	Total Net Assets
	Valuation difference on available-for-sale securities	Deferred hedging gains/losses	Remeasurements of defined benefit plans	Foreign currency translation adjustments	Total other comprehensive income		
Beginning balance	(306)	261	(9)	1,041	987	13,304	74,233
Change during this fiscal year							
Increase by share exchanges							227
Dividends declared							(594)
Net profit attributable to owners of parent							4,026
Acquisition of treasury stock							(0)
Disposal of treasury stock							0
Change of scope of consolidation							(203)
Purchase of shares of consolidated subsidiaries							10
Change in treasury shares of parent arising from transactions with non-controlling shareholders							0
Change during this fiscal year (net) in accounts other than shareholders' equity	22	(1,471)	(53)	(1,225)	(2,727)	87	(2,640)
Total change during this fiscal year	22	(1,471)	(53)	(1,225)	(2,727)	87	826
Ending balance	(283)	(1,209)	(63)	(184)	(1,740)	13,391	75,060

(4) Consolidated statement of cash flows

(Units: Millions of yen)

	Previous consolidated fiscal year (April 1, 2014 – March 31, 2015)	This consolidated fiscal year (April 1, 2015 – March 31, 2016)
Cash flows from operating activities		
Net profit (loss) before taxes and other adjustments	(13,545)	9,405
Depreciation	19,936	18,246
Impairment losses	1,850	907
Amortization of goodwill	1,117	1,129
Loss on business restructuring	12,607	—
Amortization of negative goodwill	(2)	(2)
Increase (decrease) in allowance for doubtful accounts	(1)	3
Increase (decrease) in allowance for bonuses	75	218
Increase (decrease) in provision for directors' retirement benefits	(53)	—
Increase (decrease) in net defined benefit liability	(15)	(37)
Interest and dividends received	(496)	(408)
Interest expense	1,549	1,296
Foreign exchange losses (gains)	(1,355)	(150)
Loss (gain) on sale of investment securities	(66)	(0)
Loss (gain) on sale of property, plant, and equipment	16	(0)
Loss on retirement of property, plant, and equipment	1,066	849
Other extraordinary losses (gains)	71	(155)
Other non-operating losses (gains)	(71)	108
Decrease (increase) in accounts receivable – trade	(63)	(134)
Decrease (increase) in inventories	(6,298)	829
Increase (decrease) in accounts payable – trade	(260)	769
Increase (decrease) in accrued consumption taxes	4,954	(2,833)
Decrease (increase) in other current assets	1,084	799
Decrease (increase) in other noncurrent assets	593	925
Increase (decrease) in other current liabilities	385	(763)
Increase (decrease) in other noncurrent liabilities	126	(87)
Subtotal	23,204	30,915
Interest and dividends received	291	76
Interest paid	(1,761)	(1,188)
Income taxes paid	(4,365)	(4,348)
Cash flows from operating activities	17,368	25,455

(Units: Millions of yen)

	Previous consolidated fiscal year (April 1, 2014 – March 31, 2015)	This consolidated fiscal year (April 1, 2015 – March 31, 2016)
Cash flows from investing activities		
Purchase of property, plant, and equipment	(21,465)	(16,364)
Proceeds from sale of property, plant, and equipment	6,122	22
Purchase of intangible assets	(566)	(601)
Purchase of long-term prepaid expenses	(103)	(171)
Purchase of investment securities	(1,075)	(191)
Proceeds from sale of investment securities	2,699	6
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(1,539)	–
Purchase of investments in subsidiaries	(988)	–
Proceeds from sales of stocks of subsidiaries and affiliates	(4,018)	–
Payments for transfer of business	–	(747)
Payments of loans receivable	(35)	(388)
Collection of loans receivable	60	102
Security deposits and guarantees pledged	(862)	(727)
Security deposits and guarantees returned	768	950
Expenditures on lease premiums	(69)	(113)
Expenditures on long-term prepaid rents	(2,968)	(2,296)
Proceeds from fluidity of long-term prepaid rents	2,470	–
Payment of insurance premiums	(1,690)	(7)
Proceeds from cancellation of insurance funds	548	5
Other	(396)	(291)
Cash flows from investing activities	(23,111)	(20,814)
Cash flows from financing activities		
Increase (decrease) in short-term loans payable	3,024	(5,508)
Net increase (decrease) in short-term bonds payable	(5,000)	–
Proceeds from long-term loans payable	40,989	35,110
Repayment of long-term loans payable	(37,105)	(33,459)
Repayment of lease obligations	(2,998)	(2,014)
Purchase of treasury stock	(0)	(0)
Proceeds from sales of treasury shares	–	0
Purchase of treasury stock in consolidated subsidiaries	–	(0)
Redemption of bonds	(5,840)	(5,490)
Repayment of installment payables	(1)	(68)
Proceeds from share issuance to non-controlling shareholders	–	91
Payment of dividends	(1,203)	(601)
Dividends paid to non-controlling interests	(235)	(238)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	–	(348)
Other	(981)	(609)
Cash flows from financing activities	(9,352)	(13,138)
Effect of exchange rate changes on cash and cash equivalents	210	(408)
Increase (decrease) in cash and cash equivalents	(14,884)	(8,905)
Beginning balance of cash and cash equivalents	44,313	29,428
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	–	402
Ending balance of cash and cash equivalents	29,428	20,925

(5) Notes on consolidated financial statements

(Notes on going concern assumption)

Not applicable

(Important bases for preparation of consolidated financial statements)

1. Scope of consolidation

(1) Number of consolidated subsidiaries: 69

Names of main consolidated subsidiaries:

Sukiya Co., Ltd., Nakau Co., Ltd., Coco's Japan Co., Ltd., TAG-1 Co., Ltd., Techno Support Co., Ltd., Jolly-Pasta Co., Ltd., Zensho Tradings Co., Ltd., Global Table Supply Co., Ltd., Tolona Japan Co., Ltd., Big Boy Japan Inc., Hanaya Yohei Co., Ltd., ZENSHO CooCa Co., Ltd., Sanbishi Co., Ltd., Hamazushi Co., Ltd., Maruya Co.,Ltd., POCINO FOODS COMPANY, Maruei Co., Ltd., Nihon SS Co., Ltd., Nihon Retail Holdings Co., Ltd., Kagayaki Co., Ltd., VERY FOODS -Owariya-, A- Dining Co., Ltd. and 47 other companies.

In previous consolidated fiscal years, five companies, including PT.ZENSHO INDONESIA, were listed as unconsolidated subsidiaries. However, as their importance has increased, these are listed as consolidated subsidiaries in this consolidated fiscal year.

ZENSHO CooCa Co., Ltd. and Zensho Café Co., Ltd. have been newly established as consolidated subsidiaries in this consolidated fiscal year.

(2) Names of important non-consolidated subsidiaries and other information

・Names of important non-consolidated subsidiaries

ZENSHO ALIMENTOS S.A. and other companies

・Reasons why they were not consolidated

Non-consolidated subsidiaries are always small-scale, and the total assets of each company, their sales, net profit or loss (amount corresponding to equity), retained earnings (amount corresponding to equity), etc. therefore do not have any significant effect on the consolidated financial statement.

2. Application of equity method

(1) Number of equity-method affiliates:

No applicable companies

(2) The equity method is not applied to some non-consolidated subsidiaries (including ZENSHO ALIMENTOS S.A.), because the effects of this exclusion on consolidated financial statements are insignificant, considering current net profit or loss and retained earnings, etc. with respect to equities.

3. Fiscal years of consolidated subsidiaries and other topics

The closing date of business year of consolidated subsidiaries is the same as the consolidated closing date.

4. Matters concerning accounting policies

(1) Standards and methods for evaluating important assets

(i) Securities

Available-for-sale securities:

Available-for-sale securities with fair market values:

Mark-to-market based on market values and other information as of the date of settlement of accounts (The entire amount of revaluation gains/losses is booked directly to net assets. Costs of sold securities are calculated by the moving average method.)

Available-for-sale securities without fair market values:

Cost method, using the moving average method

For investments in limited partnerships for investment, the amount equivalent to equity is booked based on the most recent available financial statements issued on the settlement reporting dates specified in the partnership agreement.

(ii) Derivatives

Mark-to-market

(iii) Inventories

Merchandise: Mainly the last purchase price method
(The Balance Sheet figure is calculated by writing down book values based on decreased profitability.)
Products, raw materials, in-process products: Mainly the cost method, using FIFO
(The Balance Sheet figure is calculated by writing down book values based on decreased profitability.)
Stored goods: Mainly the last purchase price method
(The Balance Sheet figure is calculated by writing down book values based on decreased profitability.)

(2) Depreciation methods for important depreciable assets

(i) Property, plant, and equipment (not including leased assets)

Mainly the straight-line method

The standards employed for useful lives and residual values are generally identical to the methods specified in the Corporation Tax Act.

(ii) Intangible assets

Straight-line method

Software (used by the Company) is depreciated based on the number of years usable in the Company (five years).

(iii) Leased assets

The straight-line method is employed for leased assets related to finance lease transactions not involving transfer of ownership, using the lease term as the useful life of the asset and zero or the guaranteed residual value as the residual value.

Finance lease transactions not involving transfer of ownership for which the starting date of the lease transaction was March 31, 2008, or earlier are booked according to the method used for ordinary lease transactions.

(3) Methods of accounting for deferred assets

(i) Stock issuance expenses

Amortized over three years by the straight-line method

(ii) Bond issuance expenses

Amortized over the redemption period of the bond by the straight-line method

(4) Accounting standards for important reserves

(i) Allowance for doubtful accounts

To prepare for losses from unrecoverable claims, the anticipated amount of unrecoverable claims is booked as follows: The actual rate of unrecoverability is applied to ordinary claims; for extraordinary claims, such as those involving the possibility of default, the possibility of recovery is considered for each claim on a case-by-case basis.

(ii) Allowance for bonus reserves

Bonus reserves are booked based on the anticipated amount payable to prepare for bonus payments to employees.

(5) Accounting method for retirement benefits

When calculating retirement benefit obligations, the period-based amount standard is used for estimating retirement benefits for a certain period of employment.

Zensho Holdings and some consolidated subsidiaries use the simplified method to calculate retirement benefits, while other consolidated subsidiaries adopt the basic method.

As for the actuarial difference among consolidated subsidiaries using the basic method, the amount divided proportionally with the straight-line method based on the number of years (4 years) within the average remaining employment period of employees as of the corresponding date in each consolidated fiscal year is included in expenses from the following consolidated fiscal year.

(6) Method of converting important foreign currency assets or liabilities into Japanese currency

Foreign currency claims and obligations are converted into yen using the spot exchange rate as of the date of consolidated settlement of accounts. Assets and liabilities of subsidiaries and other operations located overseas are converted to yen using the spot exchange rate on the date of the consolidated settlement of accounts. Revenues and expenses of subsidiaries and other operations located overseas are converted to yen using the average exchange rates during the period. Conversion differences are included in the foreign currency translation adjustments in the section on net assets.

(7) Important hedge accounting methods

(i) Hedge accounting methods

Deferral hedge accounting is applied.

Appropriation processing is applied to foreign exchange contracts meeting the requirements for that method. Special processing is applied to interest rate swaps meeting the requirements for that method.

(ii) Hedging vehicles and subjects

Vehicle	Subject
Foreign exchange contracts	Foreign currency accounts payable – trade
Currency swaps	Foreign currency debts
Interest rate swaps	Interest on debts

(iii) Hedging policy

Hedging is deployed against the risks of interest rate and exchange rate fluctuations on debt obligations, foreign currency monetary obligations, etc.

(iv) Method of assessing hedging efficacy

Hedge transactions undertaken by the company are deployed in accordance with risk management policies. Complete correlation is confirmed between hedging vehicles and subjects resulting from exchange rates and interest rate fluctuations.

(8) Amortization method and amortization period for goodwill

Goodwill and negative goodwill of Zensho Holdings and Zensho Group occurring before April 1, 2010 are amortized over 20 years using the straight-line method.

(9) Scope of funds on the Consolidated Statement of Cash Flows

These consist of cash on hand, deposits available for withdrawal on demand, and short-term investments easily liquidated subject to minor risk of fluctuations in value and redeemable within three months from the date of acquisition.

(10) Other important bases for preparation of consolidated financial statements

(1) Accounting for consumption tax and other tax

The tax-excluded method is used to account for national and local consumption tax.

(2) Application of the consolidated tax payment system

Our company and some consolidated subsidiaries use the consolidated tax payment system.

(Changes in accounting policies)

(Application of the Accounting Standard for Business Combination)

The "Accounting Standard for Business Combination" (ASBJ Statement No. 21, September 13, 2013, hereinafter referred to as the "Business Combination Accounting Standard."), the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013, hereinafter referred to as the "Consolidated Accounting Standard.") and the "Accounting Standard for Business Divestitures," (ASBJ Statement No. 7, September 13, 2013, hereinafter referred to as the "Business Divestitures Accounting Standard.") shall be applied from this consolidated fiscal year. In the case that ownership were to be continued, our company shall post the change in our equity on the subsidiary as capital surplus, and record acquisition-related cost as the expense for the fiscal year in which it emerged. As for the business combination after the beginning of this consolidated fiscal year, we shifted to the method of reflecting the revision to the allocated amount of acquisition cost based on provisional accounting settlement in the consolidated financial statements for the period including the business combination. In addition, we changed the indication of net profit, etc. and shifted from minority interest to non-controlling interest. In order to reflect these revisions, consolidated financial statements for the previous consolidated financial year have been reproduced.
As for the application of the Business Combination Accounting Standard, etc., we follow the provisions for transitional handling specified in the Business Combination Accounting Standard No. 58, Section 2 (4), the Consolidated Accounting Standard No. 44, Section 5 (4) and the Business Divestiture Accounting Standard No. 57, Section 4 (4), from the onset of this consolidated accounting year to the future.

As a result of this, there is a slight influence on the operating and ordinary incomes, net profit before taxes, etc. for this consolidated fiscal year, and capital surplus as of the end of this consolidated fiscal year.
In the consolidated statement of cash flows for this consolidated fiscal year, the cash flow for the acquisition or sale of the shares of subsidiaries that is not accompanied by the change in the scope of consolidation is categorized into “Cash flows from financing activities,” and the cash flow related to the expenses for acquiring the shares of subsidiaries that is accompanied by the change in the scope of consolidation or the expenses for the acquisition or sale of the shares of subsidiaries that is not accompanied by the change in the scope of consolidation is categorized into “Cash flows from operating activities.”
There is a slight influence on the final balance of capital surplus in the consolidated statements of changes in shareholders’ equity for this consolidated fiscal year.
There is also a slight influence on net assets per share and net income per share for this consolidated fiscal year.

(Change of display method)
(Consolidated statement of profit and loss)
In the financial statements for the previous consolidated fiscal year, “Amortization of negative goodwill” was listed separately under “Non-operating income”. However, as this amount is now negligible, it is listed under “Other” in the consolidated statement for the current fiscal year. In addition, “Loss on sales of noncurrent assets” and “Loss on cancellation of lease contracts” that had been listed under “Extraordinary losses” are now negligible and have been moved to “Other” in the consolidated statement for this consolidated fiscal year. In order to reflect these changes in accounting methods, the financial statements for the previous fiscal year have been revised.
In the financial statements for the previous consolidated fiscal year, 3 million yen that had been indicated in “Amortization of negative goodwill” under “Non-operating income” has been reclassified into “Other”. In addition, 139 million yen that had been indicated in “Loss on sales of noncurrent assets” and 3 million yen in “Loss on cancellation of lease contracts” under “Extraordinary losses” have been reclassified into “Other.”

(Segment information)

[Segment information]

1. Overview of segments to be reported

For Zensho Holdings' segments to be reported, financial information for each section can be collected, and the board of directors discusses the segments regularly for determining how to allocate managerial resources and evaluating business performance.

The Zensho Group operates food businesses in various fields, categorizes "restaurant business" and "retail business" as main segments to be reported, designs and determines group strategies.

The businesses included in the segments to be reported are as follows:

Restaurant business: restaurant management, etc.

Retail business: supermarket management

2. Methods for calculating sales, profits or losses, assets, liabilities, and other items for each segment

The accounting method for reported business segments is almost the same as those written in "Important bases for preparation of consolidated financial statements." The profit in each segment is based on operating income.

Zensho Holdings does not allocate assets and liabilities in segments to be reported.

3. Information on sales, profits or losses, and other items for each segment

Previous fiscal year (April 1, 2014 – March 31, 2015)

(Units: Millions of yen)

	Reporting segment		Total	Adjustment Amount*1	Consolidated balance sheet amount*2
	Restaurant business	Retail business			
Net Sales					
(1) Sales to external customers	458,301	53,508	511,810	—	511,810
(2) Intersegment sales or transferred amount	1,756	48	1,804	(1,804)	—
Total	460,057	53,557	513,614	(1,804)	511,810
Segment income (loss)	3,529	(1,077)	2,452	45	2,498
Other items					
Depreciation	19,364	681	20,045	(109)	19,936
Amortization of goodwill	976	141	1,117	—	1,117

Note: 1. Adjustment amount of segment income (loss) of ¥45 million are mainly elimination of intersegment transactions

2. The total amount of segment income is adjusted with the operating income in the consolidated statement of profit and loss.

3. Unamortized goodwill is 14,135 million yen.

4. Intersegment sales or transferred amount are calculated based on current market price.

Current fiscal year (April 1, 2015 – March 31, 2016)

(Units: Millions of yen)

	Reporting segment		Total	Adjustment Amount*1	Consolidated balance sheet amount*2
	Restaurant business	Retail business			
Net Sales					
(1) Sales to external customers	464,258	61,451	525,709	—	525,709
(2) Intersegment sales or transferred amount	2,019	113	2,132	(2,132)	—
Total	466,278	61,564	527,842	(2,132)	525,709
Segment income	11,979	134	12,113	0	12,113
Other items					
Depreciation	17,636	669	18,305	(59)	18,246
Amortization of goodwill	957	171	1,129	—	1,129

Note: 1. Adjustment amount of segment income of ¥0 million are mainly elimination of intersegment transactions

2. The total amount of segment income is adjusted with the operating income in the consolidated statement of profit and loss.

3. Unamortized goodwill is 13,199 million yen.

4. Intersegment sales or transferred amount are calculated based on current market price.

[Related information]

Previous fiscal year (April 1, 2014 – March 31, 2015)

(1) Product- and service-specific information

This is omitted, because the same kind of information is written in the section of segment information.

(2) Region-specific information

(i) Sales

This information is omitted because more than 90% of sales are sales to external customers in Japan.

(ii) Property, plant, and equipment

This information is omitted because more than 90% of the value of property, plant, and equipment on the consolidated balance sheet consist of the value of property, plant, and equipment located in Japan.

(3) Information on specific main customers

This information is omitted because sales to no specific external customer account for 10% or more of the sales on the consolidated statement of profit and loss.

Current fiscal year (April 1, 2015 – March 31, 2016)

(1) Product- and service-specific information

This is omitted, because the same kind of information is written in the section of segment information.

(2) Region-specific information

(i) Sales

This information is omitted because more than 90% of sales are sales to external customers in Japan.

(ii) Property, plant, and equipment

This information is omitted because more than 90% of the value of property, plant, and equipment on the consolidated balance sheet consist of the value of property, plant, and equipment located in Japan.

(3) Information on specific main customers

This information is omitted because sales to no specific external customer account for 10% or more of the sales on the consolidated statement of profit and loss.

[Information on impairment loss of noncurrent assets for each segment to be reported]

Previous fiscal year (April 1, 2014 – March 31, 2015)

(Units: Millions of yen)

	Reporting segment		Total
	Restaurant business	Retail business	
Impairment loss	1,850	–	1,850

Current fiscal year (April 1, 2015 – March 31, 2016)

(Units: Millions of yen)

	Reporting segment		Total
	Restaurant business	Retail business	
Impairment loss	900	7	907

[Information on goodwill amortization and unamortized balance for each segment to be reported]

Previous fiscal year (April 1, 2014 – March 31, 2015)

This is omitted, because the same kind of information is written in the section of segment information.

Current fiscal year (April 1, 2015 – March 31, 2016)

This is omitted, because the same kind of information is written in the section of segment information.

[Information on gain on negative goodwill for each segment to be reported]

Previous fiscal year (April 1, 2014 – March 31, 2015)

Not applicable

Current fiscal year (April 1, 2015 – March 31, 2016)

Not applicable

(Per-share information)

	Previous consolidated fiscal year (April 1, 2014 – March 31, 2015)	This consolidated fiscal year (April 1, 2015 – March 31, 2016)
Net assets per share	410.09 yen	412.18 yen
Net profit (loss) per share	(74.97) yen	27.09 yen

Note: 1. With regard to diluted net profit per share for the previous fiscal year, it is net loss per share and there are no dilutive shares. Accordingly, it is not written.

2. Diluted net profit per share for this fiscal year is not shown because there is no dilutive stock.

3. Net profit per share is calculated on the following bases:

	Previous consolidated fiscal year (April 1, 2014 – March 31, 2015)	This consolidated fiscal year (April 1, 2015 – March 31, 2016)
Net profit (loss) attributable to owners of parent (million yen)	(11,138)	4,026
Amount not attributable to common shareholders (million yen)	—	—
Net profit (loss) attributable to owners of parent on common stock (million yen)	(11,138)	4,026
Average shares of stock during the fiscal year (stocks)	148,576,277	148,618,714

(Important events after the reporting period)

Not applicable

6. Changes in directors

(1) Changes in representative directors

Not applicable

(2) Changes in other directors

・Candidate of new director

(Part-time) External auditor – Yukio Miyajima (Current position: Advisor to Taichi Holdings Limited)

・Director scheduled to resign

(Part-time) External auditor – Yuji Yamamoto

(3) Scheduled date for assuming office

June 24, 2016