Financial Results (Consolidated) for Fiscal Year Ended March 2015 (Japanese accounting standards)

May 12, 2015

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	
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Date of annual general meeting of shareholders (planned):			June 19, 2015
Starting date of dividend payment (planned):			
Date of submittal of securities report (planned):			June 22, 2015
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 2015 (April 1, 2014 – March 31, 2015)

(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 2015	511,810	9.3	2,498	(69.3)	2,875	(63.9)	(11,138)	–
FY 2014	468,377	12.2	8,134	(44.8)	7,957	(42.6)	1,103	(78.2)

(Reference) Comprehensive income FY 2015: (5,632) million yen (—%) FY 2014: 2,129 million yen (down 70.4%)

	Net profit per share	Net profit per share–assuming dilution	Return on equity (ROE)	Return on assets (ROA)	Operating profit ratio
	yen	yen	%	%	%
FY 2015	(74.97)	–	(17.2)	1.0	0.5
FY 2014	9.01	–	2.0	2.9	1.7

(Reference) Gain/loss on equity-method investments FY 2015: — million yen FY 2014: — 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 2015	289,467	74,233	21.0	410.09
FY 2014	293,192	81,291	23.4	462.23

(Reference) Equity capital FY 2015: 60,929 million yen FY 2014: 68,676 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 2015	17,368	(23,111)	(9,352)	29,428
FY 2014	21,196	(22,891)	26,860	44,313

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 2014	–	8.00	–	8.00	16.00	2,157	177.6	3.9
FY 2015	–	0.00	–	0.00	0.00	–	–	–
FY 2016 (forecast)	–	4.00	–	4.00	8.00		35.9	

3. Consolidated business performance forecasts for FY 2016 (April 1, 2015 – March 31, 2016)

(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)	269,684	7.2	5,410	361.5	4,607	330.4	1,395	–	9.39
Full year	546,725	6.8	12,235	389.8	10,939	280.5	3,311	–	22.29

Notes

(1) Important changes in subsidiaries (changes in specified subsidiaries involving changes in scope of consolidation) during this fiscal year — Y / $\boxed{N}$

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: $\boxed{Y}$ / N

(ii) Other changes in accounting policies: Y / $\boxed{N}$

(iii) Change in accounting estimates: Y / $\boxed{N}$

(iv) Corrections Y / $\boxed{N}$

Note: See "5. Consolidated financial statements (5) Notes on consolidated financial statements (Important bases for preparation of consolidated financial statements) 4. Accounting standards (5)" on p. 20.

(3) Shares issued and outstanding (common stock)

(i) Ending number of shares issued and outstanding (including treasury stock)	FY 2015	148,600,000	shares	FY 2014	148,600,000	shares
(ii) Ending number of shares of treasury stock	FY 2015	23,823	shares	FY 2014	23,681	shares
(iii) Average shares during the fiscal year	FY 2015	148,576,277	shares	FY 2014	122,477,754	shares

Note: See "Per-share information" on p. 27 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 2015 (April 1, 2014 – March 31, 2015)

(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 2015	233,113	9.9	4,116	205.1	7,161	83.0	(4,588)	–
FY 2014	212,068	8.0	1,348	(68.8)	3,913	(39.7)	3,695	263.7

	Net profit per share	Net profit per share–assuming dilution
	yen	yen
FY 2015	(30.88)	–
FY 2014	30.18	–

(2) Non-consolidated financial position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
	Millions of yen	Millions of yen	%	yen
FY 2015	280,819	52,051	18.5	350.34
FY 2014	261,269	57,387	22.0	386.25

(Reference) Equity capital FY 2015: 52,051 million yen FY 2014: 57,387 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.

Appendix: Table of contents

1. Business performance and financial position 2
(1) Analysis of business performance 2
(2) Analysis of financial position 3
(3) Basic policy on distribution of profits and dividends for the current year and next year 5
(4) Business risks and other risks 5
2. Group position 7
3. Management policies 9
(1) The Company's basic management policies 9
(2) Target management indicator 9
(3) Mid- to long-term Company management strategies and topics 9
4. Basic policy on selection of accounting standards 11
5. Consolidated financial statements 12
(1) Consolidated balance sheet 12
(2) Consolidated statement of profit and loss and consolidated statement of comprehensive profit 14
(3) Consolidated statement of change in shareholders' equity 16
(4) Consolidated statement of cash flows 18
(5) Notes on consolidated financial statements 20
(Notes on going concern assumption) 20
(Important bases for preparation of consolidated financial statements) 20
(Changes in accounting policies) 22
(Additional information) 23
(Segment information) 24
(Per-share information) 27
(Important events after the reporting period) 27
6. Changes in directors 28

1. Business performance and financial position

(1) Analysis of business performance

In this consolidated fiscal year (from Apr. 1, 2014 to Mar. 31, 2015), the Japanese economy recovered gently, as corporate earnings and the employment environment improved. On the other hand, the consumption trend did not recover fully, because of the decrease in real income following price escalation, although there is a sign of recovery of consumer confidence.
In the restaurant industry, the prices of ingredients increased due to the yen depreciation and the bullish markets inside and outside Japan, while personal consumption has not recovered fully, and so the business environment remains stringent.
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 102.4% year-on-year, 100.9% year-on-year, and 103.3% year-on-year, respectively. The profit decreased as compared with last year mainly due to the temporary closing of the gyudon chain "Sukiya" and the increases in the prices of ingredients, including beef.
All shares of the consolidated subsidiary Catalina Restaurant Group Inc. (hereinafter referred to as "CRG") were transferred, posting a special loss of 12.6 billion yen (effect including tax effects: 5.1 billion yen).
At the end of this consolidated fiscal year, the Group's number of stores stood at 4,730 locations. Events contributing to this figure included the opening of 176 restaurants, the closing of 80 restaurants, the decrease of stores by 167 due to the sale of CRG, etc.
Consolidated business performance in this consolidated fiscal year showed sales of 511,810 million yen (up 9.3% year-on-year), operating profit of 2,498 million yen (down 69.3% year-on-year), ordinary profit of 2,875 million yen (down 63.9% year-on-year), and net loss of 11,138 million yen (net profit of 1,103 million yen for the previous fiscal 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 458,301 million yen (up 5.6 % year-on-year), and operating profit was 3,529 million yen (down 62.1% year-on-year).
The performance of the restaurant business for each major category is as follows.

Gyudon category

With the opening of 78 restaurants and the closing of 47 restaurants, the number of restaurants in the Gyudon category at the end of this consolidated fiscal year totaled at 2,581. This figure includes 1,980 outlets in the Sukiya chain and 476 outlets (including 20 franchised outlets) in Nakau chain.
Sukiya, a gyudon chain operated by Sukiya Co., Ltd., strengthened its product lineup by adding "Tekka-don (rice bowl topped with sliced raw tuna)" (regular size: 550 yen plus tax), "Sumibi-tondon (rice bowl topped with char-grilled pork)" (regular size: 520 yen plus tax) and seasonal products of "Gyu-sukinabe-teishoku (beef sukiyaki pot set meal)" (regular size: 680 yen plus tax) and "Butaniku-tofu-chigenabe-teishoku (set meal with Korean pork and tofu hotpot)" (regular size: 680 yen plus tax), in order to meet the various needs of customers. In addition, Sukiya has been seeking to strengthen quality controls and improve service levels. As for the store operation of "Sukiya," Sukiya established 7 regional companies throughout Japan to shift to community-based regime. In addition, we have made efforts to improve the working environment for employees. From October 1, 2014, late-night services have been suspended at some stores, in order to establish a system in which every store is staffed with more than one worker at any late night period. Each local firm will secure workers, improve training systems, and resume late-night services as the store becomes ready.
On April 15, 2015, we 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). We will keep serving safe, delicious, valuable dishes so as to attract and satisfy more customers.
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 173,522 million yen (down 3.6% year-on-year).

Family Dining category

With the opening of 11 restaurants, the closing of 6 restaurants, the decrease of 167 stores due to the sale of CRG, etc., the number of restaurant locations in the Family Dining category stood at 1,365 outlets (including 85 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 menus, introducing fancy limited menus, and increasing the level of services at each store.
The 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., has pursued better tastes by improving pasta sauces, introducing seasonal menus, and so on. 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 safe and delicious products.
Due to these efforts, sales in the Family Dining category in this consolidated fiscal year totaled 152,054 million yen. (up 1.9% year-on-year)

Fast Food Service category
With the opening of 85 restaurants, the number of restaurant locations in the Fast Food Service category at the end of this consolidated fiscal year stood at 682.
“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 105,625 million yen (up 27.1% year-on-year).

Other category
Net sales in the Other category in this consolidated fiscal year totaled 27,100 million yen (up 23.9% year-on-year). Main businesses in this category include Tolona Japan Co., Inc., which produces and sells pizzas; Yamatomo Suisan-Shokuhin Co.,Ltd., which processes and sells fishery products; 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
Net sales in retail business in this consolidated fiscal year were 53,508 million yen (up 56.5% year-on-year) and operating loss was 1,077 million yen (operating loss of 1,203 million yen for the previous fiscal year).
The retail business of our company is operated by Maruya Co., Ltd., Maruei Co., Ltd., and VERY FOODS -Owariya-, which operate the supermarket business, and United Veggies Co., Inc., which sells fruits and vegetables.

As for the outlook for the next term, the economy is expected to recover gently, as corporate earnings and the employment environment are improving, but it is predicted that the consumption trend will remain uncertain, because of price escalation due to the yen depreciation and the skyrocketing cost of ingredients.
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: 546,725 million yen in net sales (up 6.8% from the previous year); 12,235 million yen in operating profit (up 389.8% from the previous year); 10,939 million yen in ordinary profit (up 280.5% from the previous year); and 3,311 million yen in net profit (net loss of 11,138 million yen for the previous fiscal year).

(2) Analysis of financial position
(i) Position of assets, liabilities, and net assets
At the end of this consolidated fiscal year, the Group’s assets decreased by 3,724 million yen, mainly due to decrease in cash and deposits used for the capital investment for opening new stores and increase in deferred tax assets.
Liabilities increased by 3,332 million yen from the end of the previous consolidated fiscal year, mainly due to increase in consumption tax payable and decrease in borrowings.

Net assets decreased by 7,057 million yen from the end of the previous consolidated fiscal year, mainly due to decrease in retained earnings.

(ii) Cash-flow position

	Amount
Beginning balance in cash and cash equivalents	44,313 million yen
Operating cash flow	17,368 million yen
Investing cash flow	(23,111million yen)
Financing cash flow	(9,352 million yen)
Ending balance in cash and cash equivalents	29,428 million yen
(Reference) Free cash flow	(5,742 million yen)

Cash and cash equivalents (“funds” hereinafter) totaled 29,428 million yen at the end of this consolidated fiscal year. This was due to the posting of current net loss before taxes and other adjustments, the expenses for opening new stores, the repayment of debts, the payment of interests, corporate income tax, dividends, etc.

(Cash flow from operating activities)
Cash flow from operating activities resulted in an increase in funds of 17,368 million yen. This was mainly due to depreciation, despite recording of net loss before taxes and other adjustments and increase in inventories.

(Cash flow from investing activities)
Cash flow used in investment activities resulted in a decrease in funds of 23,111 million yen. This was mainly due to expenditures on acquisition of tangible fixed assets to open new restaurants and on purchase of stock in affiliates.

(Cash flow from financing activities)
Cash flow from financing activities resulted in a decrease in funds of 9,352 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 2011	FY 2012	FY 2013	FY 2014	FY 2015
Equity ratio (%)	15.6	16.2	16.5	23.4	21.0
Equity ratio on market price basis (%)	43.2	52.1	58.1	51.2	59.7
Debt repayment period (years)	5.4	6.0	6.9	7.5	9.2
Interest coverage ratio (times)	10.4	10.3	10.3	11.6	9.9

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.

However, a large amount of net loss was posted in this consolidated fiscal year, and so we plan to regrettably refrain from paying term-end dividends like interim dividends.

As for dividends in the next fiscal year, in accordance with the above policy, plans call for payment of 8 yen per share, consisting of 4 yen/share in midyear dividends and 4 yen/share in year-end dividends.

(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 92.5%, 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.

(xiv) Establishment of a system in which each store is operated by more than one worker during late night hours

At the end of April 2014, Zensho Holdings established a "third-party committee" with the purpose of improving the working environment of "Sukiya." At the end of July, this committee submitted a survey report, and suggested the establishment of a system in which each store is operated by more than one worker during late night hours. Following this suggestion, we temporarily closed the stores that still could not adopt this system during late night hours from October 1. For these stores, we aim to resume the late night operation after adopting the system soon, but if the recruitment of workers is delayed and the resumption of store operation is put off, these may produce adverse effects on the business administration and financial position of Zensho Holdings.

2. Group position

The Zensho Group consists of 63 companies—Zensho Holdings and 62 subsidiaries—and carries out a broad range of business activities in the food business.

① Restaurant business

(1) Gyudon category (share of Group sales: 33.9%)
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: 29.7%)
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.

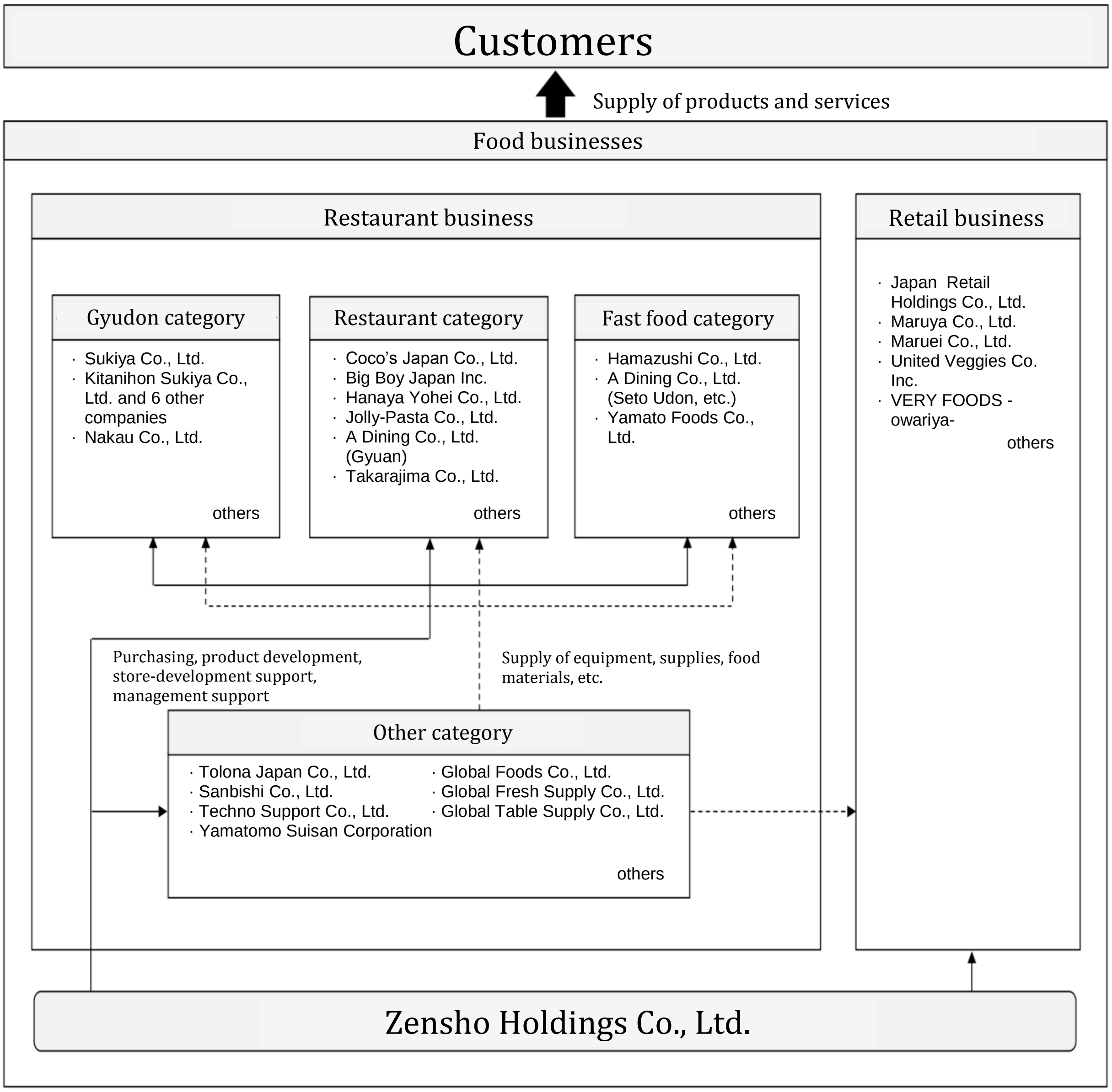
(3) Fast food category (share of Group sales: 20.6%)
Hamazushi Co., Ltd. directly operates the Hamazushi chain of conveyer-belt sushi restaurants.
A Dining Co., Ltd. directly operates the udon restaurant "Seto Udon," the ramen restaurant "Denmaru," etc. mainly in Kanto and Kansai regions.

(4) Other (share of Group sales: 5.3%)
The main businesses of Tolona Japan Co., Ltd. are the production and sale of pizza crust.
The main businesses of Sanbishi Co., Ltd. are the production and sale of soy sauce and other seasonings.
The main businesses of Yamatomo Suisan Corporation are the processing and sale of fishery products.
The main businesses of Techno Support Co., Ltd. are facilities and maintenance.
The main businesses of Global Foods 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

The main business of United Veggies Co. Inc. is the sale of fruits and vegetables.
The main business of Maruya Co., Ltd., Maruei Co., Ltd., and VERY FOODS -owariya- is the operation of supermarkets.

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"

At the end of April 2014, our company established a "third-party committee" with the purpose of improving the working environment of "Sukiya," which is operated by Sukiya Co., Ltd., a consolidated subsidiary, and received a survey report from this committee at the end of July 2014. Following the suggestions from this committee, we implemented the following measures.

・Establishment of rules that prohibiting long-hours work, and the thoroughgoing individual labor management by a "Time Management Committee"

・Disestabulishment of one-man store operation during late night hours

・Including of external directors and full-time auditors in Sukiya Co., Ltd.

・Sukiya Co., Ltd. improving the system to grasping risks timely and accurately and report them to the board of directors and the company swiftly.

Furthermore, our company established "Committee for Promoting the Improvement of the Working Environment" as an external organization in November 2014 with the purpose of receiving the evaluation of the progress of the above mentioned measures, and received a survey report from the committee on March 31, 2015.

According to that survey report, the working environment is healthy as a whole, although some measures are progressing slowly.

Our company will sincerely accept the suggestions from the above committees, and implement the measures to improve working environment of “Sukiya” thoroughly.

4. Basic policy on selection of accounting standards

Most stakeholders of our corporate groups are shareholders, creditors, business partners, et al. in Japan, and so the necessity to procure funds from overseas is low. 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, 2014)	This consolidated fiscal year (March 31, 2015)
Assets		
Current assets		
Cash and deposits	44,313	29,428
Notes and accounts receivable – trade	4,765	4,837
Merchandise and products	13,138	19,171
In-process inventories	525	571
Raw materials and supplies	3,006	3,457
Deferred income taxes	1,374	1,212
Other receivables	10,775	13,974
Allowance for doubtful accounts	(10)	(8)
Total current assets	77,888	72,645
Noncurrent assets		
Property, plant, and equipment		
Buildings and structures	167,667	165,755
Accumulated depreciation	(88,100)	(87,732)
Buildings and structures (net)	79,566	78,023
Machinery and vehicles	14,491	10,222
Accumulated depreciation	(7,158)	(5,188)
Machinery and vehicles (net)	7,332	5,034
Tools, appliances, and fixtures	48,332	50,115
Accumulated depreciation	(29,764)	(31,797)
Tools, appliances, and fixtures (net)	18,567	18,318
Land	14,938	15,268
Lease assets	17,762	17,042
Accumulated depreciation	(9,279)	(8,595)
Lease assets (net)	8,483	8,447
Construction in progress	961	1,663
Total property, plant, and equipment	129,851	126,755
Intangible assets		
Goodwill	13,443	14,135
Other	6,276	3,034
Total intangible assets	19,720	17,170
Investments and other assets		
Investment securities	3,379	2,500
Guarantee deposits	33,503	33,647
Long-term loans receivable	97	95
Long-term prepaid rents	23,176	21,576
Deferred income taxes	2,749	12,058
Other	2,621	2,881
Allowance for doubtful accounts	(18)	(18)
Total investments and other assets	65,508	72,739
Total noncurrent assets	215,079	216,664
Deferred assets		
Stock issuance expenses	93	84
Bond issuance expenses	130	73
Total deferred assets	223	157
Total assets	293,192	289,467

(Units: Millions of yen)

	Previous consolidated fiscal year (March 31, 2014)	This consolidated fiscal year (March 31, 2015)
Liabilities		
Current liabilities		
Notes and accounts payable – trade	15,472	15,877
Short-term loans payable	6,113	9,214
Current portion of bonds	5,840	5,490
Current portion of long-term loans payable	34,521	32,791
Lease obligations	2,273	1,857
Accrued income taxes	2,867	2,179
Allowance for bonuses	1,288	1,368
Other	28,829	30,235
Total current liabilities	97,206	99,014
Noncurrent liabilities		
Corporate bonds	18,744	13,255
Long-term loans payable	81,857	88,432
Lease obligations	7,252	7,379
Net defined benefit liability	580	715
Asset retirement obligations	1,769	1,839
Other	4,490	4,596
Total noncurrent liabilities	114,694	116,219
Total liabilities	211,901	215,233
Net assets		
Shareholders' equity		
Capital stock	23,470	23,470
Capital surplus	24,023	24,023
Retained earnings	24,796	12,469
Treasury stock	(20)	(21)
Total shareholders' equity	72,268	59,941
Accumulated other comprehensive profit		
Net unrealized holding gains on securities	(711)	(306)
Deferred hedging gains/losses	(254)	261
Remeasurements of defined benefit plans	28	(9)
Foreign currency translation adjustments	(2,655)	1,041
Total accumulated other comprehensive profit	(3,592)	987
Non-controlling interests	12,614	13,304
Total net assets	81,291	74,233
Total liabilities and net assets	293,192	289,467

(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, 2013 – March 31, 2014)	This consolidated fiscal year (April 1, 2014 – March 31, 2015)
Sales	468,377	511,810
Cost of sales	191,410	220,192
Gross profit	276,966	291,617
Sales and general administrative expenses	268,832	289,119
Operating income	8,134	2,498
Non-operating income		
Interest income	431	447
Dividend income	59	48
Lease income	330	343
Amortization of negative goodwill	4	3
Foreign exchange gains	621	1,388
Other	897	497
Total non-operating income	2,344	2,728
Non-operating expenses		
Interest expenses	1,786	1,549
Lease expenses	261	249
Other	473	553
Total non-operating expenses	2,521	2,351
Ordinary profit	7,957	2,875
Extraordinary income		
Gains on sale of noncurrent assets	70	122
Gains on sales of stock in affiliates	140	94
Gains on negative goodwill	142	―
Compensation income for expropriation	73	88
Other	96	93
Total extraordinary income	524	398
Extraordinary losses		
Loss on sales of noncurrent assets	21	139
Loss on retirement of noncurrent assets	616	924
Loss on cancellation of lease contracts	41	3
Impairment losses	818	1,850
Loss on store closure	―	443
Loss on Business Restructuring	―	12,607
Other	734	849
Total extraordinary losses	2,232	16,818
Net profit (loss) before income taxes	6,248	(13,545)
Corporate, residence, and enterprise taxes	5,244	4,729
Income taxes – deferred	(842)	(8,013)
Total corporate taxes	4,402	(3,283)
Net profit (loss) before non-controlling	1,846	(10,261)
Non-controlling interests in income (loss)	742	876
Net profit (loss)	1,103	(11,138)

(Consolidated statement of comprehensive income)

(Units: Millions of yen)

	Previous consolidated fiscal year (April 1, 2013 – March 31, 2014)	This consolidated fiscal year (April 1, 2014 – March 31, 2015)
Net profit (loss) before non-controlling interests	1,846	(10,261)
Other comprehensive profit		
Valuation difference on available-for-sale securities	(38)	405
Deferred hedging gains/losses	(105)	516
Foreign currency translation adjustments	—	(38)
Remeasurements of defined benefit plans	426	3,746
Total other comprehensive profit	283	4,629
Comprehensive profit	2,129	(5,632)
(Breakdown)		
Comprehensive profit attributable to parent company owners	1,407	(6,558)
Comprehensive profit attributable to non-controlling interests	722	926

(3) Consolidated statement of changes in shareholders' equity

Previous consolidated fiscal year (April 1, 2013 – March 31, 2014)

(Units: Millions of yen)

	Shareholder's Equity				
	Capital stock	Capital Surplus	Retained earnings	Treasury stock	Total Shareholder's Equity
Beginning balance	10,089	10,642	25,812	(20)	46,524
Change during this fiscal year					
Issuance of new shares	13,380	13,380			26,760
Dividends declared			(1,937)		(1,937)
Net profit			1,103		1,103
Changes in scope of consolidation			(182)		(182)
Acquisition of treasury stock				(0)	(0)
Change during this fiscal year (net) in accounts other than shareholders' equity					
Total change during this fiscal year	13,380	13,380	(1,015)	(0)	25,744
Ending balance	23,470	24,023	24,796	(20)	72,268

	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 profit		
Beginning balance	(698)	(149)	—	(3,076)	(3,924)	12,619	55,218
Change during this fiscal year							
Issuance of new shares							26,760
Dividends declared							(1,937)
Net profit							1,103
Changes in scope of consolidation							(182)
Acquisition of treasury stock							(0)
Change during this fiscal year (net) in accounts other than shareholders' equity	(12)	(105)	28	421	332	(4)	327
Total change during this fiscal year	(12)	(105)	28	421	332	(4)	26,072
Ending balance	(711)	(254)	28	(2,655)	(3,592)	12,614	81,291

This 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			(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 profit		
Beginning balance	(711)	(254)	28	(2,655)	(3,592)	12,614	81,291
Change during this fiscal year							
Dividends declared							(1,188)
Net loss							(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

(4) Consolidated statement of cash flows

(Units: Millions of yen)

	Previous consolidated fiscal year (April 1, 2013 – March 31, 2014)	This consolidated fiscal year (April 1, 2014 – March 31, 2015)
Cash flows from operating activities		
Net profit (loss) before taxes and other adjustments	6,248	(13,545)
Depreciation	18,676	19,936
Impairment losses	818	1,850
Amortization of goodwill	980	1,117
Loss on Business Restructuring	–	12,607
Amortization of negative goodwill	(4)	(2)
Gains on negative goodwill	(142)	–
Increase (decrease) in allowance for doubtful accounts	(12)	(1)
Increase (decrease) in allowance for bonuses	(178)	75
Increase (decrease) in provision for directors' retirement benefits	–	(53)
Increase (decrease) in net defined benefit liability	47	(15)
Interest and dividends received	(491)	(496)
Interest expense	1,786	1,549
Foreign exchange losses (gains)	(513)	(1,355)
Loss (gain) on valuation of investment securities	2	–
Loss (gain) on sale of investment securities	(140)	(66)
Loss (gain) on sale of property, plant, and equipment	(71)	16
Loss on retirement of property, plant, and equipment	616	1,066
Other extraordinary losses (gains)	128	71
Other non-operating losses (gains)	(44)	(71)
Decrease (increase) in accounts receivable – trade	439	(63)
Decrease (increase) in inventories	(2,889)	(6,298)
Increase (decrease) in accounts payable – trade	751	(260)
Increase (decrease) in accrued consumption taxes	45	4,954
Decrease (increase) in other current assets	2,070	1,084
Decrease (increase) in other noncurrent assets	607	593
Increase (decrease) in other current liabilities	189	385
Increase (decrease) in other noncurrent liabilities	211	126
Subtotal	29,133	23,204
Interest and dividends received	161	291
Interest paid	(1,824)	(1,761)
Income taxes paid	(6,275)	(4,365)
Cash flows from operating activities	21,196	17,368

(Units: Millions of yen)

	Previous consolidated fiscal year (April 1, 2013 – March 31, 2014)	This consolidated fiscal year (April 1, 2014 – March 31, 2015)
Cash flows from investing activities		
Purchase of property, plant, and equipment	(18,468)	(21,465)
Proceeds from sale of property, plant, and equipment	127	6,122
Purchase of intangible assets	(470)	(566)
Proceeds from sale of intangible assets	35	—
Purchase of long-term prepaid expenses	(192)	(103)
Purchase of investment securities	(253)	(1,075)
Proceeds from sale of investment securities	438	2,699
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(3,172)	(1,539)
Purchase of investments in subsidiaries	—	(988)
Proceeds from sales of stocks of subsidiaries and affiliates	—	(4,018)
Payments for transfer of business	(335)	—
Payments of loans receivable	(2)	(35)
Collection of loans receivable	3	60
Security deposits and guarantees pledged	(1,466)	(862)
Security deposits and guarantees returned	1,131	768
Expenditures on lease premiums	(112)	(69)
Expenditures on long-term prepaid rents	(3,021)	(2,968)
Proceeds from fluidity of long-term prepaid rents	2,975	2,470
Payment of insurance premiums	—	(1,690)
Proceeds from cancellation of insurance funds	—	548
Other	(107)	(396)
Cash flows from investing activities	(22,891)	(23,111)
Cash flows from financing activities		
Increase (decrease) in short-term loans payable	4,062	3,024
Net increase (decrease) in short-term bonds payable	(2,000)	(5,000)
Proceeds from long-term loans payable	45,000	40,989
Repayment of long-term loans payable	(40,778)	(37,105)
Repayment of lease obligations	(2,819)	(2,998)
Purchase of treasury stock	(0)	(0)
Purchase of treasury stock in consolidated subsidiaries	(0)	—
Proceeds from issuance of common stock	26,760	—
Proceeds from issuance of bonds	5,000	—
Redemption of bonds	(6,190)	(5,840)
Repayment of installment payables	(9)	(1)
Payment of dividends	(1,932)	(1,203)
Dividends paid to minority shareholders	(232)	(235)
Other	—	(981)
Cash flows from financing activities	26,860	(9,352)
Effect of exchange rate changes on cash and cash equivalents	182	210
Increase (decrease) in cash and cash equivalents	25,347	(14,884)
Beginning balance of cash and cash equivalents	18,657	44,313
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	307	—
Ending balance of cash and cash equivalents	44,313	29,428

(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: 62

Names of main consolidated subsidiaries:

Sukiya Co., Ltd., Nakau Co., Ltd., Coco's Japan Co., Ltd., Takarajima Co., Ltd., Techno Support Co., Ltd., Jolly-Pasta Co., Ltd., Global Foods Co., Ltd., Global Table Supply Co., Ltd., Tolona Japan Co., Ltd., Big Boy Japan Inc., Hanaya Yohei Co., Ltd., Yamato Foods 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 40 other companies.

In this consolidated fiscal year, we established Kyushu Sukiya Co., Ltd., Chushikoku Sukiya Co., Ltd., Kansai Sukiya Co., Ltd., Chubu Sukiya Co., Ltd., Tokyo Sukiya Co., Ltd., Kanto Sukiya Co., Ltd., and Kitanihon Sukiya Co., Ltd. as successor companies in incorporation-type company split; A Dining Co., Ltd. and other 5 companies, and these companies are included in the scope of consolidation.

Since all shares of Catalina Restaurant Group Inc. were sold, and the liquidation of Art Café Co., Ltd. was finished in this consolidated fiscal year, these firms are excluded from the scope of consolidation.

VERY FOODS -owariya- became a subsidiary because we acquired its shares, and so will be included in the scope of consolidation from this consolidated fiscal year.

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

・Names of important non-consolidated subsidiaries

Zensho Three Restaurant Management (Beijing) Co., Ltd. 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 Three Restaurant Management (Beijing) Co., Ltd.), 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. Accounting standards

(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 (5 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 standards for retirement benefits, etc.)

"Accounting Standards regarding Retirement Benefits" (Corporate Accounting Standards No. 26, May 17, 2012; hereinafter called "Accounting Standards for Retirement Benefits") and "Guideline for Applying the Accounting Standards regarding Retirement Benefits" (Guideline for Applying Corporate Accounting Standards No. 25, May 17, 2012; hereinafter called "Guideline for Applying Retirement Benefits") were applied from the first quarter of the current consolidated accounting period, regarding Section 35 of Accounting Standards for Retirement Benefits and Section 67 of Guideline for Applying Retirement Benefits, to revise the methods for calculating retirement benefit obligations and business expenses, and change discount rate determination methods from the one in which the period of bonds, which is the base for determining discount rate, is the years approximately equal to the average remaining employment period of employees, to the one in which a single weighted average discount rate, which takes into account the period until the scheduled payment date and the amount for each period, is used.

Accounting Standards for Retirement Benefits, etc. are applied in accordance with the provision for transitional handling set forth in Section 37 of Accounting Standards for Retirement Benefits.

These do not produce any effects on the retained earnings at the beginning of the current consolidated accounting period, the operating profit, ordinary profit, and net profit before income taxes for the consolidated accounting period. In addition, there are no effects on the information on each business segment.

(Additional information)

(Application of the consolidated tax payment system)

Our company and some consolidated subsidiaries adopted the consolidated tax payment system in this consolidated fiscal year.

(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, 2013 – March 31, 2014)

(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	434,197	34,180	468,377	–	468,377
(2) Intersegment sales or transferred amount	764	18	782	(782)	–
Total	434,961	34,198	469,159	(782)	468,377
Segment income (loss)	9,307	(1,203)	8,103	30	8,134
Other items					
Depreciation	15,172	287	15,459	–	15,459
Amortization of goodwill	938	35	973	–	973

Note: 1. Adjustment amount of segment income (loss) of ¥30 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 13,443 million yen.

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

Current 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	15,958	588	16,546	–	16,546
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.

[Related information]

Previous fiscal year (April 1, 2013 – March 31, 2014)

(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, 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.

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

Previous fiscal year (April 1, 2013 – March 31, 2014)

(Units: Millions of yen)

	Reporting segment		Total
	Restaurant business	Retail business	
Impairment loss	787	30	818

Current 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

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

Previous fiscal year (April 1, 2013 – March 31, 2014)

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

Current 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.

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

Previous fiscal year (April 1, 2013 – March 31, 2014)

For this consolidated fiscal year, 142 million yen is posted as gain on negative goodwill. This is due to the acquisition of businesses in the retail business.

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

Not applicable

(Per-share information)

	Previous consolidated fiscal year (April 1, 2013 – March 31, 2014)	This consolidated fiscal year (April 1, 2014 – March 31, 2015)
Net assets per share	462.23 yen	410.09 yen
Net income (loss) per share	9.01 yen	(74.97) yen

Note: 1. Diluted net income per share for the previous fiscal year is not shown because there is no dilutive stock.

2. With regard to diluted net profit per share for this consolidated fiscal year, it is net loss per share and there are no dilutive shares. Accordingly, it is not written.

2. Net income per share is calculated on the following bases:

	Previous consolidated fiscal year (April 1, 2013 – March 31, 2014)	This consolidated fiscal year (April 1, 2014 – March 31, 2015)
Net income (loss) (million yen)	1,103	(11,138)
Amount not attributable to common shareholders (million yen)	–	–
Net income (loss) on common stock (million yen)	1,103	(11,138)
Average shares of stock during the fiscal year (stocks)	122,477,754	148,576,277

(Important events after the reporting period)

Not applicable

6. Changes in directors

(1) Changes in representative directors
Not applicable

(2) Changes in other directors
・Directors to be promoted
Senior managing director Koichi Takei (present: managing director of Zensho Holdings Co., Ltd.)
Managing director Yoshiro Kunii (present: director of Zensho Holdings Co., Ltd. and head of Personnel Affairs Dept.)

・Candidate of new director
External director Chiaki Ito (present: external director of Hitachi Zosen Corporation)

・Director scheduled to resign
Director Takemi Kaneko (present: director of Zensho Holdings Co., Ltd. and head of Dept. of Finance and Accounting)

(3) Scheduled date for assuming office
June 19, 2015