# Financial Results (Consolidated) for Fiscal Year Ended March 2014 (Japanese accounting standards)

May 14, 2014

| | | | |
|---|---|---|---|
| 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) Executive Officer, Senior General Manager of Group Finance and Accounting Division (name) Takemi Kaneko | | (tel.) 03 (6833) 1600 |

Date of annual general meeting of shareholders (planned): June 24, 2014
Starting date of dividend payment (planned): June 25, 2014
Date of submittal of securities report (planned): June 25, 2014
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 2014 (April 1, 2013 – March 31, 2014)

(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 2014 | 468,377 | 12.2 | 8,134 | (44.8) | 7,957 | (42.6) | 1,103 | (78.2) |
| FY 2013 | 417,577 | 3.6 | 14,736 | (29.8) | 13,873 | (28.1) | 5,058 | 64.8 |

(Reference) Comprehensive income FY 2014: 2,129 million yen (down 70.4%) FY 2013: 7,204 million yen (up 38.7%)

| | Net profit per share | Net profit per share–assuming dilution | Return on equity (ROE) | Return on assets (ROA) | Operating profit ratio |
|---|---|---|---|---|---|
| | yen | yen | % | % | % |
| FY 2014 | 9.01 | – | 2.0 | 2.9 | 1.7 |
| FY 2013 | 41.77 | – | 12.5 | 5.6 | 3.5 |

(Reference) Gain/loss on equity-method investments FY 2014: – million yen FY 2013: – 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 2014 | 293,192 | 81,291 | 23.4 | 462.23 |
| FY 2013 | 258,509 | 55,218 | 16.5 | 351.83 |

(Reference) Equity capital FY 2014: 68,676 million yen FY 2013: 42,599 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 2014 | 21,196 | (22,891) | 26,860 | 44,313 |
| FY 2013 | 21,572 | (24,373) | 2,878 | 18,657 |

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 2013 | – | 8.00 | – | 8.00 | 16.00 | 1,937 | 38.3 | 4.8 |
| FY 2014 | – | 8.00 | – | 8.00 | 16.00 | 2,157 | 177.6 | 3.9 |
| FY 2015 (forecast) | – | 8.00 | – | 8.00 | 16.00 | – | 56.9 | – |

3. Consolidated business performance forecasts for FY 2015 (April 1, 2014 – March 31, 2015))

(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) | 262,177 | 15.2 | 6,352 | 46.3 | 5,704 | 38.3 | 1,479 | 266.0 | 9.96 |
| Full year | 537,906 | 14.8 | 15,908 | 95.6 | 14,647 | 84.1 | 4,180 | 278.8 | 28.14 |

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 "Consolidated financial statements (5) Notes on consolidated financial statements (Important bases for preparation of consolidated financial statements) 4. Accounting standards (5)" on p. 19-20.

(3) Shares issued and outstanding (common stock)

| | | | | |
|---|---|---|---|---|
| (i) Ending number of shares issued and outstanding (including treasury stock) | FY 2014 | 148,600,000 shares | FY 2013 | 121,100,000 shares |
| (ii) Ending number of shares of treasury stock | FY 2014 | 23,681 shares | FY 2013 | 23,497 shares |
| (iii) Average shares during the fiscal year | FY 2014 | 122,477,754 shares | FY 2013 | 121,076,640 shares |

Note: See "Per-share information" on p. 22 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 2014 (April 1, 2013 – March 31, 2014)

(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 2014 | 212,068 | 8.0 | 1,348 | (68.8) | 3,913 | (39.7) | 3,695 | 263.7 |
| FY 2013 | 196,364 | (1.6) | 4,319 | (59.8) | 6,486 | (43.4) | 1,016 | – |

| | Net profit per share | Net profit per share–assuming dilution |
|---|---|---|
| | yen | yen |
| FY 2014 | 30.18 | – |
| FY 2013 | 8.39 | – |

(2) Non-consolidated financial position

| | Total assets | Net assets | Capital adequacy ratio | Net assets per share |
|---|---|---|---|---|
| | Millions of yen | Millions of yen | % | yen |
| FY 2014 | 261,269 | 57,387 | 22.0 | 386.25 |
| FY 2013 | 212,050 | 28,890 | 13.6 | 238.61 |

(Reference) Equity capital FY 2014: 57,387 million yen FY 2013: 28,890 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, 2013 to Mar. 31, 2014), the Japanese economy recovered gently, as capital investment increased and the employment situation improved, because of the yen depreciation and the rise in share prices triggered by the Japanese government and the Bank of Japan, but the economic outlook remains uncertain, as it is anticipated that the effects of the yen depreciation will subside, the demand will decline after the rush demand just before the hike of consumption tax, and the balance of labor supply and demand will worsen due to the pump-priming measures.
In the restaurant industry, the business environment remains stringent, as ingredient prices and energy costs are augmenting and it is anticipated that the decrease in real income due to the hike of consumption tax will produce adverse effects.
Under these circumstances, the sales of existing stores in the Gyudon category represented by Sukiya, the Family Dining category such as Coco's and Jolly-Pasta and the Fast Food Service category such as Hamasushi were 96.7% year-on-year, 100.3% year-on-year, and 101.6% year-on-year, respectively. The profits decreased from the previous year, because the prices of ingredients, including rice and beef, remained high and electricity charges rose, and so on.
At the end of this consolidated fiscal year, the Group's number of stores stood at 4,792 locations. Events contributing to this figure included the opening of 189 restaurants and the closing of 61 restaurants.
Consolidated business performance in this consolidated fiscal year showed sales of 468,377 million yen (up 12.2% year-on-year), operating profit of 8,134 million yen (down 44.8% year-on-year), ordinary profit of 7,957 million yen (down 42.6% year-on-year), and net profit of 1,103 million yen (down 78.2% year-on-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 434,197 million yen (up 7.7 % year-on-year), and operating profit was 9,307 million yen (down 38.2% year-on-year).
The performance of the restaurant business for each major category is as follows.

**Gyudon category**
With the opening of 109 restaurants and the closing of 24 restaurants, the number of restaurants in the Gyudon category at the end of this consolidated fiscal year totaled at 2,550. This figure includes 1,984 outlets in the Sukiya chain operated by Zensho Co., Ltd. and 478 outlets (including 20 franchised outlets) operated by Nakau Co., Ltd.
In addition to opening new locations and strengthening brand power through advertising, public relations and other activities, Sukiya, a gyudon chain operated by Zensho Co., Ltd., strengthened its product lineup by adding new products such as Japchae Gyudon (regular size: 430 yen), Kokumiso Yasai Gyudon (Vegetable beef bowl with rich miso sauce) (regular size: 450 yen) and pot dishes including Gyu-suki nabe Teishoku (Set meal with *Sukiyaki Nabe*) (regular size: 580 yen). In addition, Sukiya has been seeking to strengthen quality controls and improve its service to allow customers to continue to enjoy safe and delicious products in confort.
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 power 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 179,949 million yen (up 1.0% year-on-year).

**Family Dining category**
With the opening of 2 restaurants, the closing of 24 restaurants and some conversions to other business types within the Group, the number of restaurant locations in the Family Dining category stood at 1,527 outlets at the end of this consolidated fiscal year.
Coco's, the standard restaurant chain operated by Coco's Japan Co., Ltd., sought to strengthen business performance through increasing lineup of the menu, adding special fair menus, and enhancing service standards of the restaurants.
The Big Boy chain of hamburger steak, grill restaurants and other restaurants operated by Big Boy Japan Inc. sought to improve business performance in various ways, such as improving its main products, enhancing salad bar and soup bar, and adding fair menus.
Jolly-Pasta, pasta specialty restaurant chain, operated by Jolly-Pasta Co., Ltd., sought to make their menus even more delicious by improving their pasta sauces and introducing full-featured seasonal menus. We 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 which customers

can enjoy in confort.
Due to these efforts, sales in the Family Dining category in this consolidated fiscal year totaled 149,242 million yen. (up 1.5% year-on-year)

**Fast Food Service category**
With the opening of 75 restaurants, the number of restaurant locations in the Fast Food Service category at the end of this consolidated fiscal year stood at 609.
"Hamasushi", kaiten-zushi 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 83,129 million yen (up 33.7% year-on-year).

**Other category**
Net sales in the Other category in this consolidated fiscal year totaled 21,875 million yen (up 39.9% year-on-year).
Main businesses in this category include Tolona Japan Co., Inc., which produces and sells pizzas; Sanbishi Co., Ltd., which brews soy sauce; Global Fresh Supply Co., Ltd., a company which handles logistics functions for the Zensho Group; and Global Table Supply Co., Ltd., which procures supplies, uniforms and other equipments.

② Retail business
Net sales in retail business in this consolidated fiscal year were 34,180 million yen and operating loss was 1,203 million yen. The retail business of our company is operated by Maruya Co., Ltd., which operates the supermarket business, Maruei Co., Ltd. and United Veggies Co., Inc., which sells fruits and vegetables.

As for the outlook for the next term, the situation is estimated to remain uncertain, as the effects of the yen depreciation will subside, the demand will decline after the rush demand just before the hike of consumption tax, and the balance of labor supply and demand will worsen due to the pump-priming measures, and in the restaurant industry, it is anticipated that the business environment will remain stringent, as ingredient prices and energy costs are augmenting and it is anticipated that the decrease in real income due to the hike of consumption tax will produce adverse effects.
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: 537,906 million yen in net sales (up 14.8% from the previous year); 15,908 million yen in operating profit (up 95.6% from the previous year); 14,647 million yen in ordinary profit (up 84.1% from the previous year); and 4,180 million yen in net profit (up 278.8% from the previous 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 increased by 34,682 million yen, mainly due to increase in cash and deposits through a public offering and capital investments accompanying activities such as the opening of 189 new restaurants.
Liabilities increased by 8,610 million yen, mainly due to an increase in loans payable accompanying active efforts to open new restaurants.
Net assets increased by 26,072 million yen, mainly due to the public offering.

(ii) Cash-flow position

| | Amount |
|---|---|
| Beginning balance in cash and cash equivalents | 18,657 million yen |
| Operating cash flow | 21,196 million yen |
| Investing cash flow | (22,891million yen) |
| Financing cash flow | 26,860 million yen |
| Ending balance in cash and cash equivalents | 44,313 million yen |
| (Reference) Free cash flow | (1,694 million yen) |

Cash and cash equivalents (“funds” hereinafter) totaled 44,313 million yen at the end of this consolidated fiscal year. This was due to cash inflows, including public offering, net income before taxes and other adjustments, and depreciation, along with cash outflows resulting from expenditures on opening new restaurants, debt repayment, payment of interest, and payment of corporate and other taxes, as well as dividends.

(Cash flow from operating activities)
Cash flow from operating activities resulted in an increase in funds of 21,196 million yen. This was mainly due to net income before taxes and other adjustments and depreciation.

(Cash flow from investing activities)
Cash flow used in investment activities resulted in a decrease in funds of 22,891 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 an increase in funds of 26,860 million yen. This was mainly due to public offering, increase in loans payable accompanying active efforts to open new restaurants and expenditures on payment of dividends.

(Reference) Trends in cash flow indicators

| | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 |
|---|---|---|---|---|---|
| Equity ratio (%) | 14.7 | 15.6 | 16.2 | 16.5 | 23.4 |
| Equity ratio on market price basis (%) | 36.5 | 43.2 | 52.1 | 58.1 | 51.2 |
| Debt repayment period (years) | 6.2 | 5.4 | 6.0 | 6.9 | 7.5 |
| Interest coverage ratio (times) | 9.8 | 10.4 | 10.3 | 10.3 | 11.6 |

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 liabilities.

(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, plans call for payment of 16 yen per share in dividends over the course of this consolidated fiscal year, consisting of 8 yen/share in midyear dividends and 8 yen/share in year-end dividends.

Also in accordance with the above policy, plans call for payment of 16 yen per share in dividends in the next fiscal year, consisting of 8 yen/share in midyear dividends and 8 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 position 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 position 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 position 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) Catalina Restaurant Group Inc. (U.S.)

In May 2006, Zensho America Corp., Zensho's wholly-owned subsidiary, made the U.S. firm Catalina Restaurant Group Inc. a subsidiary. The Catalina Restaurant Group operates the Coco's and Carrow's restaurant chains in the United States. As of the end of March 2014, it operated 169 locations in the states of California, Arizona, Nevada, and elsewhere. Various measures to strengthen this business will be carried out in the future, including large-scale menu revisions focusing on introducing new products and revising restaurant operation systems. However, the inability to carry out these plans for various reasons (including concerns about an economic downturn in the United States) may harm the business performance and financial position of Zensho Holdings and the Zensho Group.

## 2. Group position

The Zensho Group consists of 51 companies—Zensho Holdings and 50 subsidiaries—and carries out a broad range of business activities in the food business.

① Restaurant business

(1) Gyudon category (share of Group sales: 38.4%)

Zensho Co., Ltd. runs 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: 31.9%)

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 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.

Catalina Restaurant Group Inc. operates the Coco's and Carrows family dining chains, primarily in the U.S. state of California.

(3) Fast food category (share of Group sales: 17.7%)

Hamazushi Co., Ltd. directly operates the Hamazushi chain of conveyer-belt sushi restaurants. Yamato Foods Co., Ltd. directly operates the Kyubeiya chain of restaurants in the Kanto region; the main product is homemade udon. It also operates franchises of Mister Donut and Mos Burger, primarily in the Kanto region.

(4) Other (share of Group sales: 4.7%)

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 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.

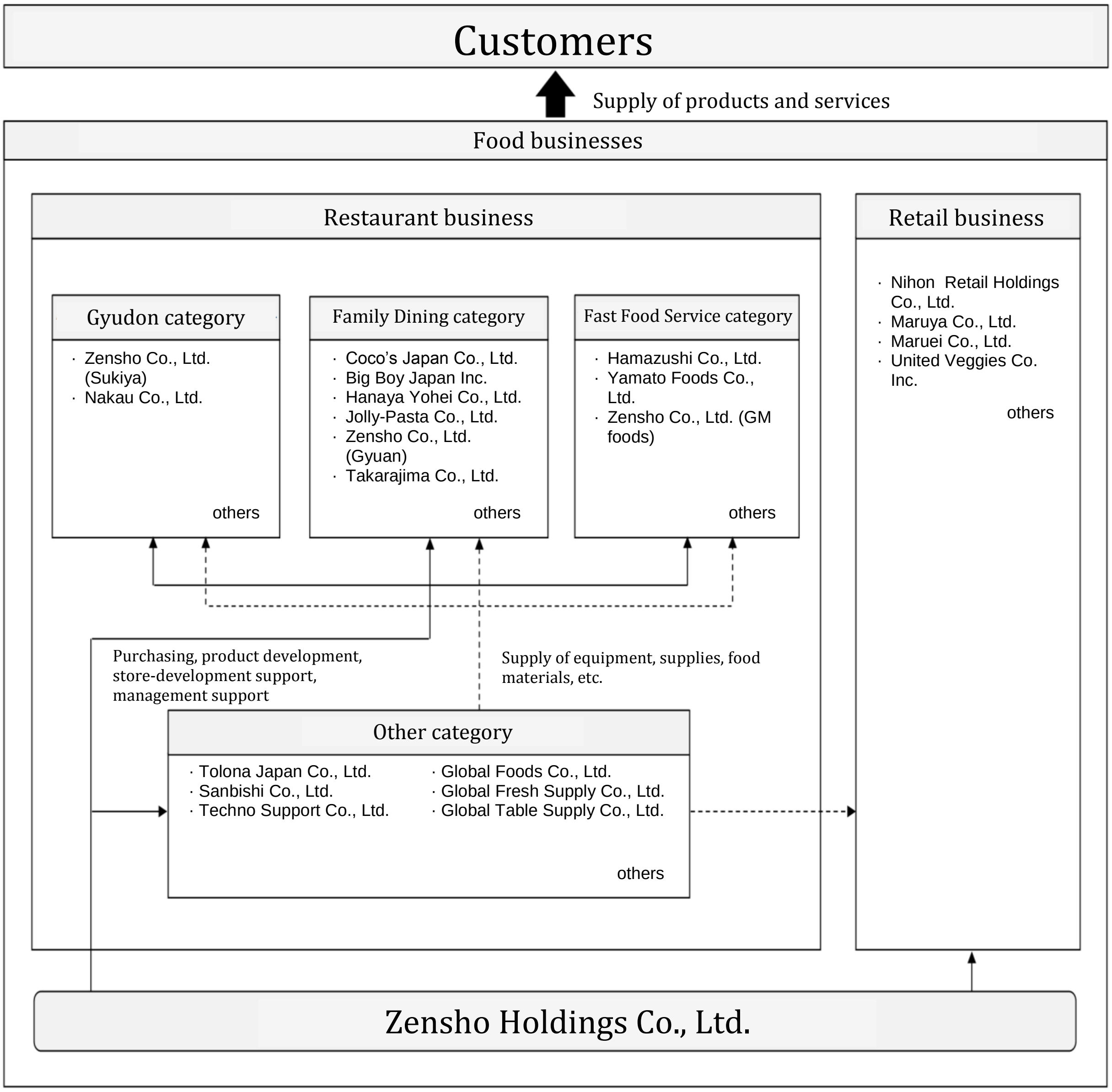
The main business of Global Table Supply Co., Ltd. is the sale of supplies and equipment.

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. 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

In the future, we 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 Group 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.

## 4. Consolidated financial statements

### (1) Consolidated balance sheet

(Units: Millions of yen)

| | Previous consolidated fiscal year (March 31, 2013) | This consolidated fiscal year (March 31, 2014) |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and deposits | 18,657 | 44,313 |
| Notes and accounts receivable – trade | 4,748 | 4,765 |
| Merchandise and products | 10,012 | 13,138 |
| In-process inventories | 510 | 525 |
| Raw materials and supplies | 2,492 | 3,006 |
| Deferred income taxes | 1,615 | 1,374 |
| Other receivables | 11,787 | 10,775 |
| Allowance for doubtful accounts | (10) | (10) |
| Total current assets | 49,816 | 77,888 |
| Noncurrent assets | | |
| Property, plant, and equipment | | |
| Buildings and structures | 160,366 | 167,667 |
| Accumulated depreciation | (82,418) | (88,100) |
| Buildings and structures (net) | 77,947 | 79,566 |
| Machinery and vehicles | 12,583 | 14,491 |
| Accumulated depreciation | 6,040 | (7,158) |
| Machinery and vehicles (net) | 6,542 | 7,332 |
| Tools, appliances, and fixtures | 42,118 | 48,332 |
| Accumulated depreciation | (25,850) | (29,764) |
| Tools, appliances, and fixtures (net) | 16,268 | 18,567 |
| Land | 14,051 | 14,938 |
| Lease assets | 17,095 | 17,762 |
| Accumulated depreciation | (8,237) | (9,279) |
| Lease assets (net) | 8,858 | 8,483 |
| Construction in progress | 803 | 961 |
| Total property, plant, and equipment | 124,471 | 129,851 |
| Intangible assets | | |
| Goodwill | 12,399 | 13,443 |
| Other | 5,054 | 6,276 |
| Total intangible assets | 17,453 | 19,720 |
| Investments and other assets | | |
| Investment securities | 4,276 | 3,379 |
| Guarantee deposits | 32,921 | 33,503 |
| Long-term loans receivable | 75 | 97 |
| Long-term prepaid rents | 24,591 | 23,176 |
| Deferred income taxes | 2,326 | 2,749 |
| Other | 2,405 | 2,621 |
| Allowance for doubtful accounts | (21) | (18) |
| Total investments and other assets | 66,574 | 65,508 |
| Total noncurrent assets | 208,498 | 215,079 |
| Deferred assets | | |
| Stock issuance expenses | 0 | 93 |
| Bond issuance expenses | 194 | 130 |
| Total deferred assets | 194 | 223 |
| Total assets | 258,509 | 293,192 |

(Units: Millions of yen)

| | Previous consolidated fiscal year (March 31, 2013) | This consolidated fiscal year (March 31, 2014) |
|---|---|---|
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable – trade | 13,281 | 15,472 |
| Short-term loans payable | 1,876 | 6,113 |
| Current portion of bonds | 5,990 | 5,840 |
| Current portion of long-term loans payable | 38,270 | 34,521 |
| Lease obligations | 2,658 | 2,273 |
| Accrued income taxes | 3,280 | 2,867 |
| Allowance for bonuses | 1,466 | 1,288 |
| Other | 30,347 | 28,829 |
| Total current liabilities | 97,170 | 97,206 |
| Noncurrent liabilities | | |
| Corporate bonds | 19,583 | 18,744 |
| Long-term loans payable | 72,522 | 81,857 |
| Lease obligations | 7,340 | 7,252 |
| Allowance for retirement benefits | 582 | — |
| Asset retirement obligations | 1,609 | 1,769 |
| Net defined benefit liability | — | 580 |
| Other | 4,482 | 4,490 |
| Total noncurrent liabilities | 106,120 | 114,694 |
| Total liabilities | 203,291 | 211,901 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 10,089 | 23,470 |
| Capital surplus | 10,642 | 24,023 |
| Retained earnings | 25,812 | 24,796 |
| Treasury stock | (20) | (20) |
| Total shareholders' equity | 46,524 | 72,268 |
| Accumulated other comprehensive income | | |
| Net unrealized holding gains on securities | (698) | (711) |
| Deferred hedging gains/losses | (149) | (254) |
| Remeasurements of defined benefit plans | — | 28 |
| Foreign currency translation adjustments | (3,076) | (2,655) |
| Total accumulated other comprehensive income | (3,924) | (3,592) |
| Non-controlling interests | 12,619 | 12,614 |
| Total net assets | 55,218 | 81,291 |
| Total liabilities and net assets | 258,509 | 293,192 |

(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, 2012 – March 31, 2013) | This consolidated fiscal year (April 1, 2013 – March 31, 2014) |
|---|---|---|
| Sales | 417,577 | 468,377 |
| Cost of sales | 154,942 | 191,410 |
| Gross profit | 262,634 | 276,966 |
| Sales and general administrative expenses | 247,897 | 268,832 |
| Operating profit | 14,736 | 8,134 |
| Non-operating income | | |
| Interest income | 381 | 431 |
| Dividend income | 89 | 59 |
| Lease income | 345 | 330 |
| Amortization of negative goodwill | 3 | 4 |
| Foreign exchange gains | 562 | 621 |
| Other | 597 | 897 |
| Total non-operating income | 1,978 | 2,344 |
| Non-operating expenses | | |
| Interest expenses | 2,022 | 1,786 |
| Lease expenses | 331 | 261 |
| Other | 488 | 473 |
| Total non-operating expenses | 2,842 | 2,521 |
| Ordinary profit | 13,873 | 7,957 |
| Extraordinary income | | |
| Gains on sale of noncurrent assets | 1 | 70 |
| Gain on sales of investment securities | — | 140 |
| Gain on negative goodwill | 1,220 | 142 |
| Compensation income for expropriation | — | 73 |
| Other | 173 | 96 |
| Total extraordinary income | 1,395 | 524 |
| Extraordinary losses | | |
| Loss on sales of noncurrent assets | 47 | 21 |
| Loss on retirement of noncurrent assets | 648 | 616 |
| Loss on cancellation of lease contracts | 108 | 41 |
| Impairment loss | 1,194 | 818 |
| Loss on sales of investment securities | 351 | — |
| Other | 369 | 734 |
| Total extraordinary losses | 2,719 | 2,232 |
| Net profit before income taxes | 12,549 | 6,248 |
| Corporate, residence, and enterprise taxes | 6,682 | 5,244 |
| Income taxes – deferred | (176) | (842) |
| Total corporate taxes | 6,506 | 4,402 |
| Net profit before non-controlling interests | 6,042 | 1,846 |
| Non-controlling interests in income | 984 | 742 |
| Net profit | 5,058 | 1,103 |

(Consolidated statement of comprehensive income)

(Units: Millions of yen)

| | Previous consolidated fiscal year (April 1, 2012 – March 31, 2013) | This consolidated fiscal year (April 1, 2013 – March 31, 2014) |
|---|---|---|
| Net profit before non-controlling interests | 6,042 | 1,846 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 459 | (38) |
| Deferred hedging gains/losses | 429 | (105) |
| Foreign currency translation adjustments | 271 | 426 |
| Total other comprehensive income | 1,161 | 283 |
| Comprehensive income | 7,204 | 2,129 |
| (Breakdown) | | |
| Comprehensive income attributable to parent company owners | 6,205 | 1,407 |
| Comprehensive income attributable to non-controlling interests | 999 | 722 |

(3) Consolidated statement of changes in shareholders' equity

Previous consolidated fiscal year (April 1, 2012 – March 31, 2013)

(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 | 22,691 | (20) | 43,403 |
| Change during this fiscal year | | | | | |
| Dividends declared | | | (1,937) | | (1,937) |
| Net profit | | | 5,058 | | 5,058 |
| Acquisition of treasury stock | | | | (0) | (0) |
| Disposal of treasury stock | | | | 0 | 0 |
| Change during this fiscal year (net) in accounts other than shareholders' equity | | | | | |
| Total change during this fiscal year | | | 3,120 | (0) | 3,120 |
| Ending balance | 10,089 | 10,642 | 25,812 | (20) | 46,524 |

| | Accumulated other comprehensive income | | | | Non-controlling interests | Total Net Assets |
|---|---|---|---|---|---|---|
| | Valuation difference on available-for-sale securities | Deferred hedging gains/losses | Foreign currency translation adjustments | Total other comprehensive income | | |
| Beginning balance | (1,144) | (579) | (3,348) | (5,071) | 10,734 | 49,066 |
| Change during this fiscal year | | | | | | |
| Dividends declared | | | | | | (1,937) |
| Net profit | | | | | | 5,058 |
| Acquisition of treasury stock | | | | | | (0) |
| Disposal of treasury stock | | | | | | 0 |
| Change during this fiscal year (net) in accounts other than shareholders' equity | 445 | 429 | 271 | 1,147 | 1,884 | 3,031 |
| Total change during this fiscal year | 445 | 429 | 271 | 1,147 | 1,884 | 6,152 |
| Ending balance | (698) | (149) | (3,076) | (3,924) | 12,619 | 55,218 |

This 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 |
| Change of 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 | | | | | 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 | (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 |
| Change of 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 |

(4) Consolidated statement of cash flows

(Units: Millions of yen)

| | Previous consolidated fiscal year (April 1, 2012 – March 31, 2013) | This consolidated fiscal year (April 1, 2013 – March 31, 2014) |
|---|---|---|
| Cash flows from operating activities | | |
| Net profit before income taxes | 12,549 | 6,248 |
| Depreciation | 17,212 | 18,676 |
| Amortization of goodwill | 932 | 980 |
| Amortization of negative goodwill | (3) | (4) |
| Gain on negative goodwill | (1,220) | (142) |
| Increase (decrease) in allowance for doubtful accounts | 4 | (12) |
| Increase (decrease) in allowance for bonuses | (51) | (178) |
| Increase (decrease) in allowance for retirement benefits | (17) | — |
| Increase (decrease) in net defined benefit liability | — | 47 |
| Interest and dividends received | (470) | (491) |
| Interest expense | 2,022 | 1,786 |
| Foreign exchange losses (gains) | (526) | (513) |
| Loss (gain) on valuation of investment securities | 44 | 2 |
| Loss (gain) on sale of investment securities | 351 | (140) |
| Loss (gain) on sale of property, plant, and equipment | 45 | (71) |
| Loss on retirement of property, plant, and equipment | 637 | 616 |
| Impairment loss | 1,194 | 818 |
| Other extraordinary losses (gains) | 109 | 128 |
| Other non-operating losses (gains) | (164) | (44) |
| Decrease (increase) in accounts receivable – trade | 75 | 439 |
| Decrease (increase) in inventories | (2,171) | (2,889) |
| Increase (decrease) in accounts payable – trade | 1,279 | 751 |
| Increase (decrease) in accrued consumption taxes | 508 | 45 |
| Decrease (increase) in other current assets | (229) | 2,070 |
| Decrease (increase) in other noncurrent assets | 860 | 607 |
| Increase (decrease) in other current liabilities | 472 | 189 |
| Increase (decrease) in other noncurrent liabilities | 169 | 211 |
| Subtotal | 33,613 | 29,133 |
| Interest and dividends received | 85 | 161 |
| Interest paid | (2,094) | (1,824) |
| Income taxes paid | (10,031) | (6,275) |
| Cash flows from operating activities | 21,572 | 21,196 |

(Units: Millions of yen)

| | Previous consolidated fiscal year (April 1, 2012 – March 31, 2013) | This consolidated fiscal year (April 1, 2013 – March 31, 2014) |
|---|---|---|
| Cash flows from investing activities | | |
| Purchase of property, plant, and equipment | (18,209) | (18,468) |
| Proceeds from sale of property, plant, and equipment | 121 | 127 |
| Purchase of intangible assets | (484) | (470) |
| Proceeds from sale of intangible assets | 2 | 35 |
| Purchase of long-term prepaid expenses | (275) | (192) |
| Purchase of investment securities | (36) | (253) |
| Proceeds from sale of investment securities | 1,349 | 438 |
| Purchase of investments in subsidiaries resulting from change in scope of consolidation | (2,927) | (3,172) |
| Payments for transfer of business | — | (335) |
| Payments of loans receivable | (5) | (2) |
| Collection of loans receivable | 154 | 3 |
| Security deposits and guarantees pledged | (1,735) | (1,466) |
| Security deposits and guarantees returned | 1,030 | 1,131 |
| Expenditures on lease premiums | (133) | (112) |
| Expenditures on long-term prepaid rents | (3,169) | (3,021) |
| Proceeds from long-term prepaid rents sold to trust | — | 2,975 |
| Other | (55) | (107) |
| Cash flows from investing activities | (24,373) | (22,891) |
| Cash flows from financing activities | | |
| Increase (decrease) in short-term loans payable | (6,022) | 4,062 |
| Net increase (decrease) in short-term bonds payable | 7,000 | (2,000) |
| Proceeds from long-term loans payable | 42,462 | 45,000 |
| Repayment of long-term loans payable | (46,365) | (40,778) |
| Repayment of lease obligations | (3,010) | (2,819) |
| Purchase of treasury stock | (0) | (0) |
| Purchase of treasury stock in consolidated subsidiaries | (0) | (0) |
| Proceeds from issuance of common stock | — | 26,760 |
| Proceeds from issuance of bonds | 15,000 | 5,000 |
| Redemption of bonds | (3,990) | (6,190) |
| Repayment of installment payables | (60) | (9) |
| Payment of dividends | (1,935) | (1,932) |
| Dividends paid to minority shareholders | (198) | (232) |
| Other | 0 | — |
| Cash flows from financing activities | 2,878 | 26,860 |
| Effect of exchange rate changes on cash and cash equivalents | (1) | 182 |
| Increase (decrease) in cash and cash equivalents | 77 | 25,347 |
| Beginning balance of cash and cash equivalents | 18,580 | 18,657 |
| Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation | — | 307 |
| Ending balance of cash and cash equivalents | 18,657 | 44,313 |

(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) Fifty subsidiaries are subject to consolidation.
Names of main consolidated subsidiaries:
Zensho 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., Catalina Restaurant Group Inc., 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., Kaigo Service Kagayaki Co., Ltd., and 29 other companies.
ZENSHO FOOD MALASIA SDN. BHD. and other 6 companies, which had been non-consolidated subsidiaries until the previous consolidated fiscal year, are included in the scope of consolidation in this consolidated fiscal year, because their significance grew.
Nihon SS Co., Ltd., Nihon Retail Holdings Co., Ltd., and another company were established as consolidated subsidiaries in this consolidated fiscal year.
Maruei Co., Ltd., POCINO FOODS COMPANY, and other 3 companies became subsidiaries through the acquisition of their shares, and are recognized as consolidated subsidiaries from this consolidated fiscal year.

(2) Names of important non-consolidated subsidiaries and other information
・Names of important non-consolidated subsidiaries
ZENSHO RESTAURANT (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 RESTAURANT (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 account closing date 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 inventories: Mainly the cost method, using FIFO

(The Balance Sheet figure is calculated by writing down book values based on decreased profitability.)

Supplies: 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 bonuses

Allowance for bonuses are booked based on the anticipated amount payable to prepare for bonus payments to employees.

(5) Accounting for retirement benefits

When calculating retirement benefits, the straight-line method is used to allocate expected benefit payments to the period until this fiscal year end. Under the straight-line method for the retirement benefit payments calculation, the expected benefit divided by the total service years would be deemed as arising in each period.

Zensho Holdings and some of the Zensho Group use the simplified method to make our calculations, while other consolidated subsidiaries use the principle method.

Actuarial differences that arises with the consolidated subsidiaries that employ the principle method are recorded in the consolidated fiscal year following the year in which they arise. The amount recorded is proportional according to the straight-line method applied over a prescribed number of years(5 years) from the average remaining years of service of employees in each consolidated fiscal year when the actuarial difference arises.

(Changes in accounting policies)

(Accounting Standard for Retirement Benefits)

Beginning at the end of the fiscal year ended on March 31,2014, Zensho Holdings is using Accounting Standard for Retirement Benefits(ASBJ Statement No.26,May 17,2012) and Guidance on Accounting Standard for Retirement Benefits(ASBJ Guidance No.25,May 17,2012).However, Zensho Holdings is not using the provisions of paragraph 35 of this accounting standard and paragraph 67 of this guidance. As a result, Zensho Holdings has changed to the method of posting net defined benefit liability by subtracting pension plan assets from retirement benefit liabilities. Unrecognized actuarial difference is included in net defined benefit liability.

Due to the application of this accounting standard and guidance, as prescribed in paragraph 37 of the standard for the retroactive treatment of past items, the monetary effect of this change has been incorporated in remeasurements of defined benefit plans of valuation and translation adjustments.

As a result, net defined benefit liability was 580million yen as of March 31,2014, and there was a 28 million yen increase in total accumulated other comprehensive income.

In addition, net assets per share increased by 0.20yen.

(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 accounts payable – trade |
| | 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

Accounting for consumption tax and other tax

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

(Segment information)

[Segment information]

1. Overview of reportable segments

For Zensho Holdings' reportable segments, 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

As the Zensho Group established Nihon Retail Holdings Co., Ltd. and changed corporate organizations for the purpose of further streamlining the retail business, the previous segment "food business" has been divided into "restaurant business" and "retail business."

It is practically difficult to retrospectively produce the segment information for the previous consolidated fiscal year as it conforms with the current classification method, and thus such information is not presented.

Since there was only one reportable segment in the previous consolidated fiscal year, the segment information for this consolidated fiscal year produced based on the previous classification method has been omitted.

2. Methods for calculating sales, profit or loss, assets, liabilities, and other items for each reportable segment

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

Zensho Holdings does not allocate assets and liabilities to reportable segments.

3. Information on sales, profit or loss, assets, liabilities, and other items for each repontable segment

(Units: Millions of yen)

| | Reportable segment | | Total | Adjustment *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 profit (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 for segment profit (loss) of 30 million yen mainly relates to elimination of intersegment transactions

2. The total segment profit has been adjusted with the operating profit on 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.

[Related information]

(1) Information by product and service

This information is omitted because similar information has been disclosed in the section of segment information.

(2) Geographic 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 the value of property, plant and equipment located in Japan exceeds 90% of the value of property, plant and equipment on the consolidated balance sheet.

(3) Information by major customers

This information is omitted because 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 reportable segment]

(Units: Millions of yen)

| | Reportable segment | | Total |
|---|---|---|---|
| | Restaurant business | Retail business | |
| Impairment loss | 787 | 30 | 818 |

[Information on goodwill amortization and unamortized balance for each reportable segment]

This information is omitted because similar information has been disclosed in the section of segment information.

[Information on gain on negative goodwill for each reportable segment]

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

(Per-share information)

| | Previous consolidated fiscal year (April 1, 2012 – March 31, 2013) | This consolidated fiscal year (April 1, 2013 – March 31, 2014) |
|---|---|---|
| Net assets per share | 351.83 yen | 462.23 yen |
| Net income per share | 41.77 yen | 9.01 yen |

Note: 1. Diluted net income per share is not shown because there is no dilutive share.

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

| | Previous consolidated fiscal year (April 1, 2012 – March 31, 2013) | This consolidated fiscal year (April 1, 2013 – March 31, 2014) |
|---|---|---|
| Net income (million yen) | 5,058 | 1,103 |
| Net income not attributable to common shareholders (million yen) | — | — |
| Net income on common stock (million yen) | 5,058 | 1,103 |
| Average number of shares during the fiscal year | 121,076,640 | 122,477,754 |

(Important events after the reporting period)

Zensho Co., Ltd., which is a consolidated subsidiary of Zensho Holdings, resolved to transfer part of the business of the store operation of Sukiya on June 1, 2014, in accordance with the contract for absorption-type company split concluded with a new 100% subsidiary of Zensho Co., Ltd. at the meeting of the board of directors held on April 23, 2014, in order to design community-based organizations and stabilize store operation by developing a comfortable environment for employees and crew and boosting the level of services at each store.

The companies scheduled to take over part of the business are Kitanihon Sukiya Co., Ltd., Kanto Sukiya Co., Ltd., Tokyo Sukiya Co., Ltd., Chubu Sukiya Co., Ltd., Kansai Sukiya Co., Ltd., Chu-shikoku Sukiya Co., Ltd., and Kyushu Sukiya Co., Ltd.

## 5. Changes in directors

(1) Changes in representative directors

Not applicable

(2) Changes in other directors

・Director to be promoted

Managing director Kazumasa Ogawa (current position: Director of Zensho Holdings Co., Ltd.)

・Candidates of new directors

| | |
|---|---|
| Director Takemi Kaneko | (current position: executive officer of Zensho Holdings Co., Ltd. and head of the Finance and Accounting Department of the Zensho Group) |
| Director Naomi Eto | (current position: executive officer of Zensho Holdings Co., Ltd. and head of CC Department of the Zensho Group) |
| Director Yoshiki Enomoto | (current position: executive officer of Zensho Holdings Co., Ltd. and head of Group Food Safety Pursuing Department of the Zensho Group) |
| Director Ryutaro Okitsu | (current position: executive officer of Zensho Holdings Co., Ltd. and representative director / president of Zensho Co., Ltd.) |

・Director scheduled to resign

Director Eiji Saiki

(3) Scheduled date for assuming office

June 24, 2014