

# Consolidated financial summary for the Fiscal Year Ended February 28, 2003

C&S Co., Ltd. (URL <http://www.csgrp.co.jp>)

Securities traded: The first section of the Tokyo Stock Exchange and Nagoya Stock Exchange (Securities Code No.7437)

Registered head office: Aichi Prefecture (Headquarters: Kyobashi YS Bldg.,4F,12-5,Kyobashi 1-chome,Chuo-ku,Tokyo Japan)

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Date of the board of directors meeting to settle accounts: April 15, 2003

Date of the annual general meeting of shareholders: May 22, 2003

Parent company: UNY Co., Ltd. (Securities Code No.8270) Ownership of parent company: 46.7%

Notes: Prepared in accordance with the Financial accounting Standards in Japan.

## 1. Business Results for the Fiscal Year Ended February 28, 2003 (From March 1, 2002 to February 28, 2003)

C&S Co., Ltd. was formed following the exchange of every Sunkus share for 0.9 of a Circle K share on July 1, 2001. All Circle K shares became C&S shares on the same date. Consolidated financial statements will be prepared effective from the fiscal year ending February 2002. Consequently, no comparisons have been made with the corresponding periods of the previous fiscal year.

### (1) Consolidated operating results

Notes: All amounts less than one million yen have been omitted.

	Total operating revenues	Increase over the preceding period	Operating income	Increase over the preceding period	Recurring profit	Increase over the preceding period
	Millions of yen	%change	Millions of yen	%change	Millions of yen	%change
For the Fiscal Year						
Ended February 28, 2003	158,313	2.9	24,168	(1.5)	23,574	0.8
Ended February 28, 2002	153,889	-	24,545	-	23,378	-

	Net income	Increase over the preceding period	Net income per share	Diluted Net income per share	Return on equity	Recurring profit ratio of total assets	Recurring profit ratio of total operating revenues
	Millions of yen	%change	Yen	Yen	%	%	%
For the Fiscal Year							
Ended February 28, 2003	11,490	1.6	132.28	-	11.3	12.3	14.9
Ended February 28, 2002	11,304	-	131.18	-	11.6	12.4	15.2

Notes: 1. Equity in earnings or losses of investees For the Fiscal Year ended February 28, 2003 ¥ - million

For the Fiscal Year ended February 28, 2002 ¥ - million

2. Average number of shares (Consolidated) during For the Fiscal Year ended February 28, 2003 86,162,300 shares

For the Fiscal Year ended February 28, 2002 86,177,569 shares

3. Change in accounting policies: None

**(2) Consolidated financial conditions**

	Total assets	Shareholders equity	Equity ratio	Shareholders equity per share
	Millions of yen	Millions of yen	%	Yen
For the Fiscal Year				
Ended February 28, 2003	194,487	106,083	54.5	1230.19
Ended February 28, 2002	188,564	97,398	51.7	1130.35

Notes: Number of shares outstanding (Consolidated) at the end of February 28, 2003 86,157,541 shares  
February 28, 2002 86,166,356 shares

**(3) Consolidated cash flow**

	Operating activities	Investing activities	Financing activities	Ending balance of cash and cash equivalent
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
For the Fiscal Year				
Ended February 28, 2003	25,674	(18,854)	(6,540)	39,392
Ended February 28, 2002	28,925	(19,683)	(3,245)	39,113

**(4) Scope of consolidated subsidiaries**

Consolidated subsidiaries : 2 Companies Subsidiaries or affiliates applicable of equity method: None

**(5) Change in scope of consolidation and equity method**

Consolidation : (Inclusion) None (Exclusion) None Equity method : (Inclusion) None (Exclusion) None

**2. Consolidated Business Outlook for the Fiscal Year Ending February 29, 2004 (From March 1, 2003 to February 29, 2004)**

	Total operating revenues	Recurring profit	Net income
	Millions of yen	Millions of yen	Millions of yen
For the Six month period ending August 31, 2003	80,700	11,300	5,000
For the Fiscal year ending February 29, 2004	154,500	18,700	7,800

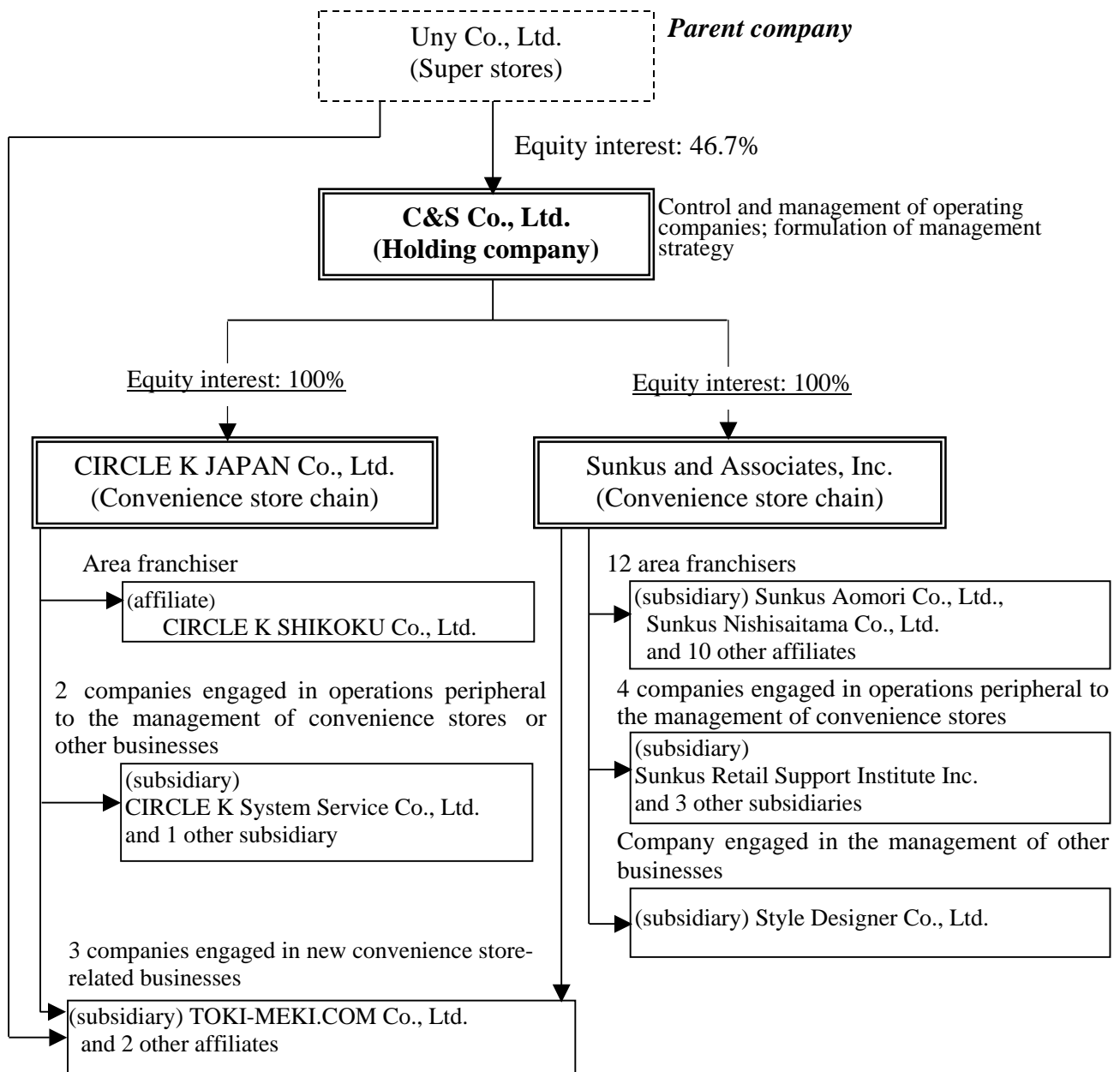
(Reference) Projected net income per share ¥ 90.53

# 1. Group Organization

C&S Group is a member of the Uny Group, an operator of several major superstore chains, and comprises a total of 26 companies: two wholly owned consolidated subsidiaries, CIRCLE K JAPAN Co., Ltd. and Sunkus and Associates, Inc., 10 other subsidiaries, and 13 affiliates. It is primarily engaged in the development of convenience store franchises. Circle K and Sunkus oversee networks of convenience stores that also include area-franchised stores.

With a store network extending from Hokkaido to Kagoshima, the C&S Group had a presence in 35 prefectures as of the end of February 2003.

The following chart depicts the C&S Group and the roles of subsidiaries in respect to business lines.



## **2. Management Policies**

### **(1)Basic Business Policy**

C&S Co., Ltd. is committed to remaining one of Japan's largest convenience store operators and to achieving stable earnings growth by building upon a solid foundation comprising two wholly owned subsidiaries—CIRCLE K JAPAN Co., Ltd. (Circle K) and Sunkus and Associates Inc. (Sunkus). Ultimately, C&S also aims to become the industry No. 1 in delivering customer, franchisee, shareholder and employee satisfaction. Achieving this goal will raise C&S' corporate value and enhance its standing as a corporate citizen

### **(2)Basic Earnings Distribution Policy**

C&S' basic policy is to return profits to shareholders based on its operating results, while at the same time building up retained earnings so as to sustain high levels of growth and bolster its operating base. C&S considers the maintenance of stable dividends its first priority and aims to pay out approximately 20% of consolidated net income in the year under review in the form of dividends. C&S intends to raise the dividend payout ratio to 25% to 30% in the future.

For the six months ended August 31, 2002, C&S declared an interim dividend of ¥16 per share. In addition, C&S plans to propose a year-end dividend of ¥16 per share at its Annual General Meeting of Shareholders in May 2003. As a result, the dividend payout ratio based on consolidated net income for the year ending February 28, 2003, will be 24.2%.

### **(3)Medium- to Long-Term Management Strategy**

As competition intensifies in Japan's convenience store industry, C&S Co., Ltd., the Group's holding company, is tasked with formulating overall group strategy and enhancing corporate governance. C&S is concentrating on deriving optimum benefits from a group network exceeding 6,000 stores in a range of areas from marketing to the development of information systems, e-business other new services and enhancing operating efficiency. For their part, Circle K and Sunkus, while sharing know-how and information, compete with each other to raise the performance of both companies.

In the medium term, C&S believes the challenging economic environment in Japan will continue to be influenced by such factors as increasing competition and continued deflation. C&S established the Integration Promotion Preparing Committee in November 2002 to set a course for qualitative growth and rebuild its earnings structure so as to provide a foundation for both Sunkus and Circle K. The Committee is also pursuing synergies through the effective integration of these companies and is seeking to speed up the pace of reform. In April 2003, these reform efforts will be expanded by the Structural Reform Committee chaired by the CEO himself, which will oversee the new Operational Reform Committee and the Rice Dish Sales Promotion Committee, in addition to the existing Integration Promotion Committee. The objectives will be to enhance earnings focusing on the sales of rice dishes, pursuing economies of scale created by the integration of Circle K and Sunkus and reform back-office and head office functions.

### **(4)Management Targets**

In the period ending February 29, 2004, C&S expects to see a temporary drop in earnings due to investments aimed at putting in place a stable foundation for future growth. In the medium-term, however, C&S is targeting annual consolidated earnings growth of at least 10% and ROE of 15%.

### **(5)Corporate Governance**

Final decision-making authority rests with the Board of Directors of C&S. However, a Management Strategy Meeting is convened once a month to form a consensus among group companies on

strategically important issues and to coordinate their activities. Directors, corporate auditors and the presidents of the two operating companies participate in these meetings. Monthly statements regarding the two operating companies, Circle K and Sunkus, on quarterly operating results and management progress are checked as required.

#### **(6)Issues to Be Addressed**

The convenience store industry continues to face a challenging climate with respect to sales at existing stores. Across the entire industry the total number of stores has leveled off. Against this background, C&S has continued to maintain its position as the No. 2 in the industry for average daily sales per store and to expand its store network at a rapid pace. In addition, in order to build a path to qualitative growth, C&S has designated the year ending February 2004 as a year of broad-ranging reform. This will include both the closure of unprofitable stores and the implementation of structural measures in relation to fixed expenses. In addition, through the activities of the Structural Reform Committee, C&S will bolster its product lineup and marketing capabilities, as well as secure the profitability of affiliated stores.

#### **(7)Basic Policy Regarding Relationships Among Group Members**

##### *1.Parent Company*

C&S is a member of the Uny Group, a retailing group comprising retailers, most notably Uny Co., Ltd. and specialty stores. Uny holds 46.7% of C&S. Although Uny and C&S both operate in the retail sector, the two companies have different business models—superstores and convenience stores, respectively. Accordingly, the parent company respects the autonomy of C&S in respect to management strategy in the operation of convenience stores.

##### *2.Subsidiaries*

Circle K and Sunkus are wholly owned subsidiaries of C&S Co., Ltd. Each company operates convenience stores under its own brand name. The two operating companies are granted a certain degree of management autonomy within the bounds of group strategy formulated by the holding company. The appointment of directors and remuneration however, are decided by C&S.

##### *3.Affiliates*

Circle K and Sunkus invest in area franchisers, companies engaged in operations peripheral to the management of convenience stores and other companies. Based on the authorization of C&S, the two operating companies provide guidance and advice to their respective affiliates in the first two categories. C&S takes part, directly and indirectly, from the perspective of maximizing group earnings, in the decision-making process and strategy formulation for e-business and other areas that are positioned as next-generation businesses.

### **3. Operating Results**

#### **(1)Overview of the Fiscal Year Ended February 28, 2003**

During the fiscal year ended February 28, 2003, Japan's economy showed signs of bottoming out in the first half of the fiscal year, buoyed by an early spring and a recovery in exports. In the second half, however, the global economy experienced a slowdown, exacerbated by heightened geopolitical tensions. This led once more to an uncertain outlook for the Japanese economy. Making matters worse, falling stock prices and stalling government policies prompted corporations to take a cautious stance. The result was that personal income levels remained flat, while the unemployment rate climbed to record highs.

Under these circumstances, the convenience store industry continued to face a difficult operating environment. Combined with continued deflation, consumer spending remained lackluster, and competition intensified from both within and outside the industry. Under these circumstances, C&S

continued to place even more emphasis on its principle of quality over quantity in a drive to open highly competitive new stores. As of February 28, 2003, C&S had increased its total number of stores by a net 246 stores to a total of 4,967 stores. (The total for the C&S Group including area franchisers rose by a net 347 stores to 6,241 stores.) For the C&S Group, consolidated sales at existing stores edged down 2% year on year. (Sales at Circle K and Sunkus fell 1.6% and 2.5%, respectively.)

As a result, total store sales for the fiscal year ended February 28, 2003, climbed 3.7% to ¥891,889 million. Total store sales, including area franchisers, were ¥1,093,560 million, an increase of 4.6%. Consequently, consolidated total operating revenues rose 2.9% to ¥158,313 million.

Consolidated gross profit was ¥122,731 million, an increase of 2.9%. This was attributable to sales contributions from new stores. Consolidated operating income decreased 1.5% to ¥24,168 million, while consolidated recurring profit rose 0.8% to ¥23,574 million, slightly below targets. As a result, consolidated net income was held to an increase of 1.6% year on year to ¥11,490 million.

Net cash provided by operating activities was ¥25,674 million, 11.2% less than in the same period last year. Income before income taxes increased to ¥21,061 million, despite continued sales declines at existing stores. Significant add backs included depreciation and amortization of ¥10,070 million and an increase in accounts payable.

Net cash used in investing activities fell 4.2% to ¥18,854 million. One component was ¥9,299 million for the purchase of property and equipment related to the opening of new stores and improving store conditions at existing stores. Other significant uses of cash were ¥8,062 million for fixed leasehold deposits, ¥3,094 million for the purchase of intangible assets and long-term prepaid expenses related to the development of software for new information systems and ¥3,000 million for the redemption of bonds at Sunkus.

Net cash used in financing activities declined 101.5% to ¥6,540 million.

Consolidated cash and cash equivalents as of February 28, 2003 were ¥39,392 million, an increase of ¥279 million, or 0.7% higher than at the previous fiscal year end.

An overview of business conditions and operating results for C&S and its consolidated subsidiaries Circle K and Sunkus for the fiscal year ended February 28, 2003, is provided as follows.

#### **C&S Co., Ltd.**

C&S continued to lay a strong foundation for maximizing the distinctive advantages of its new holding company framework.

C&S' Marketing Division, in cooperation with the merchandising divisions of Circle K and Sunkus, made progress on joint purchasing negotiations to improve product markups and logistics reforms—the use of a common frozen food vendor by Circle K and Sunkus in the Kanto region is one example. These measures will improve product markups and raise logistics efficiencies.

The C&S Group focused efforts on differentiating its merchandising activities from peer companies. In the fast food category, from midway through the fiscal year, original baked goods developed to give a more authentic home-baked taste made a strong contribution to sales. These products were marketed as the *Deli Plus Bakery* series at Circle K stores and the *Bakery Renaissance* series at Sunkus stores. Actions were also taken to improve quality and to win the attention of customers through tie-ups with major retailers and other media. In processed foods, tie-up plans with partners

from different industries were aggressively implemented, and contributed to improving sales and a more visible market presence for C&S. Tie-up products included the original *Gototen Cup Noodles* series and *CoCo Ichiban-ya: Famous Curried Rice Shop* in the snacks category. In ticket sales, C&S is promoting over-the-counter sales with an emphasis on friendly and courteous service to raise customer satisfaction. And in the fall of 2002, the C&S Group exercised exclusive rights to sell advance tickets to the film *Harry Potter and the Chamber of Secrets* at its convenience stores, making a significant contribution to sales.

Although C&S worked to improve product markups by leveraging its economies of scale, items with relatively low markups, such as tobacco and services, accounted for a larger percentage of total sales. The fiscal year under review also saw sales of pre-paid highway toll cards, which have low markups, increase sharply, as demand surged ahead of their market withdrawal in February 2003. The result was that average product markups declined by 0.2 percentage point to 28.0% at Circle K, and 0.1 percentage point to 28.8% at Sunkus.

In March 2002, C&S' Information Systems Division successfully integrated the accounting systems of Circle K and Sunkus. With this step, the integration of all core information systems is now complete. Furthermore, C&S completed development of a ticketing system for the Ticket Pia and CN PlayGuide ticketing services, a new barcode system relating to bill payment agency services and the construction of a data warehouse system.

In consideration for the services described above, C&S received group management and administration income of ¥704 million and dividend income totaling ¥4,403 million from Circle K and Sunkus during the fiscal year ended February 28, 2003.

As a result, non-consolidated operating revenue was ¥5,107 million, non-consolidated recurring profit was ¥4,316 million and net income ¥4,374 million.

### **CIRCLE K JAPAN Co., Ltd.**

Amid intensifying competition sparked by such factors as the arrival of the leading chain in the industry in the Chukyo region, Circle K moved to open new stores giving precedence to securing prime sites and remaining sharply focused on profitability. More specifically, more new stores were opened, with the emphasis on such store conditions as the ability to sell licensed products such as alcoholic beverages and tobacco, and space for parking lots. Circle K also relocated 26 stores to reinforce existing service areas.

As of February 28, 2003, the Circle K Group consisted of a total of 2,971 stores. This figure breaks down into 2,710 stores at Circle K proper, and 261 stores at Circle K's 2 area franchisers. During the fiscal year under review, Circle K proper opened a total of 230 new stores, as planned, and closed 103, resulting in a net increase of 127 stores.

### ***Store Operations***

Enhancing customer satisfaction was the key concept behind upgrading store operations in the fiscal year under review. One measure was the introduction of Customer Satisfaction Checklists, which make store-related issues raised by customers easily accessible to both franchised stores and store supervisors.

These checklists were used to eliminate differences in the quality of stores. Another measure was the "Step Up Program," a training program designed for staff at franchised stores aimed at promoting greater involvement of all staff in store operations. This measure was part of Circle K's efforts to reform store operations. Meanwhile, support services for franchised stores focused on revitalizing sales areas by gathering quantitative data on inventory levels at stores and on unpopular products, by

controlling inventories on a product-by-product basis. And information on market trends gathered at fixed locations were compiled into a database, which was then used to supply stores with a lineup of products that satisfy the customer needs specific to local markets served by individual stores.

### ***Products***

Product initiatives in the fast food category saw Circle K work to enhance product quality and add value, primarily by focusing on upgrading the rice cooking process to deliver better-tasting rice. Efforts were also made to boost quality by leveraging expertise gained through tie-up plans with reputable restaurants in hotels, renowned restaurants and chefs. One popular new product was *Achi-Achi Buns*, which are prepared using newly installed in-store ovens. In the processed foods and non-food products categories, Circle K worked to set itself apart from rival chains by introducing items under the e-Price brand, an original brand created by the Uny Group. In service products, Circle K began ticket sales via CN PlayGuide. *K-ing*, a free magazine, was published as part of efforts to bolster ticket merchandising and attract new customers. Circle K also launched new services such as character-themed telegraphic messages and began accepting applications for medical examinations.

As a result, Circle K's total store sales for the fiscal year ended February 28, 2003, rose 3.9% year on year to ¥485,670 million. Total store sales including area franchisers were ¥521,901 million, an increase of 4.2%. Average daily sales at new stores opened by Circle K proper rose ¥19,000 year on year to ¥440,000.

Total operating revenues climbed 1.8% to ¥93,090 million. Recurring profit edged up 0.7% to ¥13,754 million. Net income declined 1.1% to ¥7,432 million.

### **Sunkus & Associates Inc.**

On the store development front, Sunkus worked to develop stores in entirely new settings to attract and advertise stores to a new customer base. One example was the opening of stores on university campuses, namely Meiji University's Ikuta and Surugadai campuses. Another example is the new Shinbashi Yurikamome Store, located on station premises on the Tokyo Waterfront New Transit Yurikamome Line. Sunkus also opened the first convenience store inside Nagoya's subway station, the Mei-eki Melsa\_store. Additionally, Sunkus formed a franchise agreement with A. Coop Mie Ltd. to develop new stores in Mie prefecture.

During the fiscal year under review, Sunkus proper opened a total of 188 new stores, including 28 relocated stores, and closed 69 unprofitable stores, resulting in a net increase of 119 stores. As of February 28, 2003, the Sunkus Group comprised a total of 3,270 stores. This figure breaks down into 2,257 stores at Sunkus proper, and 1,013 stores at Sunkus' 13 area franchisers. Average daily sales at new stores opened by Sunkus proper rose ¥38,000 year on year to ¥494,000. Furthermore, Sunkus enlarged parking areas and floor space at 84 stores to revitalize these outlets.

### ***Store Operations***

On the store operations front, Sunkus worked to make its vision of "becoming the convenience store of choice" a reality. More specifically, Sunkus strengthened franchise support by offering training programs called "Power-up Support Schools," which are designed to train part-time staff into professional Sunkus crew members. Furthermore, 105 stores were remodeled to raise the standard of Sunkus stores, making existing stores more competitive. Also, Sunkus has carried over the practice of collecting Customer Satisfaction Score Sheets from the previous fiscal year to benchmark franchised stores. The focus is on identifying the strengths and weaknesses of stores from the viewpoint of customers. At the same time, Sunkus has instructed stores to place orders more accurately to reduce lost sales opportunities, by leveraging the New Store Support System.

## ***Products***

On the product side, Sunkus recorded slower sales of rice dishes and soft drinks. Sales of alcoholic beverages also struggled due to intensified competition due to the liberalization of alcohol sales. Meanwhile, fast foods displayed on counters such as steamed Chinese dumplings, delicatessen snacks, tobacco, pre-paid highway toll cards and tickets posted a strong performance. And in June 2002, Sunkus began ticket sales via Ticket Pia.

Viewing tickets as a strategic product capable of attracting more customers into its stores, Sunkus is actively promoting ticket sales at its stores.

As a result, Sunkus' total store sales for the fiscal year ended February 28, 2003, climbed 3.3% year on year to ¥406,219 million. Total store sales, including area franchisers, were ¥571,658 million, an increase of 5.0%. Total operating revenues climbed 4.5% to ¥65,223 million. Recurring profit was down 1.9% at ¥10,656 million. Net income declined 1.7% to ¥4,835 million.

## **(2) Forecast for the Fiscal year Ending February 29, 2004**

Weak overall economic conditions and sluggish consumer spending are expected to persist in Japan for some time. In the convenience store industry, competition is likely to intensify and the operating environments of existing C&S Group stores will remain challenging.

In this climate, the C&S Group has designated the year ending February 29, 2004 as the year to implement the broad-ranging structural reforms necessary to set a course for qualitative growth and to take a pre-emptive approach to dealing with the issues that confront the Group.

C&S will open 400 new stores by February 29, 2004: 200 Circle K stores and 200 Sunkus stores. This will be coupled with the closure of unprofitable stores and stores where there are concerns over future performance. This will result in the closure of 450 stores: 250 Circle K stores and 200 Sunkus stores. As a result, the combined total of the two companies' store networks is projected to be 4,917 stores, a net decrease of 50 stores.

C&S projects total operating revenues of ¥877,470 million, a decrease of 1.6% year on year. This projection assumes year-on-year declines in sales of 5.8% and 4.8% for Circle K and Sunkus, respectively. One of the factors contributing to this drop in sales will be a decline in sales for pre-paid highway toll cards. Consolidated group net sales, including area franchisers, are projected at ¥1,079,500 million, down 1.3% year on year. Markups at Circle K and Sunkus are forecast to improve by 1.1 and 0.6 percentage points respectively, due to the drop in sales of pre-paid highway cards, which have relatively low markups.

Based on these assumptions, C&S projects consolidated operating revenues of ¥154,500 million, a year-on-year decline of 2.4%. C&S forecasts consolidated recurring profit to fall 20.7% to ¥18,700 million year on year, and consolidated net income to rise 32.1% to ¥7,800 million.

However, for the year ending February 29, 2004, C&S Co., Ltd. expects to pay dividends of ¥32, the same as for the year ended February 28, 2003.

Note:

Figures cited above exclude consumption tax and other similar items.

**4. Consolidated Financial Statement**

(1)Consolidated balance sheet

Notes: All Amounts less than one million yen have been omitted.

(millions of yen)

	Fiscal Year ended February 28, 2003		Fiscal Year ended February 28, 2002	
	Amount	% of total	Amount	% of total
<b>ASSETS</b>		%		%
1. Current assets				
Cash and cash equivalents	33,893		29,114	
Due from franchised stores	3,711		4,161	
Marketable securities	5,501		11,010	
Inventories	1,915		2,200	
Prepaid expense	2,928		2,678	
Deferred tax credit	1,122		1,282	
Accrued revenue	9,654		7,833	
Other current assets	3,217		3,854	
Allowance for doubtful accounts	(707)	31.5	(1,047)	32.4
Total current assets	61,237		61,089	
2. Fixed Assets				
Property and equipment				
Buildings	24,418		20,743	
Equipment and vehicle	37		41	
Furniture and fixtures	4,890		5,748	
Land	8,768		8,056	
Construction in progress	93	19.7	307	18.5
Total property and equipment	38,208		34,897	
Intangible fixed assets				
System software	9,323		9,754	
System software development in progress	-		1,566	
Consolidated adjustment account	11,972		12,720	
Other intangible fixed assets	2,100	12.0	2,601	14.1
Total intangible fixed assets	23,396		26,642	
Investment and other				
Investment in securities	6,715		5,302	
Deferred tax credit	5,187		4,352	
Long-term leasehold deposits	53,570		51,124	
Other	7,943		6,544	
Allowance for doubtful accounts	(1,770)		(1,387)	
Total investment and other	71,645	36.8	65,935	35.0
Total Fixed Assets	133,250	68.5	127,474	67.6
Total Assets	194,487	100.0	188,564	100.0

(millions of yen)

	Fiscal Year ended February 28, 2003		Fiscal Year ended February 28, 2002	
	Amount	% of total	Amount	% of total
<b><u>LIABILITIES</u></b>		%		%
1. Current liabilities				
Trade payable	37,963		37,020	
Accounts payable due to franchisees	3,094		2,677	
Short-term borrowings	1,650		2,300	
Current portion of Bond	-		3,000	
Other accounts payable	4,937		4,742	
Income taxes payable	4,868		6,149	
Deferred tax	-		66	
Deposits received	14,979		13,332	
Accrued bonuses to employees	736		762	
Other current liabilities	3,664		4,560	
Total current liabilities	71,894	37.0	74,612	39.5
2. Long-term liabilities				
Employee retirement benefits liability	4,140		4,085	
Accrued for officers' retirement benefits	370		304	
Leasehold deposits received	11,861		12,068	
Other long-term liabilities	137		95	
Total long-term liabilities	16,509	8.5	16,553	8.8
Total liabilities	88,404	48.3	91,165	48.3
<b><u>SHAREHOLDERS' EQUITY</u></b>				
1. Common stock	13,469	6.9	13,469	7.1
2. Capital surplus	26,223	13.5	26,223	13.9
3. Earned surplus	65,932	33.9	57,134	30.3
4. Net unrealized gains on available-for-sale securities	532	0.2	627	0.4
5. Less, treasury stock	(74)	(0.0)	(55)	(0.0)
Total shareholders' equity	106,083	54.5	97,398	51.7
Total liabilities and shareholders' equity	194,487	100.0	188,564	100.0

## (2)Consolidated statement of income

Notes: All Amounts less than one million yen have been omitted.

(millions of yen)

	Fiscal Year ended February 28, 2003		Fiscal Year ended February 28, 2002	
	Amount	% of total	Amount	% of total
1. Operating revenues				
Revenue from franchised stores	98,861		95,313	
( Sales reported by franchised stores (excluding area franchised stores) Fiscal year ended Feb.28,2002 814,271 Fiscal year ended Feb.28,2003 844,820 Sales of total chain store (excluding area franchised stores) Fiscal year ended Feb.28,2002 860,441 Fiscal year ended Feb.28,2003 891,889 )				
Other Revenue	12,383		12,405	
2. Net sales of company-owned stores	( 47,069)	(100.0)	( 46,169)	(100.0)
<b>Total operating revenues</b>	158,313	100.0	153,889	100.0
3. Cost of goods sold	35,582	( 75.6) 22.5	34,670	( 75.1) 22.5
( Gross profit on sales )	( 11,487)	( 24.4)	( 11,499)	( 24.4)
<b>Gross profit</b>	122,731	77.5	119,219	77.5
4. Cost of selling, general and administrative expenses	98,562	62.2	94,673	61.5
<b>Operating Income</b>	24,168	15.3	24,545	16.0
5. Non-operating income				
Interest income	305		289	
Dividend income	31		23	
Compensation income	156		-	
Other non-operating income	191		304	
6. Non-operating expenses				
Interest expense	77		123	
Losses by Cancellation	1,167		1,206	
Expenses for Integration	-		206	
Other non-operating expenses	34		249	
<b>Recurring profit</b>	23,574	14.9	23,378	15.2

(millions of yen)

	Fiscal year ended February 28, 2003		Fiscal year ended February 28, 2002	
	Amount	% of total	Amount	% of total
7. Extraordinary gains				
Gain from sales of fixed asset	57		126	
Gain from return of allowance for doubtful accounts	18		11	
8. Extraordinary losses				
Losses from Disposal of Fixed Assets	1,051		614	
Losses from revaluation of Investment securities	554		452	
Losses from renewal for information system	539		1,148	
Other extraordinary losses	444		174	
<b><i>Income before income taxes</i></b>	21,061	13.3	21,125	13.7
Income taxes-current	10,244	6.4	10,440	6.8
Income taxes-deferred	(673)	(0.4)	(620)	(0.4)
<b><i>Net Income</i></b>	11,490	7.3	11,304	7.3

## (3)Consolidated cash flow statement

Notes: All Amounts less than one million yen have been omitted.

(millions of yen)

	Fiscal Year ended February 28, 2003	Fiscal Year ended February 28, 2002
	Amount	Amount
<b>1. Cash flows from operating activities:</b>		
Income before income taxes and others	21,061	21,125
Depreciation	10,070	10,573
Amortization of consolidation account adjustment	748	748
Losses from revaluation of investment securities	554	452
Gain or loss on sale or disposal of fixed assets	1,533	1,636
Increase in allowance for doubtful receivables	43	208
Decrease in accrued bonuses to employees	(25)	(73)
Increase in employee retirement benefit liability	54	71
Increase or decrease in accrued retirement benefits to directors	66	(161)
Interest and cash dividends income	(337)	(313)
Interest expenses	77	123
Increase or decrease in other accounts receivable	(273)	685
Increase or decrease in inventories	285	(107)
Increase in accounts payable	1,359	3,009
Increase in deposits received	1,704	2,199
Directors' and corporate auditors' bonus payment	(107)	(101)
Other	95	(1,037)
Sub-total	36,910	39,038
Interest and dividends received	263	248
Interest paid	(80)	(95)
Income taxes paid	(11,419)	(10,266)
Net cash provided by operating activities	25,674	28,925
<b>2. Cash flows from investing activities:</b>		
Decrease in Marketable securities	1,000	-
Increase in property and equipment	(9,299)	(9,335)
Decrease in property and store facilities	310	693
Increase in intangible fixed assets and long-term prepaid expenses	(3,094)	(5,979)
Increase in investment securities	(5,118)	(746)
Decrease in investment securities	3,000	1,901
Increase in loans receivable	(1,926)	(664)
Correction of loans receivable	1,799	304
Increase in fixed leasehold deposits	(8,062)	(7,576)
Correction of fixed leasehold deposits	2,660	1,897
Other	(122)	(177)
Net cash used in investing activities	(18,854)	(19,683)
<b>3. Cash flows from financing activities:</b>		
Borrowing of short-term borrowings	22,350	2,300
Repayments of short-term borrowings	(23,000)	(2,400)
Repayments of long-term debt	-	(900)
Repayments for redemption of bonds	3,000	-
Dividends paid	(2,584)	(2,190)
Increase in guarantee deposits received	1,130	4,394
Repayments of guarantee deposits received	(1,417)	(4,395)
Other	(19)	(54)
Net cash used in financing activities	(6,540)	(3,245)
<b>4. Net change in cash and cash equivalents</b>	279	5,996
<b>5. Cash and cash equivalents at beginning of year</b>	39,113	33,116
<b>6. Cash and cash equivalents at end of year</b>	39,392	39,113

## (4)Consolidated statement of retained earnings

Notes: All Amounts less than one million yen have been omitted.

(millions of yen)

	Fiscal Year ended February 28, 2003	Fiscal Year ended February 28, 2002
	Amount	Amount
(Capital surplus)		
1. Beginning balance of capital surplus	26,223	26,223
2. Increase in capital surplus	-	-
3. Decrease in capital surplus	-	-
4. Ending balance of capital surplus	26,223	26,223
(Earned surplus)		
1. Beginning balance of earned surplus	57,134	48,121
2. Increase in earned surplus	11,490	11,304
Net income	11,490	11,304
3. Decrease in earned surplus	2,692	2,291
Dividends	2,584	2,190
Directors' bonuses	107	101
4. Ending balance of earned surplus	65,932	57,134