# Financial Section
財務セクション

# Financial Summary 財務サマリー

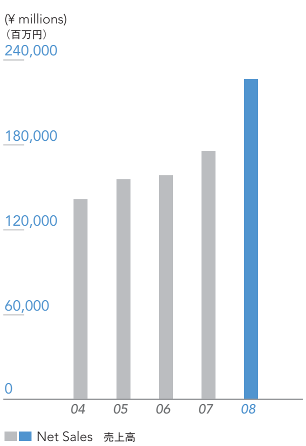
| Years Ended March 31　3月31日 | | Millions of Yen 百万円 2008 | 2007 |
|---|---|---|---|
| For the Year: | 連結会計年度： | | |
| Net sales | 売上高 | **¥226,073** | ¥175,151 |
| Operating income | 営業利益 | **11,209** | 7,908 |
| Income (Loss) before income taxes and minority interests | 税金等調整前当期純利益（損失） | **(4,535)** | 4,784 |
| Net income (loss) | 当期純利益（損失） | **(10,040)** | 1,528 |
| Operating cash flows | 営業活動によるキャッシュ・フロー | **8,911** | 11,256 |
| Investing cash flows | 投資活動によるキャッシュ・フロー | **(2,280)** | (27,341) |
| Financing cash flows | 財務活動によるキャッシュ・フロー | **(8,434)** | 12,916 |
| Free cash flows | フリーキャッシュ・フロー | **6,631** | (16,085) |
| At Year-End: | 連結会計年度末： | | |
| Total assets | 総資産 | **103,432** | 126,021 |
| Total net assets | 純資産 | **25,613** | 32,338 |
| Per Share (Yen and U.S. Dollars): | 1株当たり指標（円、ドル）： | | |
| Basic net income (loss) | 当期純利益（損失） | **¥(26,224.65)** | ¥4,331.76 |
| Diluted net income | 潜在株式調整後当期純利益 | **—** | — |
| Cash dividends applicable to the year | 配当金 | **1,500.00** | 1,500.00 |
| Net assets | 純資産 | **58,674.84** | 86,128.32 |
| Financial Indicators: | 財務指標： | | |
| Return on assets (%) | ROA（%） | **(8.8%)** | 1.4% |
| Return on equity (%) | ROE（%） | **(34.6%)** | 5.1% |
| Equity ratio (%) | 自己資本比率（%） | **22.5%** | 24.1% |

Notes: 1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥100.19 to U.S.$1, the rate of exchange on March 31, 2008.
2. From the fiscal year to March 2003, calculation of net income per share and fully diluted net income per share was based on “Accounting Standards for Net Income per Share” (Corporate Accounting Standards No. 2) and “Net Income per Share Accounting Standards Guideline” (Corporate Accounting Standards Applications Guideline No. 4).
3. During the fiscal year ended March 2004, a 1:2 stock split was effected on May 20, 2003. Consequently, net income per share for the fiscal year to March 2004 is calculated assuming the stock split occurred at the beginning of the fiscal year.
4. From the fiscal year to March 2007, SHiDAX Corporation has applied the “Accounting Standard for the Presentation of Net Assets in the Balance Sheets” (Corporate Accounting Standard No. 5) and “Implementation Guidance on Accounting Standards for the Presentation of Net Assets in Balance Sheets” (Corporate Accounting Standard No. 8).

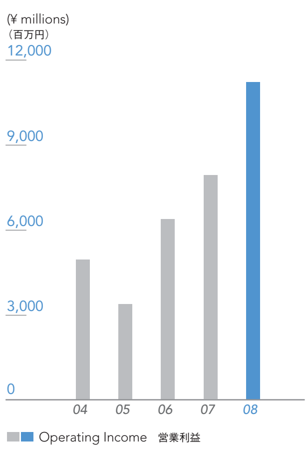
### Cautionary Statements with Respect to Forward-Looking Statements

Statements in this annual report regarding the SHiDAX Group's future performance, plans, and targets are based on management's assumptions and beliefs in light of the information currently available to it. These forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause the SHiDAX Group's actual results and achievements to differ materially from the expectations expressed herein. Such factors include, but are not limited to, fluctuating market trends and economic conditions.

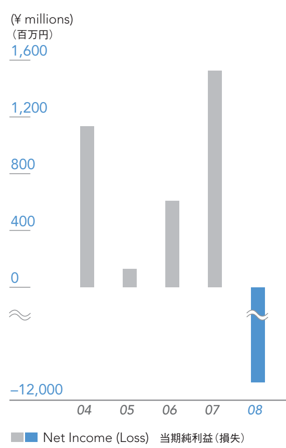
*Net Sales*
売上高



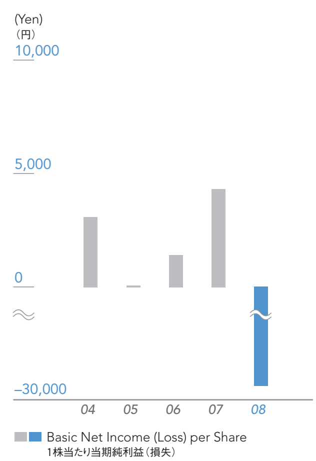

*Operating Income*
営業利益




*Net Income (Loss)*
当期純利益（損失）




*Basic Net Income (Loss) per Share*
1株当たり当期純利益（損失）



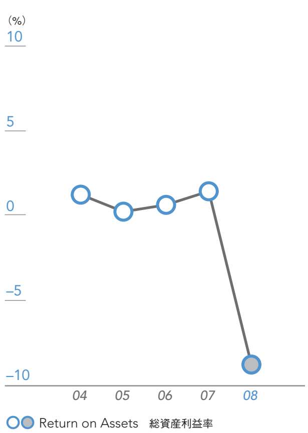
| Millions of Yen 百万円 | | | | Thousands of U.S. Dollars *(Note 1)* 千米ドル(注記1) |
|---|---|---|---|---|
| 2006 | 2005 | 2004 | 2003 | **2008** |
| ¥157,950 | ¥155,264 | ¥140,909 | ¥122,563 | **$2,256,443** |
| 6,360 | 3,364 | 4,934 | 6,912 | **111,879** |
| 3,283 | 2,151 | 4,889 | 4,602 | **(45,265)** |
| 608 | 128 | 1,137 | 2,109 | **(100,206)** |
| 8,637 | 4,412 | 6,183 | 1,773 | **88,938** |
| 5,034 | (9,657) | (5,622) | 6,764 | **(22,753)** |
| (6,970) | 2,916 | (8,612) | 7,242 | **(84,176)** |
| 13,671 | (5,245) | 561 | 8,537 | **66,185** |
| 85,131 | 91,878 | 87,692 | 97,557 | **1,032,359** |
| 29,719 | 29,424 | 26,935 | 28,211 | **255,647** |
| ¥1,427.33 | ¥ 73.55 | ¥3,098.00 | ¥11,304.39 | **$(261.79)** |
| — | 70.03 | — | — | **—** |
| 1,500.00 | 1,500.00 | 1,500.00 | 3,000.00 | **14.97** |
| 82,912.34 | 82,654.36 | 84,486.57 | 164,508.81 | **585.64** |
| 0.7% | 0.1% | 1.2% | 2.3% | |
| 2.1% | 0.5% | 4.1% | 7.6% | |
| 34.5% | 32.0% | 30.7% | 28.9% | |

(注) 1. 米ドル表記は、便宜上、2008年3月31日現在の概算為替レート1米ドル=100.19円で換算しています。
2. 2003年3月期から、1株当たり純資産額、1株当たり当期純利益金額および潜在株式調整後1株当たり当期純利益金額の算定に当たっては、「1株当たり当期純利益に関する会計基準」(企業会計基準第2号)および「1株当たり当期純利益に関する会計基準の適用指針」(企業会計基準適用指針第4号)を適用しています。
3. 2004年3月期において、2003年5月20日付で株式1株につき2株の株式分割を行いました。なお、2004年3月期の1株当たり当期純利益金額および1株当たり純資産額は期首に分割が行われたものとして計算しています。
4. 2007年3月期から「貸借対照表の純資産の部の表示に関する会計基準」(企業会計基準第5号)及び「貸借対照表の純資産の部の表示に関する会計基準等の運用指針」(企業会計基準適用指針第8号)を適用しております。

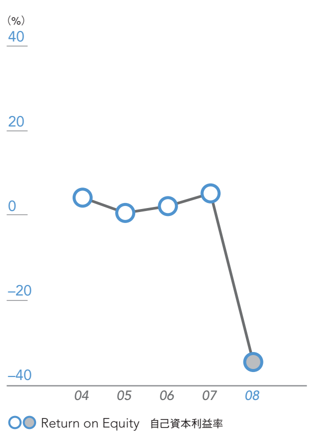
### 見通し、計画値に関する注意事項

このアニュアルレポートに記載されている、シダックスグループの業績の見通し、計画値等、将来に関する情報は、現段階における各種情報に基づいて当社の経営陣が判断したものであり、潜在的なリスクや不確定性が含まれており、確約するものではありません。したがって、実際は、市場動向、経済情勢などの変動により、かかる情報と大きく異なる可能性があることを、あらかじめご承知おき下さい。

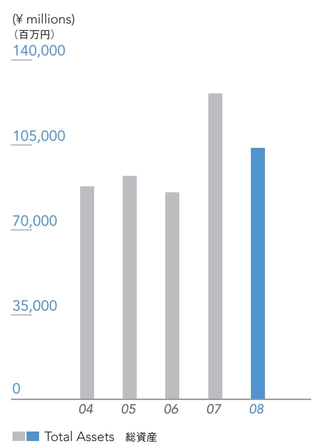
*Return on Assets*
総資産利益率



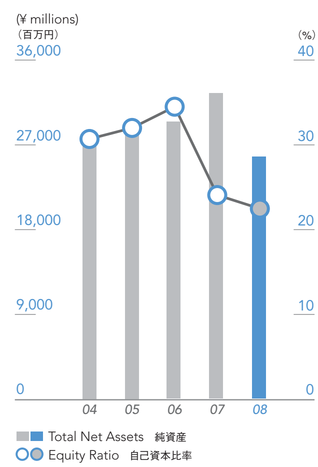

*Return on Equity*
自己資本利益率




*Total Assets*
総資産




*Total Net Assets & Equity Ratio*
純資産/自己資本比率



# Financial Review 財務レビュー

## Performance

During the fiscal year ended March 31, 2008, the Japanese economy was characterized by firm revenues and profits, particularly among large companies. However, sharply higher prices on crude oil, food supplies and other raw materials resulted in price hikes on living essentials. As a result, consumption propensity declined, and personal consumption slowed. In addition, the Japanese economy was affected by such uncertainties as the U.S. subprime loan issue and rapid fluctuations in exchange rates and share prices.

Under these market conditions, the SHiDAX Group continued to pursue its expansion as a provider of comprehensive services centered on food, with the competitive advantage of operating as a vertically and horizontally integrated group.

To ensure stability and reduce interest-bearing debt, we raised ¥3,702 million through a public offering of 40,000 shares of common stock and through a third-party allocation of 4,617 shares. All funds raised through this capital increase were applied to the reduction of debt.

The addition of Total Outsourcing Businesses, the contribution in Specialty Restaurant Businesses of U.S. operations during the full fiscal year, the optimization of selling, general and administrative expenses in Contracted Food Services and Medical Food Services and the strengthening of internal structures—such as heightened efficiency of foodstuff procurement—led to historically high levels of net sales and operating income.

During the fiscal year under review, net sales rose 29.1%, to ¥226,073 million, and operating income surged 41.7%, to ¥11,209 million. However, the Group posted a net loss of ¥10,040 million, stemming from a drop in the market price of shares in newly consolidated subsidiary DAISHINTO Inc., which resulted in ¥13,889 million in amortization of goodwill (posted as an other expenses).

## Financial Position

During the fiscal year under review, the SHiDAX Group strove to maintain its financial stability and reduce its financial risk by paying back interest-bearing debt. As a result, total assets on March 31, 2008, amounted to ¥103,432 million, down ¥22,589 million, or 17.9%, from one year earlier.

Total current assets fell ¥2,955 million, or 7.5%, to ¥36,233 million. This decrease was principally due to a ¥2,111 million decrease in cash and cash equivalents and time deposits, owing to the Group's efforts to maintain financial stability and reduce financial risk by paying back interest-bearing debt. This move reduced assets and liabilities.

Total fixed assets amounted to ¥67,199 million, down ¥19,634 million, or 22.6%, from one year earlier. The emergence of goodwill amortization resulting from a decline in the share price of Group subsidiaries caused goodwill to decline ¥13,709 million, and net property and equipment fell ¥4,424 million.

Total current liabilities decreased ¥11,727 million, or 23.1%, to ¥39,109 million. This fall reflected a ¥7,508 million decline in the total of short-term debt and the current portion of long-term debt, ¥2,171 million drop in Accounts and notes payable, and ¥601 million less in other accrued expenses.

Total long-term liabilities came to ¥38,710 million, down ¥4,137 million, or 9.7%. The primary reasons for the decline were a ¥4,145 million decrease in long-term debt, less the current portion. As a result, total liabilities were ¥77,819 million, down ¥15,864 million, or 16.9%, from the end of the preceding fiscal year.

Net assets on March 31, 2008, were ¥25,613 million, ¥6,725 million, or 20.8%, less than one year ago. Although a public offering and a third-party allocation of new shares resulted in a capital surplus of ¥1,851 million, retained earnings fell ¥10,569 million.

## Cash Flows

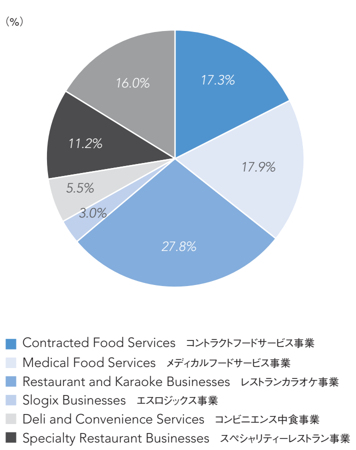
Consolidated cash and cash equivalents at the end of the fiscal year amounted to ¥14,187 million, down ¥1,863 million, or 11.6%, from the end of the previous fiscal year.

Net cash provided by operating activities was ¥8,911 million. This amount was ¥2,345 million less than the ¥11,256 million provided by these activities in the preceding term. Major factors included a ¥9,319 million decrease in income before income taxes and minority interests, ¥3,298 million drop in accounts and notes payable, ¥1,426 million less in accured expenses and ¥2,677 million increase in income taxes paid. On the other hand, the amortization of goodwill provided ¥15,323 million.

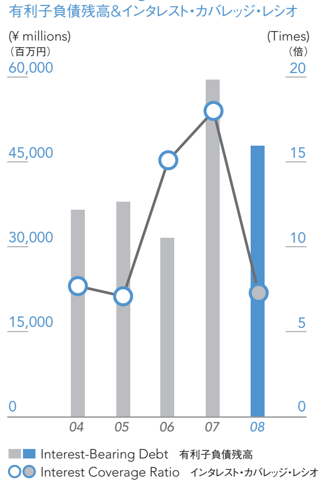
Net cash used in investing activities was ¥2,280 million, ¥25,061 million less than the ¥27,341 million used in these activities during the previous fiscal year. Mainly responsible for this change was the absence of the previous fiscal year's ¥25,204 million in payment for the purchase of subsidiaries stock, as well as ¥597 million in payments for business transfer.

Net cash used in financing activities was ¥8,434 million, a ¥21,350 million difference from the ¥12,916 million provided by these activities during the previous fiscal year. The principal reason was fund-raising costs for a public offering and the issuance of new shares for a third-party capital increase, while the Company repaid debt and redeemed corporate bonds.

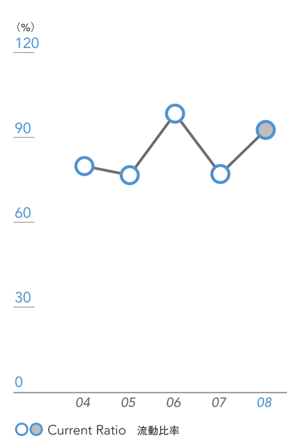
*Sales by Business Segment*
セグメント別売上構成比




*Interest-Bearing Debt & Interest Coverage Ratio*
有利子負債残高&インタレスト・カバレッジ・レシオ




*Current Ratio*
流動比率



### 経営成績

当連結会計年度におけるわが国経済は、大手企業を中心とする収益が堅調に推移したものの、原油や食糧などの資源価格高騰、生活必需品の値上がりに伴う消費者心理の悪化による個人消費の鈍化懸念、米国サブプライム住宅ローン問題を発端とした為替レートや株価の急激な変動など不安要素を残しています。

このような市場環境のもと、当社グループの事業優位である水平・垂直統合型グループ構造のもと「食」を中心とした総合サービスの提供拡大に努めました。

財政面においては、財務内容の安定と有利子負債の圧縮を目的として、公募による普通株式40,000株及び第三者割当による普通株式4,617株の新株発行増資を行い3,702百万円の資金を調達しました。この増資による資金は全額を借入金の返済に充当しています。

トータルアウトソーシング事業が新たに加わったこと、米国におけるスペシャリティーレストラン事業の業績が通期において貢献したこと、コントラクトフードサービス事業、メディカルフードサービス事業における販売管理費の適正化や食材調達の効率化など内部構造の強化が順調に推移したことが、過去最高の売上高と営業利益に貢献しました。

以上の結果、当連結会計年度の売上高は226,073百万円（前年同期比29.1%増）、営業利益は11,209百万円（前年同期比41.7%増）となりました。当期純損失につきましては、連結子会社である大新東株式会社の株式時価下落に伴うのれん償却額として13,889百万円を特別損失に計上したことなどにより10,040百万円となりました。

### 財政状態

当社グループは当連結会計年度において、グループの財務内容の安定のために金利リスク縮小のための有利子負債の返済に努めました。その結果、総資産は、前連結会計年度末に比べ22,589百万円減少し103,432百万円（前年同期比17.9%減）となりました。

流動資産においては、2,955百万円減少し36,233百万円（前年同期比7.5%減）となりました。これは主に、財務内容の安定と金利リスク縮小を目的に有利子負債の返済に努め、資産・負債を圧縮した結果、現金及び預金が2,111百万円減少したことなどによります。

固定資産においては、19,634百万円減少し67,199百万円（前年同期比22.6%減）となりました。これは主に、子会社株式の時価下落に伴うのれん償却額の発生等により、のれんが13,709百万円減少及び有形固定資産が4,424百万円減少したことなどによります。

流動負債においては、11,727百万円減少し39,109百万円（前年同期比23.1%減）となりました。これは主に、短期借入金及び一年内返済予定の長期借入金が合計で7,508百万円減少、支払手形、買掛金及び未払金が2,171百万円減少、未払費用が601百万円減少したことなどによります。

固定負債においては、4,137百万円減少し38,710百万円（前年同期比9.7%減）となりました。これは主に、長期借入金が4,145百万円減少したことによります。

これらの結果、負債は前連結会計年度末に比べ15,864百万円減少し77,819百万円（前年同期比16.9%減）となりました。

当連結会計年度末における純資産は、前連結会計年度末に比べ6,725百万円減少し25,613百万円（前年同期比20.8%減）となりました。これは主に、公募及び第三者割当による新株発行増資により資本金及び資本剰余金がそれぞれ1,851百万円増加した一方、利益剰余金が10,569百万円減少したことなどによります。

### キャッシュ・フロー

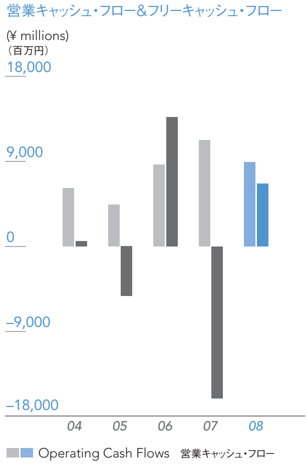
当連結会計年度における現金及び現金同等物（以下「資金」という。）は、前連結会計年度に比べ1,863百万円減少し14,187百万円（前年同期比11.6%減）となりました。

営業活動によるキャッシュ・フローは、当連結会計年度における営業活動の結果、8,911百万円の資金増加となりました。前連結会計年度は11,256百万円の資金増加であり、前連結会計年度と比較し2,345百万円減少しております。これは主に、税金等調整前当期純利益が9,319百万円減少、買掛金及び未払金が3,298百万円減少、未払費用が1,426百万円減少、法人税等の支払が2,677百万円増加した一方、のれん償却額が15,323百万円発生したことなどによります。

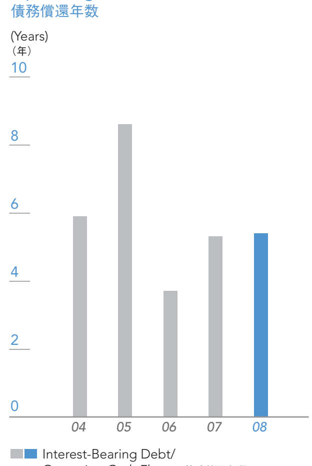
投資活動によるキャッシュ・フローは、当連結会計年度において2,280百万円の資金減少となりました。前連結会計年度は27,341百万円の資金減少であり、前連結会計年度と比較し25,061百万円増加しております。これは主に、前連結会計年度において、連結範囲の変更を伴う子会社株式の取得による支出が25,204百万円、営業譲受けによる支出が597百万円発生したためです。

財務活動によるキャッシュ・フローは、当連結会計年度において、8,434百万円の資金減少となりました。前連結会計年度は12,916百万円の資金増加であり、前連結会計年度と比較し21,350百万円減少しております。これは主に、公募及び第三者割当による新株発行増資により資金調達を行った一方、借入金及び社債の返済に資金を充当したためです。

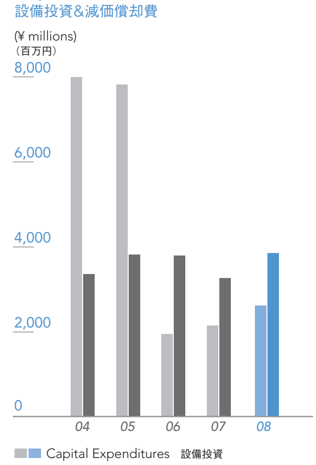
*Operating Cash Flows & Free Cash Flows*
営業キャッシュ・フロー&フリーキャッシュ・フロー




*Interest-Bearing Debt/ Operating Cash Flows*
債務償還年数



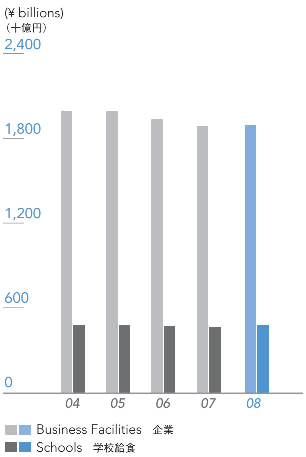

*Capital Expenditures & Depreciation and Amortization*
設備投資&減価償却費



# Segment Information セグメント情報

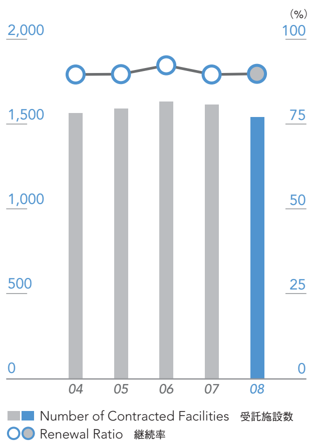
## Contracted Food Services コントラクトフードサービス事業

*Contracted Food Services Market*
事業所・学校給食市場の推移

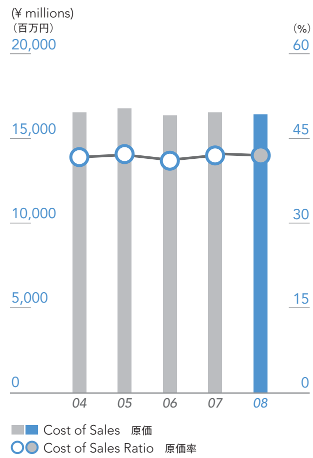



Source: Food Service Industry Survey Research Center.
出典：(財)外食産業総合調査研究センター

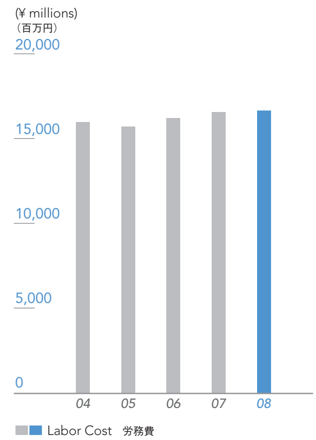
*Trend in Number of Contracted Food Services Contracts*
コントラクトフードサービス事業の受託施設数推移




*Cost of Sales and Cost of Sales Ratio in Contracted Food Services*
コントラクトフードサービス事業の原価・原価率推移

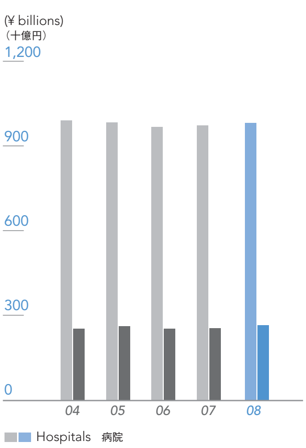



*Labor Cost in Contracted Food Services*
コントラクトフードサービス事業の労務費推移



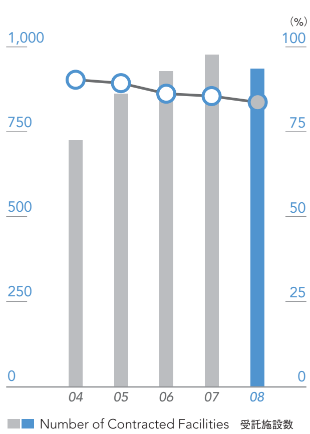

## Medical Food Services メディカルフードサービス事業

*Medical Food Services Market*
メディカル給食市場の推移

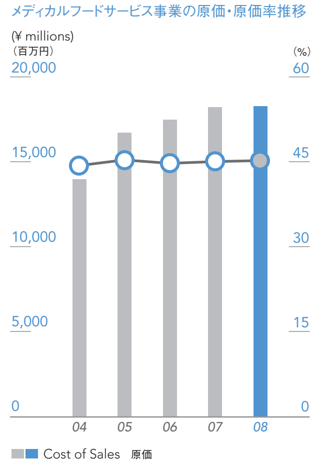



Source: Food Service Industry Survey Research Center.
出典：(財)外食産業総合調査研究センター

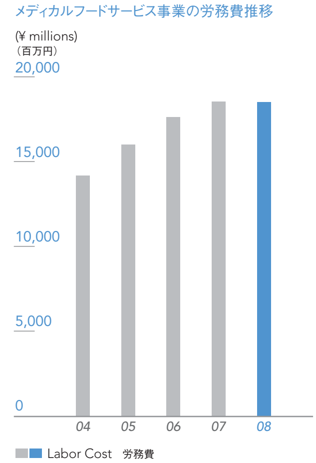
*Trend in Number of Medical Food Services Contracts*
メディカルフードサービス事業の受託施設数推移




*Cost of Sales and Cost of Sales Ratio in Medical Food Services*
メディカルフードサービス事業の原価・原価率推移

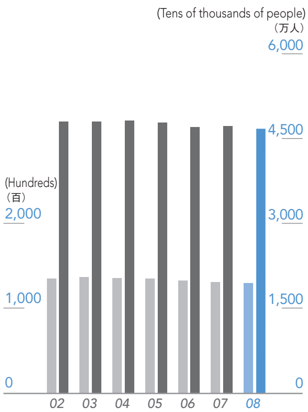



*Labor Cost in Medical Food Services*
メディカルフードサービス事業の労務費推移



## Restaurant and Karaoke Businesses レストランカラオケ事業

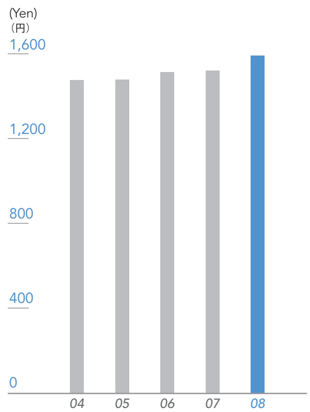
### *Karaoke Market*
カラオケ市場の推移




Number of Karaoke Rooms カラオケルーム数
Gross Karaoke Customers カラオケ延べ参加人口

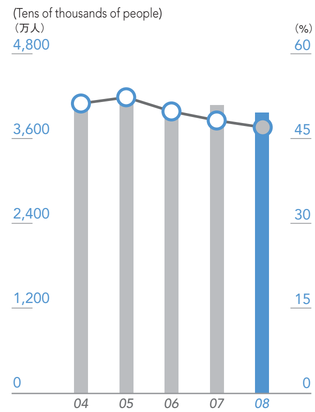
Source: Karaoke Industrialist Association and Institute for Free Time Design.
出典：全国カラオケ事業者協会および財団法人自由時間デザイン協会

### *Sales per Customer*
客単価の推移



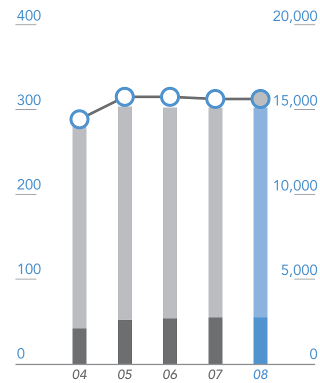

Sales per Customer 客単価の推移

### *Gross Number of Customers & Ratio of Drinking and Eating Sales*
レストランカラオケ事業の総来客数と飲食収入比率




Gross Number of Customers 総来客数
Ratio of Drinking and Eating Sales 飲食収入比率

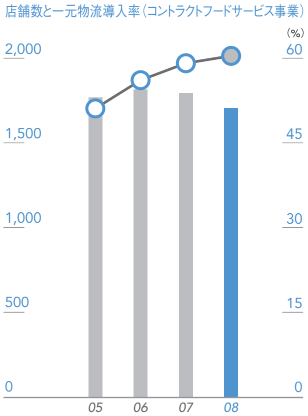
### *Trend in Restaurant and Karaoke Outlets*
レストランカラオケ事業の店舗数の推移




Road-Side Type ロードサイド
Amusement District Type 繁華街
Rooms ルーム数

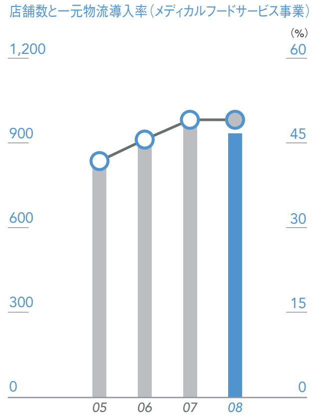
## Slogix Businesses エスロジックス事業

### *Number of Contracted and Consolidated Distribution Ratio (Contracted Food Services)*
店舗数と一元物流導入率（コントラクトフードサービス事業）




Number of Contracted 店舗数
Consolidated Distribution Ratio 一元物流導入率

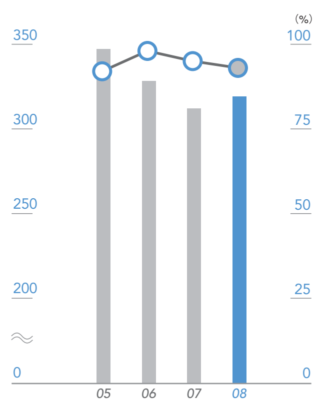
### *Number of Contracted and Consolidated Distribution Ratio (Medical Food Services)*
店舗数と一元物流導入率（メディカルフードサービス事業）




Number of Contracted 店舗数
Consolidated Distribution Ratio 一元物流導入率

## Deli and Convenience Services コンビニエンス中食事業

### *Trend in Number of Deli and Convenience Services*
コンビニエンス中食事業の受託施設数推移




Number of Deli and Convenience Services 受託施設数
Renewal Ratio 継続率

# Business and Other Risks 事業等のリスク

## 1. Factors Affecting Business Performance

### *Competition with Other Companies in the Same Industry*

Other companies in the Group's industry face severe competition. In Contracted Food Services and Medical Food Services, prices for outsourcing contracts have continued to decline over the past several years due to competition for orders among major companies in the segment. In the Restaurant and Karaoke Businesses, business is easily affected by the number of customers and the average expenditure per customer, given the per hour services format of the business and the diversified customer needs of each age group. In the Specialty Restaurant Businesses, customer tastes are diversifying in the restaurant market in general, even as they demand more highly specialized and diversified services. In the Deli and Convenience Services home meal replacement segment, saturation of the convenience store sector has resulted in an active advance by convenience stores into in-house outlets, and the Group already has established many outlets. As a result, the Group's business performance could be adversely affected by unforeseen restraints on its business plans.

### *Personnel Procurement and Education*

All of the Group's businesses are related to the services industry, and it employs approximately 30,000 full- and part-time employees. As a result, the Group must secure and train capable individuals for upper management, administrative, and on-site positions. In particular, the Group needs persons with such specialist qualifications as national registered dietician, which designated staff members are legally required to hold. The Group's business performance could be materially affected by lack of sufficient personnel, which would cause difficulties in new business development, and a decline in customer service levels.

### *Foodstuff Procurement*

The Group's Slogix Businesses provide unified foodstuff distribution operations mainly for the Contracted Food Services, Medical Food Services, Restaurant and Karaoke Businesses, and Specialty Restaurant Businesses. The Group is building a distribution system that provides dependable and safe foodstuffs while considering global environmental issues, and the Group implements plans for stable foodstuff prices and supply. However, sudden changes in the supply-demand balance, quality, or prices due to unforeseen changes in the procured foodstuffs market or foreign exchange market as well as natural disasters could have a material impact on the Group's business performance.

### *Rising Energy Prices*

The Group's Total Outsourcing Businesses attempt to shift the amount of increases in purchasing costs for gasoline, kerosene or similar products due to the appreciation of crude oil prices or other factors to customers as much as possible. However, in the event that they are unable to do so, this could have a material impact on the Group's business performance.

### *Food Poisoning*

The Group is involved in the provision of food services. An outbreak of food poisoning caused by the Group's sanitation management could result in a temporary business suspension or claim for damages, both of which could have a material impact on the Group's overall business performance.

### *Liability for Damages*

In its Total Outsourcing Businesses, the Group provides vehicle operations on a contract basis. There is a possibility that the Group will incur liabilities for damages or oversight in the event of an accident.

### *Exchange Rate Fluctuations*

The Group is developing its Specialty Restaurant Businesses in the United States. So there is a possibility that the Group's business performance will be affected by fluctuations in exchange rates.

### *Capital and Business Alliances*

With the aim of expanding its businesses and growth, the Group invests in other companies and forms business alliances where large synergies with the Group's businesses are expected. In the implementation of these policies, unforeseen factors beyond management's control, such as changes in the operating environment or legal regulations, may have a material impact on the Group's business performance.

### *Impairment Accounting*

The Group reported consolidated fixed asset impairment losses of ¥1,370 million for the fiscal year under review, due to the adoption of new accounting standards. In the future, fluctuations in the Group's revenues could result in impairment losses and have an impact on the Group's business performance.

The Group has recorded goodwill as a result of its capital and business alliances. Should the contribution to earnings from these businesses not be in line with plans, earnings will deteriorate and the Group will be forced to record the unamortized portion of goodwill as an impairment loss. If the Group takes this course, its business performance could be materially affected.

### *Interest-Bearing Debt Dependency*

The Group incurs interest-bearing debts when procuring capital from financial institutions for new store openings, mainly in its Restaurant and Karaoke Businesses. Consolidated interest-bearing debt at March 31, 2008, was ¥47,843 million, a dependency ratio of 46.3%. The majority of the Group's capital procurement is long-term debt at fixed rates of interest, so interest rate fluctuations have little impact in the short term. However, the Group plans to procure capital to cover new store development expenses mainly through interest-bearing debt, so there is a possibility that interest rate movements, financial conditions and other factors could have a material impact on the Group's business performance or development.

## 1. 業績の変動要因について

### 同業他社との競合について

当社グループが属する業界は同業他社との競争が一層激しくなっております。コントラクトフードサービス事業及びメディカルフードサービス事業では、大手同業他社とこの数年間は激しい受注合戦が繰り広げられ受託価格の低下傾向が続いております。レストランカラオケ事業では、時間消費型サービス業態の拡大及びお客様の世代毎のニーズが多様化していることにより、お客様数とお客様単価が影響を受けやすくなっております。スペシャリティーレストラン事業においては、外食市場全般でお客様の志向が多様化し、サービスの専門性を高めるとともに多様なサービスｓ対応も求められております。コンビニエンス中食事業では、コンビニエンス業界の飽和感により、当社グループが多く出店する病院施設内に大手コンビニエンスチェーンが積極的に出店を進めております。各事業の事業計画において想定しない阻害要因が発生した場合には、当社グループの業績に影響を及ぼす可能性があります。

### 人材の確保と育成について

当社グループの全ての事業がサービス産業に属しており、正社員に加えて臨時従業員を含めると約３万人の雇用者が従事しております。したがって、経営層・管理職・現場従事者、特に法律上設置義務がある管理栄養士等の専門有資格者に至るまで優秀な人材の確保とその育成が不可欠であります。人材の確保と育成が十分に為されず新規営業開発の進捗やお客様へのサービスレベルの低下を招く場合には、当社グループの業績に影響を及ぼす可能性があります。

### 食材調達について

当社グループのエスロジックス事業については、コントラクトフードサービス事業、メディカルフードサービス事業、レストランカラオケ事業、スペシャリティーレストラン事業等への食材一元物流事業を行っております。当該事業では、食材の安心・安全を追求し、地球環境へ配慮した物流体制を構築し、そのうえで食材価格や物量の安定調達を計画実行しておりますが、調達食材が市況・為替相場・自然災害等で需給バランスが崩れ品質や価格が変化した場合には、当社グループの業績に影響を及ぼす可能性があります。

### 燃料費の高騰について

当社グループのトータルアウトソーシング事業については、原油価格の高騰等によりガソリン、軽油等の仕入原価が増加した場合、基本的には費用増の相当分をお客様に転嫁させて頂くよう努めておりますが、それができない場合には当社グループの業績に影響を及ぼす可能性があります。

### 食中毒について

当社グループは、食材・食事の提供サービスを行っております。当社グループの衛生管理等に起因する食中毒が発生した場合には、一定期間の営業停止や損害賠償責任の発生など当社グループの業績に影響を及ぼす可能性があります。

### 損害賠償について

当社グループはトータルアウトソーシング事業において、自家用自動車管理業務を受託しておりますが、交通事故等に起因して損害賠償責任や監督責任が問われる可能性があります。

### 為替変動のリスクについて

当社グループはスペシャリティーレストラン事業において、米国で事業を展開していることから為替変動による影響を受ける可能性があります。

### 資本・事業提携等について

当社グループの事業領域の拡大及び成長発展を目的として、資本提携や当社グループの各事業とのシナジー効果が見込める事業提携等を実施することがあります。これらの施策を実行するにあたり、経済環境や法規制等の変化、経営のコントロールを超える予期し得ない要因が発生した場合には、当社グループの業績に影響を及ぼす可能性があります。

### 減損会計の影響について

当社グループが所有する固定資産につきまして、当連結会計年度において1,370百万円の減損損失を計上いたしました。今後、当社グループの収益の変動等によっては減損損失を計上し、業績に影響を及ぼす可能性があります。

また、当社グループでは資本・事業提携等の実施に伴い、子会社の超過収益力の対価であるのれんが生じており、収益への貢献が計画どおりに進まなかった場合、当該事業に係る収益の悪化や、ひいてはのれんの未償却残高を減損損失として計上せざるを得ない事態が発生するなど、当社グループの業績に影響を及ぼす可能性があります。

### 有利子負債の依存度について

当社グループは、主にレストランカラオケ事業及びスペシャリティーレストラン事業の出店費用を金融機関より調達しております。平成20年３月31日現在連結有利子負債残高は47,843百万円であり、有利子負債依存度は46.3%であります。現在は、当該資金を主として固定金利に基づく長期借入金により調達しているため、短期的には金利変動の影響を受けにくくなっておりますが、今後も出店費用を主に有利子負債で調達する計画であり、当社の業績及び事業展開は金利動向及び金融情勢等の影響を受ける可能性があります。

### *Deferred Tax Assets*

The Group considers the deferred tax assets recorded mainly by DAISHINTO Inc. at the end of the fiscal year under review to be fully recoverable through the future earnings (taxable income) of that subsidiary. However, business performance, progress toward achieving the business plan or other factors could have a material impact on the Group's business performance.

## 2. Legal Restrictions and Voluntary Restraints

*The SHiDAX Group is subject to the following major legal restrictions and voluntary restraints. Should these restrictions be revised or changed, it could have a material impact on the Group's business performance.*

### *Major Legal Restrictions*

The major legal restrictions to which the Group is subject include the Food Sanitation Law, the Food Recycling Law, the Building Standards Law, the Fire Defense Law, and the Copyright Law, as well as ordinances governing outdoor advertising.

### *Trends in Medical Welfare Administration*

The financial condition of hospitals and welfare facilities that are the Group's customers, as well as trends in medical welfare administration, have a significant impact on the Group's Medical Food Services business. Should there be revisions to the Medical Insurance System or Nursing Insurance Law, the impact these amendments will have on hospitals, welfare facilities, and others could have a material effect on the Group's business performance.

### *Expansion of the Scope of Social Insurance*

The Ministry of Health, Labour and Welfare is considering expanding the scope of the social insurance system to cover employees who work shorter hours. Should the system be revised and enacted, the Group's insurance expense burden will increase, which could have a material impact on its business performance.

### *Personal Information Protection Law*

The Group's SITEX Corp. subsidiary primarily manages personal information on members in the Restaurant and Karaoke Businesses. To abide by the Private Information Protection Law and provide appropriate information management, the Group has created a privacy protection policy and an information management manual. The Group is also working to educate companies with which it does business as well as its directors and employees to take every step necessary to prevent leaks of personal information. Leaking personal information through negligence in the Group's information management could expose the Group to liabilities for damages or other claims that could have a material financial impact on the Group's business performance.

### *Voluntary Restraints and Ordinances*

The SHiDAX Group's Restaurant and Karaoke Businesses operate on a nationwide scale, and as a member of karaoke box operator cooperation councils in various Japanese prefectures, the Group conforms with the voluntary restraints imposed by member organizations. Recently, social interests in Tokyo and other municipalities have become more vocal in their calls to revise ordinances that regulate the operating hours of these businesses. If ordinances are revised or if regulations or voluntary restraints become more stringent, the Group's operations could be constrained.

## 3. Significant Transactions between SHiDAX Corporation and Its Directors or Shareholders Holding more than Half the Outstanding Voting Rights

### *Real Estate Transactions*

The SHiDAX Group rents its headquarters offices, and the Group's consolidated subsidiary SHiDAX Community Corporation rents its hotel facilities and winery facilities from Shida Holdings Co., Ltd., of which the Group's Chairman of the Board, Tsutomu Shida, serves as the representative director. Security deposits and rent on these properties are determined by an appraisal report prepared by a licensed real estate appraiser.

### 繰延税金資産について

主に大新東株式会社が当連結会計年度において計上している繰延税金資産については、同社における今後の利益（課税所得）をもって全額回収可能と考えておりますが、業績や事業計画の達成状況等により当社グループの業績に影響を及ぼす可能性があります。

## 2. 法的規制及び自主規制について

**当社グループが規制を受けている主な法的規制及び自主規制は、以下のとおりであり、当該規制等が改正又は変更された場合には、当社グループの業績に影響を及ぼす可能性があります。**

### 主な法的規制について

当社グループは、主に食品衛生法、食品リサイクル法、建築基準法、消防法、著作権法等及び屋外広告物条例等の規制を受けております。

### 医療・福祉行政の動向について

当社グループのメディカルフードサービス事業においては、お客様である病院・福祉施設等の経営状況は、医療・福祉行政の動向に大きな影響を受けます。医療保険制度や介護保険法等の改正が行われた場合、病院・福祉施設等に与える影響の程度により、当社グループの業績に影響を及ぼす可能性があります。

### 社会保険の適用拡大について

厚生労働省は、短時間労働者に対する社会保険の適用を拡大する方向で検討しております。当該制度が改正・施行された場合、当社グループの保険料負担が増加し、当社グループの業績に影響を及ぼす可能性があります。

### 個人情報保護法について

当社グループの連結子会社であるエス・アイテックス株式会社は、主にレストランカラオケ事業における個人の会員情報を管理しております。個人情報保護法を遵守し、適切に管理するために、当社グループのプライバシーポリシー及び管理マニュアルを定め、関連する取引先企業及び当社グループの役員、従業員に対して教育を行う等、会員情報の漏洩防止に関してできる限りの手立てをとっております。しかしながら、当社グループの管理責任の不備により個人情報が漏洩した場合には、損害賠償責任の発生等により、当社グループの業績に影響を及ぼす可能性があります。

### 自主規制及び条例について

当社グループのレストランカラオケ事業は全国展開しておりますが、各都道府県のカラオケボックス事業者協力会に加盟し、同協力会が制定する自主規制を遵守しております。最近の社会的要請から東京都等自治体において営業時間等を規制する条例の改正をめぐる動きが活発化しており、今後条例の改正・制定や自主規制の強化が行なわれた場合には、当社グループの事業が制約を受け、新たな対応を迫られる可能性があります。

## 3. 会社と役員又は議決権の過半数を実質的に所有している株主との間の重要な取引関係等に係るもの

### 不動産の賃貸借取引について

当社代表取締役会長の志太勤が代表取締役を兼任している志太ホールディングス株式会社より、当社は本社事務所を、当社の連結子会社でありますシダックス・コミュニティー株式会社は、ホテル設備及びワイナリー設備を賃借しております。賃借することにより発生する敷金及び賃借料は、不動産鑑定士による鑑定評価書に基づき決定しております。

SHiDAX CORPORATION and Consolidated Subsidiaries

# Consolidated Balance Sheets

*March 31, 2008 and 2007*

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| **ASSETS** | **2008** | 2007 | **2008** |
| **CURRENT ASSETS:** | | | |
| Cash and cash equivalents | **¥ 14,187** | ¥ 16,050 | **$ 141,600** |
| Time deposits *(Note 15)* | **463** | 711 | **4,620** |
| Accounts and notes receivable: | | | |
| Trade | **13,974** | 14,065 | **139,479** |
| Unconsolidated subsidiaries and affiliates | **78** | 34 | **773** |
| Other | **391** | 1,296 | **3907** |
| Allowance for doubtful accounts | **(137)** | (119) | **(1,366)** |
| Inventories *(Note 3)* | **2,223** | 2,134 | **22,185** |
| Deferred tax assets *(Note 14)* | **2,785** | 2,845 | **27,802** |
| Prepaid expenses and other current assets | **2,269** | 2,172 | **22,645** |
| Total current assets | **36,233** | 39,188 | **361,645** |
| **PROPERTY AND EQUIPMENT** *(Notes 5 and 7)*: | | | |
| Land | **2,346** | 3,421 | **23,416** |
| Buildings and structures | **44,374** | 45,395 | **442,898** |
| Furniture and equipment | **7,454** | 7,121 | **74,400** |
| Total | **54,174** | 55,937 | **540,714** |
| Accumulated depreciation | **(22,093)** | (19,432) | **(220,510)** |
| Net property and equipment | **32,081** | 36,505 | **320,204** |
| **INVESTMENTS AND OTHER ASSETS:** | | | |
| Investment securities *(Notes 6 and 15)* | **593** | 774 | **5,916** |
| Investments in and advances to unconsolidated subsidiaries and affiliated companies | **118** | 138 | **1,182** |
| Goodwill *(Note 4)* | **6,486** | 20,195 | **64,735** |
| Software—net | **1,155** | 627 | **11,527** |
| Security deposits *(Note 18)* | **11,788** | 11,551 | **117,656** |
| Construction assistance fund receivables | **2,438** | 2,502 | **24,337** |
| Deferred tax assets *(Note 14)* | **8,013** | 10,040 | **79,979** |
| Other assets | **6,736** | 7,375 | **67,233** |
| Allowance for doubtful accounts | **(2,209)** | (2,874) | **(22,055)** |
| Total investments and other assets | **35,118** | 50,328 | **350,510** |
| **TOTAL** | **¥103,432** | ¥126,021 | **$1,032,359** |

See notes to consolidated financial statements.

| LIABILITIES AND NET ASSETS | Millions of Yen 2008 | 2007 | Thousands of U.S. Dollars (Note 1) 2008 |
|---|---|---|---|
| **CURRENT LIABILITIES:** | | | |
| Short-term borrowings *(Note 7)* | **¥ 371** | ¥ 3,623 | **$ 3,701** |
| Current portion of long-term debt *(Note 7)* | **11,316** | 15,572 | **112,944** |
| Accounts and notes payable: | | | |
| Trade | **8,952** | 10,326 | **89,351** |
| Unconsolidated subsidiaries and affiliates | **388** | 346 | **3,876** |
| Other | **4,269** | 5,108 | **42,610** |
| Accrued income taxes *(Note 14)* | **2,279** | 2,767 | **22,748** |
| Accrued bonuses | **2,608** | 2,841 | **26,027** |
| Other accrued expenses | **6,416** | 7,017 | **64,035** |
| Other current liabilities | **2,510** | 3,236 | **25,056** |
| Total current liabilities | **39,109** | 50,836 | **390,348** |
| **LONG-TERM LIABILITIES:** | | | |
| Long-term debt, less current portion *(Note 7)* | **36,156** | 40,301 | **360,880** |
| Retirement allowances for directors and corporate auditors *(Note 9)* | **570** | 566 | **5,686** |
| Retirement allowances for employees | | 398 | |
| Deferred tax liabilities *(Note 14)* | **104** | 497 | **1,037** |
| Other long-term liabilities | **1,880** | 1,085 | **18,761** |
| Total long-term liabilities | **38,710** | 42,847 | **386,364** |
| **CONTINGENT LIABILITIES** *(Note 10)* | | | |
| **NET ASSETS** *(Notes 11 and 20)*: | | | |
| Shareholders' equity: | | | |
| Common stock—authorized, 1,400,000 shares; issued, 401,831 shares in 2008 and 357,214 shares in 2007 | **10,782** | 8,930 | **107,612** |
| Capital surplus | **9,963** | 8,112 | **99,441** |
| Retained earnings | **2,778** | 13,347 | **27,733** |
| Treasury stock—at cost, 4,562 shares in 2008 and 4,552 shares in 2007 | **(350)** | (349) | **(3,497)** |
| Total shareholders' equity | **23,173** | 30,040 | **231,289** |
| Valuation, translation adjustments and others: | | | |
| Unrealized gain on available-for-sale securities | **88** | 154 | **879** |
| Foreign currency translation adjustments | **49** | 180 | **487** |
| Total valuation, translation adjustments and others | **137** | 334 | **1,366** |
| Minority interests | **2,303** | 1,964 | **22,992** |
| Total net assets | **25,613** | 32,338 | **255,647** |
| **TOTAL** | **¥103,432** | ¥126,021 | **$1,032,359** |

# Consolidated Statements of Income

*Years Ended March 31, 2008 and 2007*

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | **2008** | 2007 | **2008** |
| **NET SALES** | **¥226,073** | ¥175,151 | **$2,256,443** |
| **COST OF SALES** | **192,235** | 151,057 | **1,918,701** |
| Gross profit | **33,838** | 24,094 | **337,742** |
| **SELLING, GENERAL AND ADMINISTRATIVE EXPENSES** *(Notes 16 and 18)* | **22,629** | 16,186 | **225,863** |
| Operating income | **11,209** | 7,908 | **111,879** |
| **OTHER INCOME (EXPENSES):** | | | |
| Dividend and interest income | **25** | 11 | **250** |
| Gain on sales of karaoke machines | **453** | 594 | **4,523** |
| Interest expense | **(1,206)** | (617) | **(12,045)** |
| Loss from discontinued store operations | **(20)** | (183) | **(196)** |
| Amortization of negative goodwill | **159** | 159 | **1,587** |
| Loss on liquidation of security deposits | | (300) | |
| Impairment of long-lived assets *(Note 5)* | **(1,370)** | (2,733) | **(13,676)** |
| Amortization of goodwill | **(13,889)** | | **(138,630)** |
| Other—net | **104** | (55) | **1,043** |
| Other expenses—net | **(15,744)** | (3,124) | **(157,144)** |
| **INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS** | **(4,535)** | 4,784 | **(45,265)** |
| **INCOME TAXES** *(Note 14)***:** | | | |
| Current | **3,910** | 3,825 | **39,025** |
| Deferred | **672** | (491) | **6,706** |
| Total income taxes | **4,582** | 3,334 | **45,731** |
| **MINORITY INTERESTS IN NET INCOME (LOSS)** | **923** | (78) | **9,210** |
| **NET INCOME (LOSS)** | **¥ (10,040)** | ¥ 1,528 | **$ (100,206)** |

| | Yen | | U.S. Dollars (Note 1) |
|---|---|---|---|
| | **2008** | 2007 | **2008** |
| **PER SHARE OF COMMON STOCK** *(Note 2.q)***:** | | | |
| Basic net income (loss) | **¥(26,224.65)** | ¥4,331.76 | **$(261.79)** |
| Cash dividends applicable to the year | **1,500.00** | 1,500.00 | **14.97** |

See notes to consolidated financial statements.

# Consolidated Statements of Changes in Net Assets

*Years Ended March 31, 2008 and 2007*

| | Millions of Yen | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Outstanding Number of Shares of Common Stock | Common Stock | Capital Surplus | Retained Earnings | Treasury Stock at Cost | Total Shareholders' Equity | Unrealized Gain (Loss) on Available-for-sale Securities | Foreign Currency Translation Adjustments | Total Valuation, Translation Adjustments and Others | Minority Interests | Total Net Assets |
| **BALANCE, MARCH 31, 2006** | 352,677 | ¥ 8,930 | ¥8,112 | ¥ 12,455 | ¥(347) | ¥ 29,150 | ¥196 | ¥ | ¥196 | ¥ 373 | ¥ 29,719 |
| Sales of treasury stock *(Note 11)* | 26 | | (0) | | 3 | 3 | | | | | 3 |
| Net income | | | | 1,528 | | 1,528 | | | | | 1,528 |
| Cash dividends, ¥1,500 per share | | | | (529) | | (529) | | | | | (529) |
| Bonuses to directors and corporate auditors | | | | (107) | | (107) | | | | | (107) |
| Purchase of treasury stock *(Note 11)* | (42) | | | | (5) | (5) | | | | | (5) |
| Net changes during the year excluding shareholders' equity | | | | | | | (42) | 180 | 138 | 1,591 | 1,729 |
| **BALANCE, MARCH 31, 2007** | 352,661 | ¥ 8,930 | ¥8,112 | ¥ 13,347 | ¥(349) | ¥ 30,040 | ¥154 | ¥ 180 | ¥334 | ¥1,964 | ¥ 32,338 |
| Issuance of new stock | **44,617** | **1,852** | **1,851** | | | **3,703** | | | | | **3,703** |
| Net income | | | | **(10,040)** | | **(10,040)** | | | | | **(10,040)** |
| Cash dividends, ¥1,500 per share | | | | **(529)** | | **(529)** | | | | | **(529)** |
| Purchase of treasury stock *(Note 11)* | **(10)** | | | | **(1)** | **(1)** | | | | | **(1)** |
| Net changes during the year excluding shareholders' equity | | | | | | | **(66)** | **(131)** | **(197)** | **339** | **142** |
| **BALANCE, MARCH 31, 2008** | **397,268** | **¥10,782** | **¥9,963** | **¥ 2,778** | **¥(350)** | **¥ 23,173** | **¥ 88** | **¥ 49** | **¥ 137** | **¥2,303** | **¥ 25,613** |

| | Thousands of U.S. Dollars *(Note 1)* | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Common Stock | Capital Surplus | Retained Earnings | Treasury Stock at Cost | Total Shareholders' Equity | Unrealized Gain (Loss) on Available-for-sale Securities | Foreign Currency Translation Adjustments | Total Valuation, Translation Adjustments and Others | Minority Interests | Total Net Assets |
| **BALANCE, MARCH 31, 2007** | $ 89,135 | $80,964 | $ 133,219 | $(3,487) | $ 299,831 | $1,541 | $1,795 | $3,336 | $19,600 | $ 322,767 |
| Issuance of new stock | **18,477** | **18,477** | | | **36,954** | | | | | **36,954** |
| Net income | | | **(100,206)** | | **(100,206)** | | | | | **(100,206)** |
| Cash dividends, $14.97 per share | | | **(5,280)** | | **(5,280)** | | | | | **(5,280)** |
| Purchase of treasury stock *(Note 11)* | | | | **(10)** | **(10)** | | | | | **(10)** |
| Net changes during the year excluding shareholders' equity | | | | | | **(662)** | **(1,308)** | **(1,970)** | **3,392** | **1,422** |
| **BALANCE, MARCH 31, 2008** | **$107,612** | **$99,441** | **$ 27,733** | **$(3,497)** | **$ 231,289** | **$ 879** | **$ 487** | **$1,366** | **$22,992** | **$ 255,647** |

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

*Years Ended March 31, 2008 and 2007*

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | **2008** | 2007 | **2008** |
| **OPERATING ACTIVITIES:** | | | |
| (Loss) Income before income taxes and minority interests | **¥ (4,535)** | ¥ 4,784 | **$ (45,265)** |
| Adjustments for: | | | |
| Income taxes paid | **(4,832)** | (2,155) | **(48,226)** |
| Depreciation and amortization | **3,849** | 3,253 | **38,415** |
| Impairment of long-lived assets | **1,370** | 2,733 | **13,676** |
| Amortization of goodwill | **15,323** | 194 | **152,937** |
| (Reversal of) Provision for accrued bonuses | **(212)** | 152 | **(2,114)** |
| (Reversal of) liability for employees' retirement benefits | **(394)** | (61) | **(3,934)** |
| Provision for retirement allowances for directors and corporate auditors | **4** | 33 | **42** |
| (Reversal of) Provision for allowance for doubtful accounts | **(647)** | 10 | **(6,454)** |
| Loss on liquidation of security deposits | | 300 | |
| Bonuses to directors and corporate auditors | | (106) | |
| Changes in operating assets and liabilities: | | | |
| Decrease (Increase) in accounts and notes receivable | **1,033** | (1,171) | **10,314** |
| (Increase) in inventories | **(120)** | (27) | **(1,197)** |
| (Decrease) Increase in accounts and notes payable | **(1,719)** | 1,579 | **(17,163)** |
| (Decrease) Increase in accrued expenses | **(584)** | 842 | **(5,830)** |
| (Decrease) Increase in accrued consumption tax | **(532)** | 38 | **(5,315)** |
| Condemnation proceeds by outlets assets | | 177 | |
| Other—net | **907** | 681 | **9,052** |
| Net cash provided by operating activities | **8,911** | 11,256 | **88,938** |
| **INVESTING ACTIVITIES:** | | | |
| Purchase of property and equipment and other | **(2,076)** | (2,181) | **(20,723)** |
| Proceeds from sales of property and equipment | **268** | 104 | **2,672** |
| Purchase of investment securities | **(3)** | (4) | **(32)** |
| Proceeds from sales of investment securities | **39** | 123 | **393** |
| Purchase of subsidiaries stock | | (25,204) | |
| Payments for business transfer | | (597) | |
| Investment in loans receivable | **(41)** | (113) | **(408)** |
| Collection of loans receivable | **63** | 116 | **634** |
| Payments for security deposits and other | **(1,056)** | (1,156) | **(10,544)** |
| Collection of security deposits and other | **285** | 314 | **2,848** |
| Proceeds from liquidation of security deposits and other | | 1,698 | |
| Other—net | **241** | (441) | **2,407** |
| Net cash (used in) investing activities | **(2,280)** | (27,341) | **(22,753)** |
| **FINANCING ACTIVITIES:** | | | |
| Net (decrease) increase in short-term borrowings | **(2,970)** | 1,381 | **(29,643)** |
| Proceeds from long-term debt | **7,324** | 22,891 | **73,104** |
| Repayments of long-term debt | **(15,302)** | (12,778) | **(152,736)** |
| Proceeds from issuance of bonds | | 2,250 | |
| Redemption of bonds | **(525)** | (300) | **(5,240)** |
| Proceeds from issuance of new stock | **3,702** | | **36,954** |
| Dividends paid | **(662)** | (529) | **(6,605)** |
| Other—net | **(1)** | 1 | **(10)** |
| Net cash (used in) provided by financing activities | **(8,434)** | 12,916 | **(84,176)** |
| **FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS** | **(60)** | 15 | **(601)** |
| **(DECREASE) IN CASH AND CASH EQUIVALENTS** | **(1,863)** | (3,154) | **(18,592)** |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | **16,050** | 19,204 | **160,192** |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | **¥ 14,187** | ¥ 16,050 | **$ 141,600** |

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

*Years Ended March 31, 2008 and 2007*

## 1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

Certain disclosures contained herein are not required as part of the basic financial statements in Japan but are presented herein as additional information. In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2007 financial statements to conform to the classifications used in 2008.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which SHiDAX CORPORATION (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥100.19 to U.S.$1, the rate of exchange at March 31, 2008. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***a. Consolidation***—The consolidated financial statements as of March 31, 2008 include the accounts of the Company, SHiDAX FOOD SERVICE CORPORATION ("SFSC"), SHiDAX COMMUNITY CORPORATION ("SCC"), SLOGIX CORPORATION, SHiDAX i CORPORATION ("SDXi"), DAISHINTO Inc. ("DST"), Patina Restaurant Group, LLC ("PRG"), and 27 other significant subsidiaries (together, the "Group").

Two other LLCs that were newly established by PRG are included in the scope of consolidation.

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

An affiliated company, SHISCA CORPORATION ("SISC") is accounted for by the equity method, the other immaterial unconsolidated subsidiaries and affiliated companies are not accounted for by the equity method, but are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The consolidation goodwill is defined as the difference between the Company's investments in consolidated subsidiaries and the fair value of the net assets of them at the date of acquisition. The goodwill is amortized by the straight-line method for 5 to 20 years, or in case that the effect of the goodwill should be consumed up, would be reduced correspondently.

All significant intercompany balances and transactions have been eliminated in consolidation. All material intercompany unrealized profit included in assets resulting from transactions within the Group is eliminated.

***b. Cash Equivalents***—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits and special deposits, all of which mature or become due within three months of the date of acquisition.

***c. Inventories***—Merchandise for deli and convenience services is stated at cost determined by the retail method as generally applied for the retail industry in Japan. Other merchandise is stated at cost determined by the monthly average method. Raw materials and supplies are stated at the most recent purchase price which approximates cost determined by the first-in, first-out method. Construction in process is stated at cost determined by specific identification method.

***d. Property and Equipment***—Property and equipment are stated at cost. Depreciation is mainly computed by using the straight-line method over the estimated useful lives of the respective assets. But some of the consolidated subsidiaries are applied to the declining balance method. Their estimated useful lives range principally from 8 to 47 years for buildings and structures and from 2 to 20 years for furniture and equipment.

***e. Long-lived Assets***—In August 2002, the Business Accounting Council ("BAC") issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets."

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group.

The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

***f. Investment Securities***—All investment securities are classified as available-for-sale securities. Marketable available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of Net Assets. The cost of securities sold is determined by the average cost method.

Non-marketable available-for-sale securities are stated at cost determined by the average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

***g. Software***—Software used for internal purposes is capitalized and stated at cost, less accumulated amortization. Amortization is computed by using the straight-line method over five years, the estimated useful life of software.

***h. Other Assets***—Intangible assets and long-term prepaid expenses are carried at cost less accumulated amortization, which is calculated by using the straight-line method.

***i. Allowance for Doubtful Accounts***—The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

***j. New Share Issuance Costs***—New share issuance costs are charged to income when incurred.

***k. Employees' Retirement Benefits***—The Group has a defined contribution pension plan and a prepaid retirement benefit plan.

***l. Retirement Allowances for Directors and Corporate Auditors***—Retirement allowances for directors and corporate auditors are recorded to state the liability at the amount that would be required in accordance with the Group's internal policy if all directors and corporate auditors retired at each balance sheet date.

***m. Leases***—The Company and domestic subsidiary's leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements. In addition the consolidated subsidiaries of the Company in the United States are applied the "accounting for the leases" issued by FASB.

***n. Income Taxes***—The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred tax assets and liabilities are measured by applying currently enacted tax rates to the temporary differences.

The Group files a tax return under the consolidated corporate-tax system from the fiscal year ended March 31, 2006, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries.

***o. Accounting for Consumption Taxes***—The consumption taxes imposed on revenue from customers for the Group's services are withheld by the Group at the time funds are received and subsequently paid to the government. The consumption tax withheld upon recognition of revenue and the consumption tax paid by the Group on the purchase of products, merchandise and services from vendors are not included in the related accounts in the accompanying consolidated statements of income. The consumption tax paid is generally offset against the balance of consumption tax withheld, and net overpayment is included in current assets and net overwithholding is included in current liabilities.

***p. Derivatives and Hedging Activities***—The Group uses derivative financial instruments to manage their exposures to fluctuations in interest rates. Interest rate swaps are utilized by the Group to reduce interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows: (a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of income and (b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

Interest rate swaps are utilized to hedge interest rate exposures of long-term debt. These swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest expense or income.

***q. Per Share Information***—Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits. The weighted-average number of common shares used in the computation was 382,832 shares for 2008 and 352,658 shares for 2007.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

Diluted net income per share is not disclosed, as, despite the existence of residual securities, a net loss per share was posted for the current fiscal year.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

***r. Foreign Currency Translation***—The revenue and expense accounts of the overseas consolidated subsidiaries are translated into yen at the average rate of during the period. The balance sheet accounts, except for the components of net assets, are also translated into yen at the rate of exchange in effect at the balance sheet date. The components of net assets are translated at their historical exchange rates. The resulting exchange loss or gain is charged or credited as foreign currency translation adjustment or minority interest.

Monetary assets and liabilities of the Company denominated in foreign currencies are translated at the current exchange rates in effect at each balance sheet date. All revenues and expenses denominated in foreign currencies are translated at the rate of exchange prevailing when such transactions were made.

## 3. INVENTORIES

Inventories as of March 31, 2008 and 2007 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2008** | 2007 | **2008** |
| Merchandise | **¥ 957** | ¥ 824 | **$ 9,553** |
| Raw materials | **995** | 1,011 | **9,930** |
| Supplies | **270** | 290 | **2,695** |
| Payment for construction in process | **1** | 9 | **7** |
| Total | **¥2,223** | ¥2,134 | **$22,185** |

## 4. GOODWILL

Offsetting of Goodwill and negative goodwill as of March 31, 2008 and 2007 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2008** | 2007 | **2008** |
| Goodwill | **¥ 8,264** | ¥22,133 | **$ 82,487** |
| Negative goodwill | **(1,778)** | (1,938) | **(17,752)** |
| Total | **¥ 6,486** | ¥20,195 | **$ 64,735** |

## 5. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of the year ended March 31, 2008 and, as a result, recognized an impairment loss of ¥1,370 million ($13,676 thousand) as other expense for certain sales outlets and kitchen facilities due to continuous operating losses. The carrying amount of the relevant assets was written down to the recoverable amount.

Following table summarized impairment losses for the year ended March 31, 2008.

| Differently constructed by property | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Building and structures | ¥1,106 | $11,043 |
| Furniture and equipment | 122 | 1,216 |
| Leased properties | 142 | 1,416 |
| Software | 0 | 1 |
| Total | ¥1,370 | $13,676 |

The long-lived assets are grouped based on the minimum units for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities.

The recoverable amount is determined by comparing the net selling price with the value in use. The net selling price is the appraised value with rational adjustments, whereas value in use is the sum of the net projected future cash flows discounted at a rate of 5%.

## 6. INVESTMENT SECURITIES

Investment securities as of March 31, 2008 and 2007 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2008** | 2007 | **2008** |
| Non-current: | | | |
| Marketable equity securities | **¥266** | ¥367 | **$2,654** |
| Non-marketable equity securities | **199** | 226 | **1,984** |
| Other | **128** | 181 | **1,278** |
| Total | **¥593** | ¥774 | **$5,916** |

The carrying amounts and aggregate fair values of investment securities at March 31, 2008 and 2007 were as follows:

| | Millions of Yen | | | |
|---|---|---|---|---|
| March 31, 2008 | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Securities classified as available-for-sale: | | | | |
| Equity securities | **¥152** | **¥124** | **¥ 10** | **¥266** |
| Other | **103** | **29** | **12** | **120** |
| March 31, 2007 | | | | |
| Securities classified as available-for-sale: | | | | |
| Equity securities | ¥159 | ¥211 | ¥3 | ¥367 |
| Other | 103 | 68 | 0 | 171 |

| | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
| March 31, 2008 | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Securities classified as available-for-sale: | | | | |
| Equity securities | **$1,516** | **$1,234** | **$ 96** | **$2,654** |
| Other | **1,031** | **290** | **126** | **1,195** |

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2008 and 2007 were as follows:

| | Carrying Amount | | |
|---|---|---|---|
| | Millions of Yen | | Thousands of U.S. Dollars |
| | **2008** | 2007 | **2008** |
| Available-for-sale: | | | |
| Equity securities | **¥199** | ¥226 | **$1,984** |
| Other | **8** | 9 | **83** |

For other than temporary declines where fair values of securities at the end of the fiscal year become less than 60% of their acquisition costs or fair values of securities decline by more than 30% of their acquisition costs in two consecutive years, investment securities are reduced to net realizable value by a charge to income. For the years ended March 31, 2008 and 2007 no impairment losses for non-current marketable equity securities were recognized.

Proceeds from sales of available-for-sale securities for the years ended March 31, 2008 and 2007 were ¥39 million ($393 thousand) and ¥122 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥39 million ($390 thousand) and ¥1 million ($10 thousand), respectively, for the year ended March 31, 2008 and ¥63 million and zero, respectively, for the year ended March 31, 2007.

## 7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings as of March 31, 2008 and 2007 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2008** | 2007 | **2008** |
| Short-term borrowings: | | | |
| From banks, 1.224% in 2008 (1.207% to 6.090% in 2007) | **¥264** | ¥3,518 | **$2,635** |
| From other, 1.600% | **107** | 105 | **1,066** |
| Total | **¥371** | ¥3,623 | **$3,701** |

Long-term debt as of March 31, 2008 and 2007 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2008** | 2007 | **2008** |
| Loans from financial institutions, 0.790% to 6.480% in 2008 (0.790% to 6.110% in 2007), due serially to 2017: | | | |
| Collateralized | **¥ 8,386** | ¥ 12,605 | **$ 83,701** |
| Unsecured | **37,161** | 40,818 | **370,910** |
| Unsecured 1.09% to 1.59% (1.09%) Japanese yen bonds due serially to 2012 | **1,925** | 2,450 | **19,213** |
| Total | **47,472** | 55,873 | **473,824** |
| Less current portion | **(11,316)** | (15,572) | **(112,944)** |
| Long-term debt, less current portion | **¥ 36,156** | ¥ 40,301 | **$ 360,880** |

Collateralized loans from banks of ¥2,614 million ($26,090 thousand) as of March 31, 2008 were included in the current portion of long-term debt.

The carrying amounts of assets pledged as collateral for long-term debt of ¥8,386 million ($83,700 thousand) at March 31, 2008 were as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Land | ¥1,743 | $17,401 |
| Buildings and structures | 1,116 | 11,136 |
| Others | 311 | 3,107 |

Annual maturities of long-term debt as of March 31, 2008 for the next five years and thereafter were as follows:

| Year Ending March 31 | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| 2009 | ¥11,316 | $112,944 |
| 2010 | 10,033 | 100,138 |
| 2011 | 2,351 | 23,467 |
| 2012 | 4,279 | 42,707 |
| 2013 | 5,751 | 57,400 |
| 2014 and thereafter | 13,742 | 137,168 |
| Total | ¥47,472 | $473,824 |

## 8. EMPLOYEES' RETIREMENT BENEFITS

Consolidated subsidiary DST participates in a multiemployer pension plan fund (Tokyo Automobile Service multiemployer pension plan Fund).

Donations treated as employee retirement benefits under this multiple employer-contribution plan comprise the following items:

(1) Items for reserves of the overall system (as of March 31, 2007)
Fair value of plan assets ¥53,747 million
Benefit obligations included in pension financing calculations ¥61,826 million
Difference (¥8,079 million)

(2) Proportion in the overall system accounted for by the Group's premium contributions (April 1, 2006, to March 31, 2007) 30.1%

(3) Explanation of supplement
The principal reason for the difference in (1) above is a ¥12,471 million ($124,469 thousand) past service liability balance included in pension financing calculations. Basic interest is amortized uniformly over 20 years using the past service liability amortization method in this system, with no collection of extraordinary premiums.

Proportion in (2) above is disaccord with the actual proportion in the group.

The components of net periodic benefit costs for the years ended March 31, 2008 and 2007 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2008** | 2007 | **2008** |
| Contribution to a Comprehensive-establishment-model employees' pension plan | **¥678** | | **$6,764** |
| Contributions to a defined contribution pension plan | **280** | 72 | **2,795** |
| Total | **¥958** | ¥72 | **$9,559** |

(Additional information)
In May 15, 2007, ASBJ issued Accounting Standard No. 14 "(2) to Amendments to a Part of Accounting Standards for Employee Retirement Benefits" is applied from the current fiscal year.

## 9. RETIREMENT ALLOWANCES FOR DIRECTORS AND CORPORATE AUDITORS

Retirement allowances for directors and corporate auditors are paid subject to approval of the shareholders in accordance with the corporate law (the "Corporate Law"). The Group recorded a liability for its unfunded retirement allowance plan covering all of its directors and corporate auditors. The annual provision for retirement allowances for directors and corporate auditors for the years ended March 31, 2008 and 2007 was ¥52 million ($524 thousand) and ¥42 million, respectively.

## 10. CONTINGENT LIABILITIES

***a. Liability for Compensation for Damages and Other Defined***

(1) For the year ended March 31, 2004, SCC transferred a portion of reimbursement rights of security deposits for store buildings to Millennium Asset Funding Corp. (Tokyo Branch), Global Factoring Corp and Fuyo General Lease Co., Ltd. Upon the transfer contracts, SCC as a seller made representation and warranty to the buyers as of the contract dates and the receiving dates of the transfer prices regarding set of items related to the reimbursement rights transferred and accepted liability for compensation for damages and others defined. As of March 31, 2008, the maximum amount of compensation for damages and others defined on the contracts was ¥5,024 million ($50,140 thousand).

(2) The Company has had ¥401 million ($4,005 thousand) in contingent liabilities to SISC's borrowings from a financial institution.

***b. Residual Value Guarantees in a Sale and Leaseback Agreement***

As of March 1, 2006, SCC transferred a portion of the internal equipment in its outlets to SMBC Leasing Co., Ltd. (present name is Sumitomo Mitsui Finance & Leasing Co., Ltd.) and then entered into a sale and leaseback agreement with SMBC Leasing Co., Ltd. (present name is Sumitomo Mitsui Finance & Leasing Co., Ltd.). The agreement stipulates that when it expires, SCC may continue the agreement by paying an estimated disposal price of ¥2,751 million ($27,458 thousand), determined at the time the agreement was concluded, as a minimum principal, or may terminate the agreement by having the property revert to the appraisal or disposal value at the time it is returned and then paying the difference between the value and the estimated disposal price. Under the agreement, SCC shall pay a guarantee of ¥45 million ($388 thousand) each month and deposit a total of ¥2,751 million ($27,458 thousand) during the lease agreement term to secure debt consisting of lease payments and a residual value guarantee of ¥2,751 million ($27,458 thousand).

During the current fiscal year, a total of ¥2,751 million ($27,458 thousand) residual value guarantees and deposit guarantees reduced the outstanding to¥2,737 million ($27,321 thousand) because of a partial redemption. As a result, deposited guarantees outstanding as of March 31, 2008, totaled ¥1,141 million ($11,384 thousand).

## 11. NET ASSETS

On May 1, 2006, the Corporate Law became effective, which reformed and replaced the Japanese Commercial Code (the "Former Code") with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

***a. Dividends***

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as: (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the Company so stipulate. Under the Former Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash outlays, the Corporate Law also imposes certain limitations on the amount of capital surplus and retained earnings available for dividends.

***b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus***

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Former Code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

***c. Treasury Stock and Treasury Stock Acquisition Rights***

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders' equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of shareholders' equity or deducted directly from stock acquisition rights.

On December 9, 2005, the ASBJ published an accounting standard for presentation of net assets. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of shareholders' equity. Such items include stock acquisition rights, minority interest, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006.

For the years ended March 31, 2008 and 2007, the Group repurchased 10 shares and 41 shares of its common stock in the aggregate amounts of ¥1 million ($10 thousand) and ¥5 million, respectively.

In addition, for the year ended March 31, 2007 the Group disposed of 26 shares of its common stock in the amount of ¥3 million. As a result, the Group recognized gain on disposal as capital surplus in the amount of ¥(0) million in 2007.

## 12. STOCK OPTION

On June 29, 2005, meeting of shareholders of DST approved a stock option plan for the 9 Directors, 3 Auditors, 294 Employees and 14 Employees of the DAISHINTO HUMAN SERVICES Inc. ("DSTHS") of its consolidated subsidiary that will enable them to purchase up to 3,000 thousand shares of its common stock in the period from July 1, 2007 to June 30, 2010. On April 18, 2006, the options were granted at an exercise price of ¥482 per share.

On May 28, 2006, extraordinary meeting of shareholders of DST approved a stock option plan for the 1,211 Sales workers and 520 Sales workers of the DSTHS of its consolidated subsidiary that will enable them to purchase up to 200 thousand shares of its common stock in the period from October 1, 2006 to March 31, 2007. On April 18, 2006, the options were granted at an exercise price of ¥1 per share. Appropriate stock option was purchased up to 166 thousand shares and canceled 34 thousand shares in the period at exercise of right as of March 31, 2007.

The stock option activity is as follows:

| | On June 29, 2005, meeting of shareholders of DST approved a stock option plan |
|---|---|
| For the year ended March 31, 2008 | (shares) |
| **Non-vested** | |
| March 31, 2007 – Outstanding | 3,000,000 |
| Granted | |
| Canceled | 459,000 |
| Vested | 2,541,000 |
| March 31, 2008 – Outstanding | |
| **Vested** | |
| March 31, 2007 – Outstanding | |
| Vested | 2,541,000 |
| Exercised | |
| Canceled | 261,000 |
| March 31, 2008 – Outstanding | 2,280,000 |

## 13. LEASES

The Group leases certain equipment, furniture and fixtures, and computer software.

Total rental expenses including lease payments for the years ended March 31, 2008 and 2007 were ¥21,346 million ($213,053 thousand) and ¥18,036 million, respectively.

For the year ended March 31, 2008, the Group recorded an impairment loss of ¥142 million ($1,416 thousand) on certain leased property held under finance leases that do not transfer ownership and an allowance for impairment loss on leased property, which is included in other long-term liabilities.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, accumulated impairment loss, obligations under finance leases, depreciation expense, interest expense and other information of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2008 and 2007 was as follows:

| | Millions of Yen | | | | Thousands of U.S. Dollars | |
|---|---|---|---|---|---|---|
| | **2008** | | 2007 | | **2008** | |
| | Furniture and Equipment | Computer Software | Furniture and Equipment | Computer Software | Furniture and Equipment | Computer Software |
| Acquisition cost | **¥23,632** | **¥224** | ¥25,421 | ¥222 | **$235,867** | **$2,237** |
| Accumulated depreciation | **10,645** | **126** | 9,801 | 96 | **106,252** | **1,258** |
| Accumulated impairment loss | **565** | | 594 | | **5,636** | |
| Net leased property | **¥12,422** | **¥ 98** | ¥15,026 | ¥126 | **$123,979** | **$ 979** |

Obligations under finance leases as of March 31, 2008 and 2007:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2008** | 2007 | **2008** |
| Due within one year | **¥ 4,635** | ¥ 4,973 | **$ 46,265** |
| Due after one year | **8,776** | 10,810 | **87,588** |
| Total | **¥13,411** | ¥15,783 | **$133,853** |

Allowance for impairment loss on leased property of ¥280 million ($2,795 thousand) as of March 31, 2008 is deducted from the obligations under finance leases.

Depreciation expense, interest expense and other information under finance leases for the years ended March 31, 2008 and 2007:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2008** | 2007 | **2008** |
| Depreciation expense | **¥5,240** | ¥5,264 | **$52,304** |
| Interest expense | **356** | 451 | **3,546** |
| Total | **¥5,596** | ¥5,715 | **$55,850** |
| Lease payments | **¥5,646** | ¥5,760 | **$56,355** |
| Reversal of allowance for impairment loss on leased property | **¥ 194** | ¥ 189 | **$ 1,939** |
| Impairment loss | **¥ 142** | ¥ 306 | **$ 1,416** |

Depreciation expense and interest expense, which are not reflected in the accompanying consolidated statements of income, are computed by the straight-line method and the interest method, respectively.

The future minimum lease payments under noncancelable operating leases as of March 31, 2008 were as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Due within one year | ¥156 | $1,558 |
| Due after one year | 394 | 3,933 |
| Total | ¥550 | $5,491 |

## 14. INCOME TAXES

The Group is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of 40.69% for the years ended March 31, 2008 and 2007.

The tax effects of significant temporary differences and loss carryforwards that resulted in deferred tax assets and liabilities at March 31, 2008 and 2007 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2008** | 2007 | **2008** |
| Deferred tax assets: | | | |
| Accrued bonuses | **¥ 880** | ¥ 995 | **$ 8,780** |
| Valuation losses of subsidiaries' stock | **8,287** | 859 | **82,711** |
| Valuation losses of investment securities | **259** | 259 | **2,587** |
| Retirement allowances for directors and corporate auditors | **237** | 236 | **2,368** |
| Depreciation and amortization | **1,546** | 2,133 | **15,426** |
| Impairment | **1,751** | 1,484 | **17,478** |
| Valuation losses of fixed assets | **486** | 500 | **4,846** |
| Valuation losses of investment real estate | **1,263** | 1,275 | **12,605** |
| Enterprise tax | **214** | 249 | **2,140** |
| Allowance for doubtful accounts | **1,580** | 1,611 | **15,775** |
| Tax loss carryforwards | **9,009** | 10,251 | **89,920** |
| Other | **687** | 1,110 | **6,860** |
| Less valuation allowance | **(15,074)** | (6,799) | **(150,454)** |
| Deferred tax assets | **11,125** | 14,163 | **111,042** |
| Deferred tax liabilities: | | | |
| Reduction of subsidiaries' stock | **(205)** | (1,424) | **(2,048)** |
| Valuation gains of land | **(184)** | (232) | **(1,836)** |
| Other | **(42)** | (118) | **(414)** |
| Deferred tax liabilities | **(431)** | (1,774) | **(4,298)** |
| Net deferred tax assets | **¥ 10,694** | ¥12,389 | **$106,744** |

Reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income for the year ended March 31, 2007 was as follows:

| | 2007 |
|---|---|
| Normal effective statutory tax rate | 40.69% |
| Permanent differences | 1.10 |
| Inhabitants taxes—per capita | 8.35 |
| Application of tax loss carry forwards | 5.39 |
| Tax on undistributed profits | 7.76 |
| Amortization of goodwill | 1.65 |
| Impairment | 3.13 |
| Tax rate difference with subsidiaries | 1.42 |
| Other—net | 0.20 |
| Actual effective tax rate | 69.69% |

Loss before income taxes and minority interests was recorded for the year ended March 31, 2008, so a reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income has been omitted.

## 15. PLEDGED ASSETS

The asset pledged in collateralize for long-term debts for the years ended March 31, 2008 was ¥3,170 million ($31,644 thousand) as mentioned in Note 7. Moreover, time deposit of ¥15 million ($150 thousand) and investment securities of ¥3 million ($30 thousand) were pledged as security deposits for dealing as of March 31, 2008. In addition, our consolidated subsidiary's stock of 19,688,200 shares was pledged for collateral.

## 16. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended March 31, 2008 and 2007 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2008** | 2007 | **2008** |
| Payroll | **¥ 7,295** | ¥ 5,586 | **$ 72,810** |
| Provision for accrued bonuses | **472** | 489 | **4,715** |
| Provision for accrued directors' bonuses | **63** | 10 | **632** |
| Provision for retirement allowances for directors and corporate auditors | **53** | 42 | **524** |
| Provision for allowance for doubtful accounts | **24** | 70 | **242** |
| Provision for reserve for point card certificates | **205** | 185 | **2,044** |
| Amortization of goodwill | **1,592** | 353 | **15,894** |
| Other | **12,925** | 9,451 | **129,002** |
| Total | **¥22,629** | ¥16,186 | **$225,863** |

## 17. DERIVATIVES

The Group enters into derivatives, in the normal course of business, to reduce the exposure to fluctuations in interest rates. The primary classes of derivatives used by the Group are interest rate swaps.

The Group has purchased interest rate swaps to limit the unfavorable impact from increases in interest rates on floating-rate long-term debt. The interest rate swaps effectively limit the Group's interest expense on specified amounts of floating-rate long-term debt to a maximum rate.

It is the Group's policy to use derivatives only for the purpose of reducing interest rate risks associated with borrowings, and the Group does not hold or issue derivatives for trading purposes.

Derivatives are subject to market risk and credit risk. Market risk is the exposure created by potential fluctuations in market conditions, including interest or foreign exchange rates. Credit risk is the possibility that a loss may result from a counterparty's failure to perform according to the terms and conditions of the contract. Because the counterparties to those derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk. Also, all of the Group's derivative transactions are related to qualified hedges of interest rate risks associated with borrowings, and the Group only purchases those derivatives and pays interests on long-term debt at fixed rates. Therefore, the Group believes they bear no risk of incurring losses related to market risk.

Derivative transactions entered into by the Group have been made in accordance with management approval on request for managerial decision, and the execution and control of derivatives are performed by the Finance Department. Each derivative transaction is periodically reported to management, where evaluation and analysis of derivatives are made. In addition, the Group confirms with financial institutions notional amounts and other information for each derivative transaction at the fiscal year end.

Since all of the Group's derivative contracts qualified for hedge accounting for the years ended March 31, 2008 and 2007, these contracts were excluded from disclosure of market value information.

## 18. RELATED PARTY TRANSACTIONS

Transactions of the Group with the related parties for which the Company's directors are major shareholders for the years ended March 31, 2008 and 2007 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2008** | 2007 | **2008** |
| Rent expenses | **¥550** | ¥550 | **$5,487** |

The balances due to or from these related parties at March 31, 2008 and 2007 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2008** | 2007 | **2008** |
| Security deposits | **¥1,100** | ¥1,100 | **$10,974** |

## 19. SEGMENT INFORMATION

The Group operates in the following business segments:

"Slogix Businesses" consists of sales of groceries and consumable supplies to office food service businesses, restaurant industry and design and sales of kitchen equipment.

"Contracted Food Services" consists of providing food and management services for dining rooms of companies or schools.

"Medical Food Services" consists of providing food service for hospitals.

"Restaurant and Karaoke Businesses" principally consists of the management of large entertainment restaurants and online karaoke houses.

"Specialty Restaurant Businesses" principally consists of the management of restaurants.

"Deli and Convenience Services" consists of providing food prepared for takeout.

"Total Outsourcing Businesses" principally consists of vehicle administration and social services.

"Others" principally consists of retail and restaurant businesses in tourist facilities and a lodging business in sports facilities.

Information about business segments, geographical segments and sales to foreign customers of the Group for the years ended March 31, 2008 and 2007 was as follows:

***(1) Business Segments***

***a. Sales and Operating Income***

| | Millions of Yen | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2008** | | | | | | | | | |
| | Slogix Businesses | Contracted Food Services | Medical Food Services | Restaurant and Karaoke Businesses | Specialty Restaurant Businesses | Deli and Convenience Services | Total Outsourcing Businesses | Others | Eliminations/ Corporate | Consolidated |
| Sales to customers | **¥ 6,865** | **¥39,073** | **¥40,446** | **¥62,934** | **¥25,358** | **¥12,482** | **¥36,201** | **¥2,714** | | **¥226,073** |
| Intersegment sales | **52,294** | **322** | **15** | **84** | **88** | | **615** | **1,100** | **¥(54,518)** | |
| Total sales | **59,159** | **39,395** | **40,461** | **63,018** | **25,446** | **12,482** | **36,816** | **3,814** | **(54,518)** | **226,073** |
| Operating expenses | **54,623** | **37,396** | **40,478** | **55,893** | **25,799** | **12,575** | **34,064** | **4,293** | **(50,257)** | **214,864** |
| Operating income (loss) | **¥ 4,536** | **¥ 1,999** | **¥ (17)** | **¥ 7,125** | **¥ (353)** | **¥ (93)** | **¥ 2,752** | **¥ (479)** | **¥ (4,261)** | **¥ 11,209** |

***b. Total Assets, Depreciation, Impairment Loss and Capital Expenditures***

| | Millions of Yen | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2008** | | | | | | | | | |
| | Slogix Businesses | Contracted Food Services | Medical Food Services | Restaurant and Karaoke Businesses | Specialty Restaurant Businesses | Deli and Convenience Services | Total Outsourcing Businesses | Others | Eliminations/ Corporate | Consolidated |
| Total assets | **¥4,622** | **¥4,252** | **¥6,232** | **¥40,758** | **¥16,470** | **¥1,721** | **¥20,256** | **¥4,212** | **¥4,909** | **¥103,432** |
| Depreciation | **1** | **81** | **64** | **2,302** | **1,406** | **17** | **14,956** | **81** | **423** | **19,331** |
| Impairment loss | | | | **1,008** | **304** | | | **58** | | **1,370** |
| Capital expenditures | **5** | **63** | **34** | **783** | **536** | **25** | **47** | **222** | **407** | **2,122** |

### a. Sales and Operating Income

| | Thousands of U.S. Dollars | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | | | | | | | | | |
| | Slogix Businesses | Contracted Food Services | Medical Food Services | Restaurant and Karaoke Businesses | Specialty Restaurant Businesses | Deli and Convenience Services | Total Outsourcing Businesses | Others | Eliminations/ Corporate | Consolidated |
| Sales to customers | **$ 68,521** | **$389,994** | **$403,695** | **$628,148** | **$253,097** | **$124,583** | **$361,322** | **$27,083** | | **$2,256,443** |
| Intersegment sales | **521,946** | **3,220** | **154** | **839** | **876** | | **6,138** | **10,976** | **$(544,149)** | |
| Total sales | **590,467** | **393,214** | **403,849** | **628,987** | **253,973** | **124,583** | **367,460** | **38,059** | **(544,149)** | **2,256,443** |
| Operating expenses | **545,190** | **373,251** | **404,009** | **557,872** | **257,506** | **125,509** | **339,997** | **42,850** | **(501,620)** | **2,144,564** |
| Operating income (loss) | **$ 45,277** | **$ 19,963** | **$ (160)** | **$ 71,115** | **$ (3,533)** | **$ (926)** | **$ 27,463** | **$ (4,791)** | **$ (42,529)** | **$ 111,879** |

### b. Total Assets, Depreciation, Impairment Loss and Capital Expenditures

| | Thousands of U.S. Dollars | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | | | | | | | | | |
| | Slogix Businesses | Contracted Food Services | Medical Food Services | Restaurant and Karaoke Businesses | Specialty Restaurant Businesses | Deli and Convenience Services | Total Outsourcing Businesses | Others | Eliminations/ Corporate | Consolidated |
| Total assets | **$46,135** | **$42,439** | **$62,195** | **$406,810** | **$164,388** | **$17,180** | **$202,179** | **$42,039** | **$48,994** | **$1,032,359** |
| Depreciation | **15** | **803** | **640** | **22,971** | **14,031** | **169** | **149,273** | **812** | **4,225** | **192,939** |
| Impairment loss | | | | **10,066** | **3,036** | | | **574** | | **13,676** |
| Capital expenditures | **44** | **631** | **339** | **7,817** | **5,349** | **246** | **471** | **2,219** | **4,065** | **21,181** |

### a. Sales and Operating Income

| | Millions of Yen | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 | | | | | | | | | |
| | Slogix Businesses | Contracted Food Services | Medical Food Services | Restaurant and Karaoke Businesses | Specialty Restaurant Businesses | Deli and Convenience Services | Total Outsourcing Businesses | Others | Eliminations/ Corporate | Consolidated |
| Sales to customers | ¥ 5,876 | ¥39,321 | ¥40,337 | ¥61,791 | ¥14,054 | ¥12,366 | | ¥1,406 | | ¥175,151 |
| Intersegment sales | 49,820 | 148 | 14 | 99 | 51 | | | 791 | ¥(50,923) | |
| Total sales | 55,696 | 39,469 | 40,351 | 61,890 | 14,105 | 12,366 | | 2,197 | (50,923) | 175,151 |
| Operating expenses | 51,884 | 38,127 | 41,098 | 54,083 | 14,040 | 12,509 | | 2,551 | (47,049) | 167,243 |
| Operating income (loss) | ¥ 3,812 | ¥ 1,342 | ¥ (747) | ¥ 7,807 | ¥ 65 | ¥ (143) | | ¥ (354) | ¥ (3,874) | ¥ 7,908 |

### b. Total Assets, Depreciation, Impairment Loss and Capital Expenditures

| | Millions of Yen | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 | | | | | | | | | |
| | Slogix Businesses | Contracted Food Services | Medical Food Services | Restaurant and Karaoke Businesses | Specialty Restaurant Businesses | Deli and Convenience Services | Total Outsourcing Businesses | Others | Eliminations/ Corporate | Consolidated |
| Total assets | ¥12,061 | ¥4,847 | ¥6,283 | ¥44,175 | ¥17,920 | ¥2,023 | ¥37,170 | ¥752 | ¥790 | ¥126,021 |
| Depreciation | 2 | 139 | 65 | 2,328 | 345 | 17 | | 89 | 269 | 3,254 |
| Impairment loss | | 84 | | 2,020 | 203 | 368 | | | 58 | 2,733 |
| Capital expenditures | | 28 | 48 | 1,079 | 284 | 40 | | 9 | 145 | 1,633 |

### (2) Geographical Segments

| | Millions of Yen | | | | |
|---|---|---|---|---|---|
| | 2008 | | | | |
| | Japan | North America | Total | Eliminations/ Corporate | Consolidated |
| Sales to customers | **¥203,790** | **¥22,283** | **¥226,073** | | **¥226,073** |
| Intersegment sales | **21** | **16** | **37** | **¥(37)** | |
| Total sales | **203,811** | **22,299** | **226,110** | **(37)** | **226,073** |
| Operating expenses | **192,499** | **22,402** | **214,901** | **(37)** | **214,864** |
| Operating income (loss) | **¥ 11,312** | **¥ (103)** | **¥ 11,209** | **¥ (0)** | **¥ 11,209** |
| Total assets | **¥ 88,459** | **¥14,973** | **¥103,432** | | **¥103,432** |

| | Thousands of U.S. Dollars | | | | |
|---|---|---|---|---|---|
| | 2008 | | | | |
| | Japan | North America | Total | Eliminations/ Corporate | Consolidated |
| Sales to customers | **$2,034,037** | **$222,406** | **$2,256,443** | | **$2,256,443** |
| Intersegment sales | **208** | **157** | **365** | **$(365)** | |
| Total sales | **2,034,245** | **222,563** | **2,256,808** | **(365)** | **2,256,443** |
| Operating expenses | **1,921,334** | **223,595** | **2,144,929** | **(365)** | **2,144,564** |
| Operating income (loss) | **$ 112,911** | **$ (1,032)** | **$ 111,879** | **$ (0)** | **$ 111,879** |
| Total assets | **$ 882,912** | **$149,448** | **$1,032,359** | | **$1,032,359** |

| | Millions of Yen | | | | |
|---|---|---|---|---|---|
| | 2007 | | | | |
| | Japan | North America | Total | Eliminations/ Corporate | Consolidated |
| Sales to customers | ¥163,908 | ¥11,243 | ¥175,151 | | ¥175,151 |
| Intersegment sales | | 8 | 8 | ¥(8) | |
| Total sales | 163,908 | 11,251 | 175,159 | (8) | 175,151 |
| Operating expenses | 156,224 | 11,027 | 167,251 | (8) | 167,243 |
| Operating income (loss) | ¥ 7,684 | ¥ 224 | ¥ 7,908 | | ¥ 7,908 |
| Total assets | ¥109,813 | ¥16,216 | ¥126,029 | ¥(8) | ¥126,021 |

***(3) Sales to Foreign Customers***

Sales to Foreign customers is sold by the Company's consolidated foreign subsidiaries, and sold in the overseas countries or areas.

| | Millions of Yen | | | | Thousands of U.S. Dollars | |
|---|---|---|---|---|---|---|
| | 2008 | | 2007 | | 2008 | |
| | North America | Total | North America | Total | North America | Total |
| Sales to foreign customers (A) | **¥22,283** | **¥22,283** | ¥11,243 | ¥11,243 | **$222,406** | **$222,406** |
| Consolidated sales (B) | | **226,073** | | 175,151 | | **2,256,443** |
| Ratio = (A) / (B) | | **9.9%** | | 6.4% | | **9.9%** |

## 20. SUBSEQUENT EVENTS

***a. Appropriations of Other Capital Surplus***

The following appropriations of other capital surplus at March 31, 2008 were approved at the Company's board of directors meeting held on June 27, 2008.

**Amount:**

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Year-end cash dividends, ¥1,500.00 ($14.97) per share | ¥596 | $5,948 |
| Effective payment date: June 30, 2008 | | |

The cash dividends are paid to the Company's shareholders, registered as at March 31, 2008.

***b. Reduction in Capital Reserves and Appropriation of Surplus***

The Meeting of Shareholders on June 27, 2008, duly approved a resolution for a reduction in capital reserves, which was approved at the Meeting of the Board of Directors on May 21, 2008. Although this resolution results in an increase in other capital surplus, the Meeting of the Board of Directors on June 27, 2008, resolved to reduce other capital surplus for appropriation of retained earnings.

The objectives of reducing capital reserves, based on Article 448-1 of the Corporate Law, are to implement a reduction of capital reserves (partial reversal of capital reserves) and the corresponding increase in other capital surplus (transfer to other capital surplus), in order to allow for dividend resources (amount available for dividends) and prepare for future flexible capital policies.

Accordingly, the amount of capital reserves was reduced by ¥5,000 million ($49,905 thousand).

The schedule for reduction in capital reserves is as follows:

| | |
|---|---|
| (1) Date of resolution of the Board of Directors | May 21, 2008 |
| (2) Date of peremptory notice for objections by creditors | May 22, 2008 |
| (3) Final date for objections by creditors | June 22, 2008 |
| (4) Meeting of Shareholders | June 27, 2008 |
| (5) Effective date | June 27, 2008 |

The objective of appropriating surplus, based on Article 459 of the Corporate Law and Article 41 of the Company's Articles of Incorporation, is to reduce the Company's other capital surplus ¥3,227 million ($32,211 thousand) through appropriation of earnings as stipulated in Article 452 of the Corporate Law, and to transfer such other earnings retained to earned surplus carried forward in order to cancel loss carried forward.

***c. DAISHINTO Inc. Take-over Bid***

The Meeting of the Board of Directors on May 30, 2008, approved a resolution to carry out a take-over bid with the aim of acquiring all common stock and stock acquisition rights issued by the Company's consolidated subsidiary, DST (Code: 9785 JASDAQ).

On January 29, 2007, the Company and DST signed a "Memorandum Relating to Capital and Business Alliance." The Company and DST agreed to a capital and business alliance under the condition that DST became a consolidated subsidiary of the Company and the Company acquired a majority of DST voting rights. To realize this capital and business alliance, while the Company carried out a take-over bid of common stock and stock acquisition rights issued by DST, DST also purchased treasury stocks from the market. Furthermore, on April 25, 2007, the Company and DST signed a "Business alliance Agreement," relating to the specific contents of the business alliance.

As a result, the Company and DST strived to promote synergistic effects regarding the following:

(1) Provision of information and expertise regarding the strengths of both companies;
(2) Shared customer base;
(3) Mutual utilization of business facilities and employees;
(4) Shared recruitment activities and human resource development programs; and
(5) Mutual utilization of other functions.

However, from the standpoint of management resources distribution, the Company and DST are independently listed enterprises. Accordingly, and taking into consideration DST shareholders other than the Company, this innovative management resources distribution in which the Company and DST are combined, including with regard to abovementioned large-scale forward investment, is self-limiting. DST cannot be considered to have reached a state where it can absorb the Company's human and material resources at a pace attuned to market growth. Therefore, in light of rapid management environment changes, intrinsic inadequacies exist in the anticipated synergy between the Company and DST through the framework of the current capital and business alliance between the Company and DST. We thus recognize that radical improvements are required to DST's management structure in order to optimize future profit-earning opportunities.

In consideration of the above, we have deemed it vital that the Company and DST make efforts to strengthen and specialize DST's sales divisions, maximize synergistic effects with the Company and its existing nationwide sales network, and construct an enhanced flexible management system to consolidate an innovative business base. DST becoming a wholly owned subsidiary of the Company, and thus establishing stronger capital ties between the Company and DST, optimizes the merits of the integration of the Group and DST, which is the best policy to raise corporate value for DST and for the Group.

Specifically:

(1) DST will be receptive to swifter, timely introduction of innovative and effective management resources from the Company, including through more active personnel exchanges.
(2) Through capital and business integration with the Group, we can establish a communal system of accountability for results, which will radically accelerate DST's sales activities toward the Company's existing nationwide customer base, thus raising the possibilities for short-term deployment of synergistic effects.
(3) Simplification of DST's shareholder composition will facilitate forward-looking, flexible management judgments.
(4) The administration of DST's general affairs, finance and accounting divisions can be integrated with the Company, affording vast cuts in expenses.

Furthermore, at the Meeting of DST's Board of Directors on May 30, 2008, the take-over bid, and subsequent inclusion of DST as a wholly owned subsidiary of the Company, was judged to contribute to raising DST's corporate value and was accompanied by an expression of consent. For DST's shareholders, management resources distribution in which the Company and DST are combined, including with regard to large-scale forward investment to raise corporate value over the long term, may put short-term pressure on profitability, lower share prices and have a negative impact on dividends. Accordingly, a resolution was also passed to encourage shareholders to subscribe to the take-over bid.

Following the consolidation of DST as a subsidiary of the Company, we will continue to respect DST's individuality and brand identity, and consequently to realize improved corporate value for the Group.

An outline of the take-over bid is given below:

(Outline of DAISHINTO Inc.)

(1) Company name: DAISHINTO Inc.
(2) Main businesses:
Private automobile management, social services, and construction and real estate
(3) Date of establishment: February 16, 1962
(4) Head office: Shiba 3-14-2, Minato-ku, Tokyo, 112-8528, Japan
(5) Representative:
Masayuki Tamayama, President and Representative Director
(6) Paid-in capital: ¥100 million (as of March 31, 2008)
(7) Major shareholders and Their Holdings:

| | |
|---|---|
| SHiDAX CORPORATION | 52.65% |
| KALEIDO DST | 29.81% |
| Mitsui Sumitomo Insurance Co., Ltd. | 2.34% |
| Goldman Sachs International | 0.94% |
| The Master Trust Bank of Japan, Ltd. | 0.82% |
| Yoshizo Asukabe | 0.70% |
| SOMPO JAPAN INSURANCE INC. | 0.65% |
| Sumitomo Mitsui Banking Corporation | 0.57% |
| The Bank of New York (Luxembourg) (Standing proxy: Mizuho Corporate Bank, Kojimachi Securities Settlement Office) | 0.56% |
| The Dai-Ichi Mutual Life Insurance Company | 0.46% |

The term of the take-over bid is from June 2, 2008, through July 14, 2008. The price is ¥257 per share of common stock, and ¥1 per stock acquisition right.

The price of the take-over bid of ¥257 per share of common stock was determined with reference to a stock value calculation sheet provided by third-party appraisal institution, Daiwa Securities SMBC Co., Ltd. The stock value calculation for DST was conducted using both the Discounted Cash Flow ("DCF") method of Daiwa Securities SMBC Co., Ltd. and the market value method. According to the stock value calculation sheet, the value of DST stock was between ¥221 and ¥267 by the DCF method and between ¥125 and ¥143 by the market value method.

The Company took into account the stock value range cited on the stock value calculation sheet, with reference to the above calculation results, and investigated a range of values per share from the lowest calculation result of ¥125 to the upper limit of ¥267. Further, we conducted negotiations with DST after comprehensive consideration of premium results gained from market values from past examples of take-over bid, of the possibilities of approval or rejection of the take-over bid by DST, and of the outlook for the take-over bid. Finally, we settled on a price of ¥257.

The take-over bid price offers a 105.6% premium (rounded to one decimal place) over the average closing price of DST's common stock on the JASDAQ securities market over the preceding month (from April 30, 2008, to May 29, 2008), which was ¥125 (rounded to the nearest yen). It is also equivalent to a 114.2% premium over the JASDAQ closing price on May 29, 2008, which was ¥120 (rounded to the nearest yen).

With regard to stock acquisition rights, the exercise price as of May 29, 2008, was ¥428 per share, which is higher than the take-over bid purchase price per share of common stock of ¥257. Further, the stock acquisition rights targeted by the take-over bid were issued as stock options to the directors, corporate auditors and employees of either DST or DST's subsidiaries. It is a prerequisite for exercise of the stock acquisition rights that the owner at the time of exercise holds a position as a director, corporate auditor or employee of DST or its subsidiaries. Accordingly, the Company can be construed to gain no direct benefit from the purchase of stock acquisition rights arising from the take-over bid. The Company is unable to exercise the stock acquisition rights, even if it goes ahead with their purchase through the take-over bid, so the purchase price of the stock acquisition rights targeted by the take-over bid were all fixed at ¥1.

Through the take-over bid, 44,257,912 shares and 3,000,000 stock acquisition rights are targeted for purchase, with no upper or lower limits on purchase imposed.

The change in share ownership arising from the take-over bid is as follows:

(1) Number of voting rights relating to shares held by take-over bid prior to purchase
 492,205 (52.66% of stock ownership prior to purchase)
(2) Number of voting rights relating to shares held by persons with special relationships prior to purchase
 8,760 (0.94% of stock ownership prior to purchase)
(3) Number of voting rights relating to shares earmarked for purchase
 472,579 (100% of stock ownership following purchase)
(4) Total number of DST's voting rights
 934,768

Purchase price total ¥12,145 million ($121,223 thousand) on the premise that all subscription shares are common stock, calculated by multiplying the total of 47,257,912 shares earmarked for purchase in the take-over bid by the purchase price.

With regard to payment, immediately after the end of the period of the take-over bid official notification of purchase shall be sent to the address or offices of the subscribing shareholder (or the address of their standing proxy in the case of overseas subscribers).

The purchase shall be carried out in cash. Proceeds from sale of purchased stock shall be made immediately following the first day of payment on July 23, 2008, at the stipulation of the subscribing shareholder, by cash transfer from Daiwa Securities SMBC Co., Ltd. or Daiwa Securities Co., Ltd. to an address stipulated by the subscribing shareholder, alternatively through the main bank or any branch nationwide of Daiwa Securities SMBC Co., Ltd. or Daiwa Securities Co., Ltd.

(Schedule following the take-over bid)
The Company currently holds 52.65% (49,220,500 shares) of DST's issued shares, and has included DST as a consolidated subsidiary. However, we carried out the take-over bid to acquire all DST issued shares (other than those already held by the Company) in accordance with our aim of making DST a wholly owned subsidiary. The Company has set no upper or lower limits for the shares targeted for purchase in the take-over bid, so shall purchase all shares sold by subscribing shareholders in response to the take-over bid (subscription shares). In addition, if the Company is unable to acquire all DST shares through the take-over bid it plans to conduct a stock exchange at the conclusion of the take-over bid—such that DST will make the Company its full parent company, and the Company make DST its full subsidiary—in order to complete the incorporation of DST as a wholly owned consolidated subsidiary. (In accordance with relevant laws, this can be carried out by "short-form stock exchange," without a resolution of acceptance from DST's meeting of shareholders.)

In the stock exchange, the Company plans to deliver its own shares as fair value for DST shares held by its shareholders. Through this process, all shares held by DST shareholders not subscribing to the take-over bid will be exchanged for the Company's shares, and DST shareholders allotted one or more of the Company's shares will become shareholders of the Company. In the event that such a stock exchange is implemented, the Company and DST will deliberate and determine the stock exchange ratio at the conclusion of the take-over bid with due consideration for profits for shareholders of both companies. This issue is currently undecided, but evaluation of DST's shares, in the absence of any particular circumstances, will be based on the price at which DST shares are purchased in the take-over bid (purchase price), and the stock exchange ratio will be made at or based on this purchase price. However, as the take-over bid and stock exchange are held at different times, with the possibility of intervening changes to business results for the Company or DST, fluctuations in the Company's share price and influence from stock market quotations, the economic value of the price accepted by DST shareholders through the take-over bid may exceed or fall short of the purchase price. DST's shareholders, in accordance with legal proceedings, could request an appraisal remedy on DST, in which case the buying price per share would ultimately be determined by a court of law, and could consequently differ from the purchase price or economic value of the price received by DST shareholders through the take-over bid. Please note that the necessary procedures for exercise of appraisal rights, the take-over bid, the stock exchange and tax transactions relating to the appraisal remedy in the case of stock exchange are all the responsibility of individual shareholders.

The stock exchange is planned for October 2008. However, this schedule could change, depending on the Company's share ownership ratio following the take-over bid, holdings by DST shareholders other than the Company, changes to business results for the Company or DST, and influence from the stock markets. Details of the stock exchange will be announced as soon as a decision is reached, following negotiations with DST.

If unable to acquire all DST's stock acquisition rights despite the take-over bid being enacted, the Company will request that DST implements procedures necessary to eliminate stock acquisition rights. In such a case, DST may need to carry out the required procedures in response to the Company's request.

Further, while capitalizing on the merits of DST's inclusion as a wholly owned subsidiary, the Company will investigate the partial transfer of the Company/DST shares to clients and other business partners with the objective of reinforcing business relations. At this point in time, no specific agenda has been determined.

(Possible delisting of DST's common stock)

DST's common stock is listed on JASDAQ; no upper or lower limits have been set on the number of shares for purchase through the take-over bid. Accordingly, in order to purchase of all subscription shares, DST's common stock may, depending on the results of the take-over bid, temporarily be delisted through prescribed procedures in accordance with JASDAQ delisting criteria, even if the stock exchange is not carried out. Moreover, if the stock exchange does take place as described above, DST's common stock is expected, depending on the results of the take-over bid, to be temporarily delisted through prescribed procedures in accordance with JASDAQ delisting criteria. If the stocks are delisted, DST's common stock cannot be traded on the JASDAQ securities exchange.

# INDEPENDENT AUDITORS' REPORT


TOHO AUDIT CORPORATION

Tokan Ogawamachi Building
2-6-12, Kanda-Ogawamachi
Chiyoda-ku, Tokyo 100-0052
Japan


## Independent Auditors' Report

The Board of Directors
SHiDAX CORPORATION

We have audited the accompanying consolidated balance sheet of SHiDAX CORPORATION (The "Company") and consolidated subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SHiDAX CORPORATION and consolidated subsidiaries as of March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

*Supplemental Information ;*

As discussed in Note 20 b. to the consolidated financial statements, the company approved a resolution for a reduction in capital reserves and an appropriation of surplus .

As discussed in Note 20 c. to the consolidated financial statements, the company is carrying out a take-over bid for DAISHINTO Inc.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Toho Audit Corporation

June 27, 2008