Financial Section

財務報告

[Performance]

【経営成績】

Consolidated net sales of the SHiDAX Group in fiscal 2002 were ¥122,563 million, down 12.6% from a year earlier. The decline was primarily caused by the sale of our U.S. subsidiary, Shidax USA Ltd., and when this is factored out domestic net sales for the fiscal year are shown to have grown 15.4%.

Although deflationary pressure and price competition continue to buffet the Japanese economy, the Group achieved 0.9% growth in consolidated operating income, which rose to ¥6,912 million. Excluding the influence of Shidax USA Ltd., domestic operating income rose 0.26%. However, while in the previous fiscal year we posted extraordinary income from the sale of our U.S. subsidiary, in fiscal 2002 we posted the foreign exchange loss accruing from that sale, and for this reason net income fell 66.2% to ¥2,109 million.

当期のグループ売上高は1,225億63百万円となり、前期に比べ12.6%の減少となりました。これは主に米国子会社Shidax USA Ltd.を売却したことによるもので、Shidax USA Ltd.の影響を除いた国内売上高は前期に比べ15.4%の増加となりました。

一方、利益面については、デフレ圧力と価格競争が日本経済にも深刻な打撃を与えている状況下、営業利益は前期に比べ0.9%増加し69億12百万円となりました。また、Shidax USA Ltd.の影響を除いた国内営業利益は前期に比べ0.26%の増加となりました。しかしながら、前期に計上した米国子会社の売却益の反動と、米国子会社売却に伴う外貨預金の為替差損を当期に計上したことを主因として、当期純利益は前期に比べ66.2%減少し、21億9百万円となりました。

[Performance by Segment]

【各セグメントの経営成績】

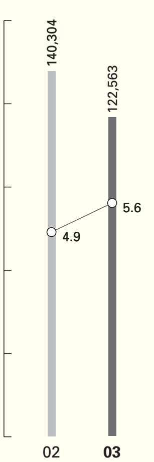
■ Contracted Food Services

Outsourced meal services for business facilities suffered stronger effects from the adverse economic conditions. Rationalization of operations at client businesses brought consolidation and reductions in workforces, while review of budgets for employee benefits brought further declines in outlays for outsourced meal services. In response to these conditions, SHiDAX endeavored to improve profitability and increase customer satisfaction. However, due in part to the sale of Shidax USA Ltd., sales declined 47.1% to ¥38,500 million. Operating income in this segment fell 16.5% to ¥1,824 million.

■ Medical Food Services

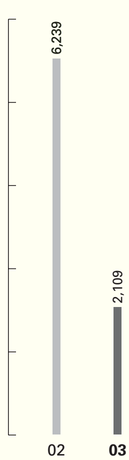
The outsourcing of meal services at hospitals and other healthcare facilities continued to increase in fiscal 2002, and augmentation of our sales capabilities allowed us to win 152 new client facilities. In addition, we launched the highly regarded SHiDAX Medical Cafeteria (SMC) system. The SMC system allows patients to select their meals from a menu using a bedside touch-screen display, providing a more congenial dining experience for hospitalized patients as well as proper nutrition, making meals a part of the treatment process. In the field of healthcare and assistance facilities for the elderly, we are creating concepts for facilities that respond to Japan's demographic shift toward an elderly population, and offer comprehensive services that increase the satisfaction of those residing in customer facilities. Sales in this segment grew 20.2% to ¥27,139 million, but required anticipatory investments and fierce price competition resulted in an operating loss of ¥94 million, a net decline of ¥436 million.

Net Sales & Operating Income Ratio
売上高 & 営業利益率

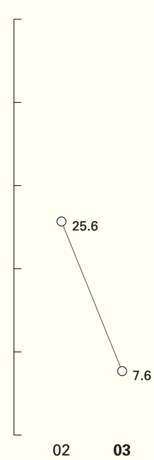


■ Net sales (¥ millions) 売上高（百万円）
○— Operating income ratio (%) 営業利益率(%)

Net Income (¥ millions)
当期純利益 （百万円）



Return on Equity (%)
株主資本利益率(%)



■ Restaurant and Karaoke Businesses

Declining patronage of karaoke halls and the economic slump maintained the gradual decline in this market. This notwithstanding, the popularity of large karaoke facilities continues to increase. Working under these conditions, the Company is pursuing nationwide expansion by increasing customer satisfaction through clean, healthy, attractive, enjoyable, and reasonably priced facilities, thereby becoming the top restaurant and karaoke brand in each region. During the period of this report we continued the expansion of this business, opening 38 new outlets while closing only one unprofitable location, bringing the total to 250. These efforts brought 16.8% growth in sales, to ¥50,925 million, while operating income increased 15.5% to ¥7,825 million.

■ SLOGIX Businesses

On April 1, 2002, the SHiDAX Group transferred foodstuff sales from SHiDAX FOOD SERVICE Corp. to SLOGIX Corp., and expanded its distribution network nationwide. Quality control and bulk purchasing began to bring costs down as full-scale operations commenced, and sales in this segment jumped 354.9% to ¥5,968 million. Operating income rose 141.5% to ¥792 million.

■ コントラクトフードサービス事業

産業給食業界では、景気低迷の影響がますます深刻化する中、経営合理化に伴う事業所の統廃合や従業員の減少、福利厚生予算の見直しに伴う契約料金の値下げ要請等の動きが依然として続いています。このような状況の下、収益性の改善とお客様満足度の向上に努めてまいりましたが、米国子会社Shidax USA Ltd.の売却による影響も加わり、同事業部門の売上高は前期に比べ47.1%減少し385億円となりました。また、営業利益は前期に比べ16.5%減少し18億24百万円となりました。

■ メディカルフードサービス事業

病院等の施設における給食サービスのアウトソーシング化が進む中、当期においては営業開拓力を強化し152ヵ所で新規に受託することができました。また、SMC（シダックスメディカルカフェテリア）も高く評価され導入が始まりました。SMCはベッドサイドのタッチパネルテレビを利用して患者様がお好きなメニューを選択でき、なおかつ、必要な栄養を摂取できるシステムで、ご入院されている患者様がより楽しく、治療としての食事を召し上がっていただけるものです。一方、老人健康福祉施設等では、高齢化時代のニーズにマッチした施設のコンセプト作りから携わり、ご入所される方がより満足していただけるよう総合的なサービスの提供に取り組んできました。以上の結果、同事業部門の売上高は前期に比べ20.2%増加し271億39百万円となりました。しかしながら、営業利益は先行投資が増加したことに加え、厳しい価格競争を受け4億36百万円減少し、△94百万円となりました。

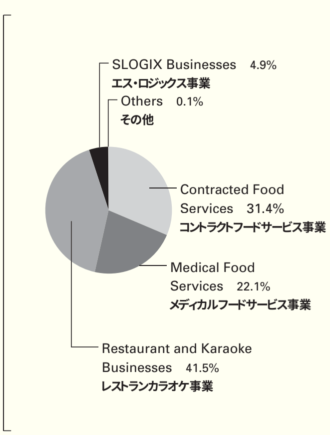
■ レストランカラオケ事業

カラオケ人口は少子化、景気低迷などの影響を受け依然として微減状態にありますが、一方では、大型のカラオケ施設に人気が集中する傾向を強めています。こうした中、「清潔、健康的、おいしい、楽しい、リーズナブル」といったお客様満足度で、地域NO.1のレストランカラオケというブランドを着実に全国で広めています。そして、当期も積極的な店舗展開を続け38店舗を新たにオープンし、1店舗を採算性の見直しにより閉鎖しました（合計250店舗）。以上の結果、同事業部門の売上高は前期に比べ16.8%増加し509億25百万円となりました。また、営業利益は15.5%増加し、78億25百万円となりました。

■ エス・ロジックス事業

2002年4月1日に、当社グループ内への食材の販売事業をシダックスフードサービス（株）よりエス・ロジックス（株）に移管し、物流網を全国に拡大しました。また、品質管理と大量仕入れによる価格低減が進み始め本格稼動に至った結果、同事業部門の売上高は前期に比べ354.9%増加し59億68百万円となりました。また、営業利益は141.5%増加し、7億92百万円となりました。

Sales by Business Segment (%)
セグメント別売上構成比（%）



[Financial Position]

【財務状況】

Total assets at the end of the fiscal year stood at ¥97,557 million, an increase of 8.5% from a year earlier. In fiscal 2001, in connection with the sale of our U.S. subsidiary, ¥16,480 million was posted under accounts receivable. In fiscal 2002 we received the sum of US$113,460,000 in payment of that obligation, and this sum was transferred to cash and deposits. Current assets grew 2.1% to ¥38,443 million, because ¥1,338 million in withholding in connection with taxes on dividends of subsidiaries was posted as income tax refund receivable. The opening of 38 new restaurant and karaoke outlets resulted in 11.9% growth in tangible fixed assets, to ¥33,039 million. Investments and other assets increased 14.8% to ¥26,075 million, as a result of investments in the construction of new restaurant and karaoke businesses, while total fixed assets grew 13.1% to ¥59,115 million.

The increase in the Group-external foodstuffs sales of SLOGIX brought a ¥1,108 million increase in accounts and notes payable, but a shift from short-term to long-term debt in the interest of financial stability reduced current liabilities 10.9% to ¥35,400 million. Long-term liabilities, however, increased 49.3% to ¥33,946 million. The current ratio was 108.60%, up 13.9 percentage points from the previous fiscal year. As a result of the foregoing, total liabilities rose 11.0% to ¥69,346 million.

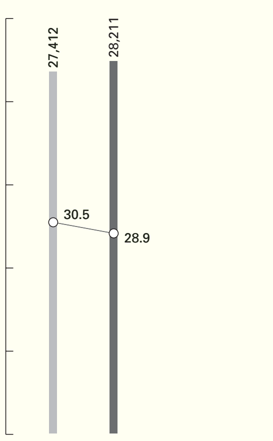
Total shareholders' equity increased ¥799 million to ¥28,211 million, up 2.9% due to an increase in the consolidated surplus. Shareholders' equity per share was ¥164,508. However, the effects of an increase in long-term debt caused the equity ratio to fall 1.6 percentage points to 28.9%.

当期の総資産は975億57百万円となり、前期に比べ8.5%の増加となりました。資産の部については、前期に米国子会社売却により計上した未収入金164億80百万円を回収し、外貨預金（US$113,460,000）として現金及び預金に振り替えました。また、流動資産は384億43百万円となり前期に比べ2.1%の増加となりました。これは、子会社配当に伴う源泉所得税の還付金として未収法人税1,338百万円を計上したことなどが主因です。有形固定資産は330億39百万円となり前期に比べ11.9%の増加となりました。これは、レストランカラオケを38店新規にオープンしたことなどが主因です。投資その他の資産は260億75百万円となり前期に比べ14.8%の増加となりました。これは、レストランカラオケの新店舗増加に伴い建設協力金が増加したことなどが主因です。以上の結果、固定資産の合計は591億15百万円となり前期に比べ13.1%の増加となりました。

負債の部については、支払手形及び買掛金が（株）エス・ロジックスによる食材外販の増加に伴い11億8百万円増加しましたが、財務安定性を確保するため資金の調達方法を短期から長期にシフトしたことにより、流動負債は354億円となり前期に比べ10.9%の減少となりました。一方、固定負債は339億46百万円となり前期に比べ49.3%の増加となりました。また、流動比率は108.60%となり前期に比べ13.9ポイント上昇しました。以上の結果、負債合計は693億46百万円となり前期に比べ11.0%の増加となりました。

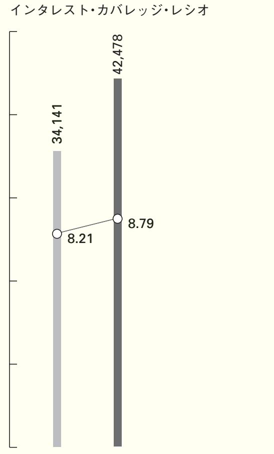
資本合計は7億99百万円増加し282億11百万円（1株当たり株主資本は164,508円）となり、前期に比べ2.9%増加しました。しかし、長期借入金の増加により株主資本比率は28.9%となり、前期に比べ1.6ポイント低下しました。

Shareholders' Equity & Equity Ratio
株主資本 & 株主資本比率



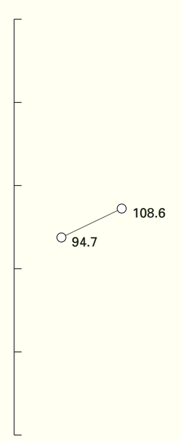
Shareholders' equity (¥ millions)
株主資本（百万円）
Equity ratio (%)
株主資本比率（%）

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



Interest-bearing debt (¥ millions)
有利子負債残高（百万円）
Interest coverage ratio (times)
インタレスト・カバレッジ・レシオ（倍）

Current Ratio (%)
流動比率（%）



[Cash Flows]
【キャッシュ・フロー】

Net cash provided by operating activities fell to ¥1,773 million, in comparison with net cash provided in the previous fiscal year of ¥5,264 million. This is primarily the result of a ¥3,490 million increase in income taxes, to ¥7,881 million, accruing from the previous fiscal year's sale of Shidax USA Ltd.

Net cash provided by investing activities totaled ¥6,764 million, in comparison with net cash used in the previous fiscal year of ¥2,496 million. This reflects the posting of ¥15,067 million in proceeds from the sale of Shidax USA Ltd. in the previous fiscal year.

Net cash provided by financing activities totaled ¥7,242 million, after net cash used in the previous term of ¥4,610 million. The chief factors in this were the appropriation of capital investments to the establishment of new restaurant and karaoke businesses, and ¥26,400 million in long-term debt undertaken in the interest of long-term capital availability.

As a result of the above, cash and cash equivalents at the end of the year increased ¥14,308 million to ¥23,923 million.

営業活動によるキャッシュ・フローは、17億73百万円（前期52億64百万円）となりました。これは主に前期のShidax USA Ltd.の株式売却に伴う法人税等の支払額が前期に比べ34億90百万円増加し、78億81百万円となったことによるものです。

投資活動によるキャッシュ・フローは、67億64百万円（前期△24億96百万円）となりました。これは主に前期のShidax USA Ltd.の株式売却による売却代金収入150億67百万円によるものです。

財務活動によるキャッシュ・フローは、72億42百万円（前期△46億10百万円）となりました。これは主にレストランカラオケ事業の新規店舗の設備投資に充当するため、および長期安定資金確保のための長期借入れによる収入264億円によるものです。

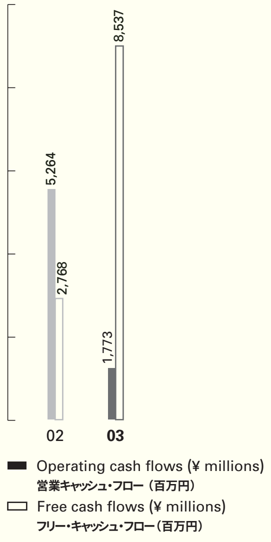
以上の結果、当期末における現金及び現金同等物の期末残高は前期に比べ143億8百万円増加し、239億23百万円となりました。

[Capital Expenditures]
【設備投資等】

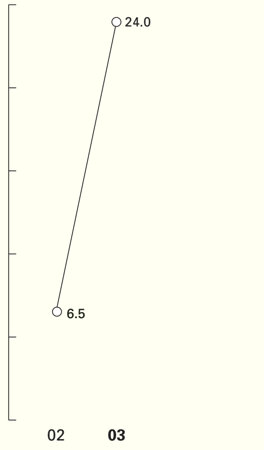
Capital expenditures totaled ¥7,273 million, chiefly for the establishment of new restaurant and karaoke outlets, and remodeling. Depreciation and amortization expenses decreased ¥242 million to ¥2,798 million.

設備投資はレストランカラオケの新店オープンやリニューアルを中心に72億73百万円となりました。また、減価償却費は27億98百万円となり、前期に比べ42百万円の減少となりました。

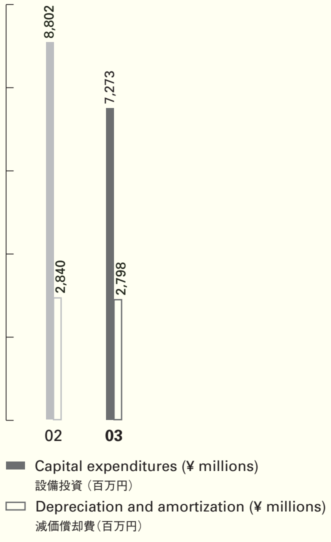
Operating Cash Flows & Free Cash Flows
営業キャッシュ・フロー & フリー・キャッシュ・フロー



Interest-Bearing Debt/ Operating Cash Flows (years)
債務償還年数（年）



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



SHiDAX CORPORATION and Consolidated Subsidiaries

Consolidated Balance Sheets

March 31, 2003 and 2002

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	**2003**
CURRENT ASSETS:			
Cash and cash equivalents	**¥23,923**	¥ 9,615	**$ 199,028**
Short-term investments (Notes 4 and 13)	**692**	836	**5,758**
Accounts and notes receivable:			
Trade	**7,898**	6,924	**65,706**
Unconsolidated subsidiaries and affiliates	**179**	236	**1,486**
Other	**1,294**	16,478	**10,765**
Allowance for doubtful accounts	**(31)**	(36)	**(254)**
Inventories (Notes 3 and 5)	**1,066**	1,039	**8,868**
Deferred tax assets (Note 12)	**820**	1,316	**6,819**
Prepaid expenses and other current assets	**2,602**	1,244	**21,647**
Total current assets	**38,443**	37,652	**319,823**
PROPERTY AND EQUIPMENT (Note 7):			
Land	**1,167**	1,167	**9,706**
Buildings and structures	**38,926**	33,264	**323,842**
Furniture and equipment	**4,658**	4,966	**38,758**
Construction in progress	**46**	86	**386**
Total	**44,797**	39,483	**372,692**
Accumulated depreciation	**(11,758)**	(9,948)	**(97,823)**
Net property and equipment	**33,039**	29,535	**274,869**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 6)	**622**	800	**5,178**
Investments in and advances to unconsolidated subsidiaries and affiliates	**246**	63	**2,041**
Software—net	**836**	813	**6,957**
Lease security deposits	**14,522**	14,910	**120,818**
Deferred tax assets (Note 12)	**4,282**	3,380	**35,623**
Other assets	**7,735**	4,997	**64,351**
Allowance for doubtful accounts	**(2,168)**	(2,244)	**(18,035)**
Total investments and other assets	**26,075**	22,719	**216,933**
TOTAL	**¥97,557**	¥89,906	**$ 811,625**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2003	Millions of Yen 2002	Thousands of U.S. Dollars (Note 1) 2003
CURRENT LIABILITIES:			
Short-term borrowings (Note 7)	**¥ 1,989**	¥ 6,184	**$ 16,545**
Current portion of long-term debt (Note 7)	**13,742**	11,858	**114,330**
Accounts and notes payable:			
Trade	**7,075**	5,942	**58,861**
Unconsolidated subsidiaries and affiliates	**286**	364	**2,378**
Other	**4,317**	4,178	**35,917**
Accrued income taxes	**1,716**	5,482	**14,277**
Accrued expenses	**4,839**	4,807	**40,258**
Other current liabilities	**1,436**	938	**11,943**
Total current liabilities	**35,400**	39,753	**294,509**
LONG-TERM LIABILITIES:			
Long-term debt, less current portion (Note 7)	**26,747**	16,099	**222,519**
Liability for employees' retirement benefits (Note 8)	**4,516**	3,879	**37,569**
Retirement allowances for directors and corporate auditors (Note 9)	**399**	403	**3,322**
Negative goodwill	**2,031**	2,144	**16,901**
Other long-term liabilities	**253**	216	**2,101**
Total long-term liabilities	**33,946**	22,741	**282,412**
SHAREHOLDERS' EQUITY (Notes 10 and 18):			
Common stock—authorized, 700,000 shares; issued, 178,607 shares in 2003 and 2002	**8,930**	8,930	**74,296**
Capital surplus	**7,848**	7,848	**65,288**
Retained earnings	**12,337**	10,680	**102,641**
Unrealized gain (loss) on available-for-sale securities	**8**	(44)	**65**
Total	**29,123**	27,414	**242,290**
Treasury stock—at cost, 7,696 shares in 2003 and 10 shares in 2002	**(912)**	(2)	**(7,586)**
Total shareholders' equity	**28,211**	27,412	**234,704**
TOTAL	**¥97,557**	¥89,906	**$ 811,625**

SHiDAX CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Income

Years Ended March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	**2003**
NET SALES	**¥122,563**	¥140,304	**$1,019,660**
COST OF SALES	**108,679**	125,005	**904,157**
Gross profit	**13,884**	15,299	**115,503**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 14)	**6,972**	8,450	**58,002**
Operating income	**6,912**	6,849	**57,501**
OTHER INCOME (EXPENSES):			
Dividend and interest income	**82**	85	**683**
Interest expense	**(796)**	(845)	**(6,621)**
Gain (loss) on sales or disposals of property and equipment and other—net	**114**	(77)	**949**
Gain on sales of investments		8,485	
Write-down of investments	**(298)**	(348)	**(2,476)**
Loss from discontinued store operations	**(91)**	(169)	**(761)**
Amortization of negative goodwill	**113**	113	**939**
Provision for allowance for doubtful accounts	**(13)**	(1,956)	**(104)**
Provision for retirement allowances		(408)	
Foreign exchange (loss) gain—net	**(1,532)**	73	**(12,743)**
Other—net	**111**	(3)	**920**
Other (expenses) income—net	**(2,310)**	4,950	**(19,214)**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**4,602**	11,799	**38,287**
INCOME TAXES (Note 12):			
Current	**2,936**	7,862	**24,428**
Deferred	**(443)**	(2,325)	**(3,690)**
Total income taxes	**2,493**	5,537	**20,738**
MINORITY INTERESTS IN NET INCOME		(23)	
NET INCOME	**¥ 2,109**	¥ 6,239	**$ 17,549**

	Yen		U.S. Dollars
	2003	2002	**2003**
PER SHARE OF COMMON STOCK (Note 2.s):			
Basic net income	**¥ 11,304.39**	¥ 34,935.77	**$ 94.05**
Cash dividends applicable to the year	**3,000.00**	2,000.00	**24.96**

See notes to consolidated financial statements.

SHiDAX CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Shareholders' Equity

Years Ended March 31, 2003 and 2002

		Millions of Yen				
	Issued Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain (Loss) on Available-for-sale Securities	Treasury Stock
BALANCE, APRIL 1, 2001 (Note 2.a)	178,607	¥8,930	¥7,848	¥ 4,630		
Net income				6,239		
Cash dividends paid by a subsidiary, ¥7.50 per share for 18,566 thousand shares outstanding				(139)		
Bonuses to directors and corporate auditors				(50)		
Unrealized loss on available-for-sale securities					¥(44)	
Purchase of treasury stock (69 shares)						¥ (13)
Reissuance of treasury stock (59 shares)						11
BALANCE, MARCH 31, 2002	178,607	8,930	7,848	10,680	(44)	(2)
Net income				2,109		
Cash dividends, ¥2,000 per share				(357)		
Bonuses to directors and corporate auditors				(95)		
Net decrease in unrealized loss on available-for-sale securities					52	
Purchase of treasury stock (7,686 shares)						(910)
BALANCE, MARCH 31, 2003	**178,607**	**¥8,930**	**¥7,848**	**¥12,337**	**¥ 8**	**¥(912)**

	Thousands of U.S. Dollars (Note 1)				
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain (Loss) on Available-for-sale Securities	Treasury Stock
BALANCE, MARCH 31, 2002	$74,296	$65,288	$ 88,854	$(364)	$ (20)
Net income			17,549		
Cash dividends, $16.64 per share			(2,972)		
Bonuses to directors and corporate auditors			(790)		
Net decrease in unrealized loss on available-for-sale securities				429	
Purchase of treasury stock (7,686 shares)					(7,566)
BALANCE, MARCH 31, 2003	**$74,296**	**$65,288**	**$102,641**	**$ 65**	**$(7,586)**

See notes to consolidated financial statements.

SHiDAX CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Cash Flows

Years Ended March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	**2003**
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	**¥ 4,602**	¥11,799	**$ 38,287**
Adjustments for:			
Income taxes paid	**(7,881)**	(4,391)	**(65,567)**
Depreciation and amortization	**2,798**	2,840	**23,283**
Reversal of accrued bonuses	**(114)**	(186)	**(951)**
Provision for liability for employees' retirement benefits	**637**	395	**5,297**
(Reversal of) provision for retirement allowances	**(3)**	402	**(26)**
(Reversal of) provision for allowance for doubtful accounts	**(81)**	1,979	**(677)**
Gain on sales of investments		(8,485)	
Write-down of investments	**297**	348	**2,476**
Foreign exchange loss—net	**1,529**		**12,719**
Gain on sales of property and equipment and other	**(244)**	(1)	**(2,031)**
Loss on sales or disposals of property and equipment and other	**130**	78	**1,082**
Changes in operating assets and liabilities:			
Increase in accounts and notes receivable	**(1,201)**	(12,160)	**(9,989)**
Increase (decrease) in accounts and notes payable	**654**	(1,641)	**5,438**
Other—net	**650**	14,287	**5,410**
Net cash provided by operating activities	**1,773**	5,264	**14,751**
INVESTING ACTIVITIES:			
Net decrease in time deposits	**265**	60	**2,208**
Purchase of property and equipment and other	**(6,055)**	(8,386)	**(50,374)**
Proceeds from sales of property and equipment and other	**320**	126	**2,659**
Payments for purchase of subsidiaries' stock		(1,435)	
Proceeds from acquisition of subsidiaries' stock (Note 19)		8,486	
Payments for sales of subsidiaries' stock		(253)	
Proceeds from sales of subsidiaries' stock	**15,067**		**125,353**
Investment in loans receivable	**(1,471)**	(875)	**(12,239)**
Collection of loans receivable	**1,035**	1,075	**8,612**
Payments for lease security deposits and other	**(2,643)**	(2,536)	**(21,986)**
Collection of lease security deposits and other	**230**	1,264	**1,915**
Other—net	**16**	(22)	**129**
Net cash provided by (used in) investing activities	**6,764**	(2,496)	**56,277**
FINANCING ACTIVITIES:			
Net (decrease) increase in short-term borrowings	**(4,195)**	1,771	**(34,903)**
Proceeds from long-term debt	**26,400**	3,835	**219,634**
Repayments of long-term debt	**(13,696)**	(9,944)	**(113,944)**
Dividends paid	**(357)**	(270)	**(2,972)**
Purchase of treasury stock	**(910)**	(2)	**(7,566)**
Net cash provided by (used in) financing activities	**7,242**	(4,610)	**60,249**
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	**(1,471)**	21	**(12,243)**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**14,308**	(1,821)	**119,034**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**9,615**	11,436	**79,994**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥23,923**	¥ 9,615	**$ 199,028**

See notes to consolidated financial statements.

SHiDAX CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

Years Ended March 31, 2003 and 2002

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 Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan ("Japan GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

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 2002 financial statements to conform to the classifications used in 2003, and the notes include information which is not required under Japan GAAP but is presented herein as additional information.

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 ¥120.20 to U.S.$1, the approximate rate of exchange at March 31, 2003. Such translation 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 accompanying consolidated financial statements as of March 31, 2003 include the accounts of the Company, SHiDAX FOOD SERVICE CORPORATION ("SFSC"), SHiDAX COMMUNITY CORPORATION ("SCC"), SLOGIX CORPORATION and four other significant (four in 2002) wholly owned subsidiaries (collectively, the "Group").

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. None of the unconsolidated subsidiaries and affiliates is accounted for by the equity method.

Investments in two unconsolidated subsidiaries and seven (nine in 2002) affiliates are accounted for 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 excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiaries at the date of acquisition is being amortized over a period of 20 years.

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.

On March 28, 2002, all shares of common stock of Shidax USA Ltd. were sold and, therefore, only the consolidated statement of operations of Shidax USA Ltd. and its consolidated subsidiary was included in the consolidated financial statements of the Group for the year ended March 31, 2002.

On April 2, 2001, the Company was established by way of stock transfers with SFSC and SCC. As a result of this transaction, each of SFSC and SCC has become a wholly owned subsidiary of the Company.

In accordance with "Accounting for the Consolidation of the Holding Company Established by Stock Exchange or Stock Transfers" (JICPA Accounting Committee Research Report No. 6), SCC was identified as the acquiring enterprise, and the purchase method was applied to SFSC. The purchase method accounts for a business combination as the acquisition of one enterprise by another. The acquiring corporation shall record at its cost the acquired assets less liabilities assumed. A difference between the sum of the fair values of tangible and identifiable intangible assets less liabilities assumed and the cost of an acquired enterprise shall be recorded as negative goodwill, when the fair value of net assets exceeds the cost of acquisition. The reported income of an acquiring corporation shall include the operations of the acquired enterprise after acquisition, based on the cost to the acquiring corporation.

In addition, the consolidated statements of income give effect to the transaction as if the transaction occurred at the beginning of the fiscal year presented. As there are no accounting requirements for the financial statements to be restated for prior periods under Japan GAAP, the opening balances of the fiscal year 2002 in the consolidated statements of shareholders' equity are presented, assuming the Company had existed as of April 1, 2001.

b. Cash and 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, call deposits and special deposits, all of which mature or become due within three months of the date of acquisition.

***c. Inventories*—**Merchandise is stated at cost determined by the monthly average method. Raw materials and supplies are stated at the most recent purchase price that approximates cost determined by the first-in, first-out method.

***d. Property and Equipment*—**Property and equipment are stated at cost. Depreciation is computed by using the straight-line method over the estimated useful lives of the respective assets. Their estimated useful lives range principally from 8 to 47 years for buildings and structures and from 2 to 10 years for furniture and equipment.

***e. Investment Securities*—**Investment securities are classified as available-for-sale securities, which are not classified as either of (1) trading securities, which are held for the purpose of earning capital gains in the near term are reported at fair value, and the related unrealized gains and losses are included in earnings, or (2) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost. Available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity.

The cost of securities sold is determined based on the average 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.

***f. Software*—**Software used for internal purpose is capitalized and stated at cost, less accumulated amortization. Amortization is computed by using the straight-line method over 5 years, the estimated useful life of software.

***g. Other Assets*—**Goodwill and long-term prepaid expenses are carried at cost less accumulated amortization, which is calculated by using the straight-line method over 5 years for goodwill held by a domestic subsidiary and 20 years for goodwill held by a foreign subsidiary and 3 to 20 years for long-term prepaid expenses.

***h. 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.

***i. Liability for Employees' Retirement Benefits*—**The Group has a contributory funded pension plan covering substantially all of its employees. The Group accounted for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date. Actuarial gain or loss calculated at the beginning of each fiscal year is amortized using the straight-line method starting in the following fiscal year. Amortization period ranges from 6 to 7 years, determined based upon the average length of service expected to be provided by employees to the Group until their termination.

***j. 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 Company's internal policy if all directors and corporate auditors retired at each balance sheet date.

***k. Negative Goodwill*—**Negative goodwill represents the excess of the fair value of the net assets of the acquired subsidiary or affiliate at the date of acquisition over the cost of an acquisition. Negative goodwill on acquisition of subsidiaries is amortized using the straight-line method over 20 years.

***l. Leases*—**All leases are accounted for as operating leases. Under Japan GAAP 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.

***m. 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 taxes are measured by applying currently enacted tax laws to the temporary differences.

***n. Accounting for Consumption Taxes*—**The consumption tax imposed on revenue from customers for the Group's service is withheld by the Group at the time of receipt and subsequently paid to the national 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.

o. Appropriations of Retained Earnings**—**Appropriations of retained earnings are reflected in the consolidated financial statements for the following year upon shareholders' approval.

p. Foreign Currency Transactions**—**All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income to the extent that they are not hedged by forward exchange contracts.

q. Foreign Currency Financial Statements**—**Revenue and expense accounts of the consolidated foreign subsidiaries were translated into yen at the average exchange rate for the year ended March 31, 2002.

r. Derivatives and Hedging Activities**—**The Group uses derivative financial instruments to manage its exposures to fluctuations in interest rates. Interest rate swaps and interest rate caps 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 and foreign currency transactions are classified and accounted for as follows: (a) all derivatives be recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the income statement 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 and interest rate caps are utilized to hedge interest rate exposures of long-term debt. These swaps and caps 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 and cap agreements are recognized and included in interest expenses or income.

s. Per Share Information**—**Effective April 1, 2002, the Group adopted a new accounting standard for earnings per share of common stock issued by the Accounting Standards Board of Japan. Under the new standard, basic net income per share is computed by dividing net income available to common shareholders, which is more precisely computed than under previous practices, 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 178,200 shares for 2003 and 178,596 shares for 2002. The basic net income per share for the fiscal year 2002 would have been decreased by ¥279.96 to ¥34,655.81 had the new standard been applied for the fiscal year 2002.

Diluted net income per share is not disclosed because no warrant bonds or convertible bonds are issued.

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.

3. ACCOUNTING CHANGE

Prior to October 1, 2002, merchandise inventories in the SLOGIX business segment were stated at the most recent purchase price that approximates cost determined by the first-in, first-out method. Effective October 1, 2002, such costs for merchandise inventory are determined by the monthly average method. The effect of this change was to increase both operating income and income before income taxes for the year ended March 31, 2003 by ¥1.3 million ($11 thousand). In addition, both operating income and income before income taxes for the six-month period ended September 30, 2002 would have been increased by ¥1.0 million ($8 thousand) had the new method been applied for the first six months of the fiscal year 2003.

4. SHORT-TERM INVESTMENTS

Short-term investments at March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Time deposits	**¥270**	¥836	**$2,248**
Special deposits	**422**		**3,510**
Total	**¥692**	¥836	**$5,758**

5. INVENTORIES

Inventories as of March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Merchandise	**¥ 490**		**$4,074**
Raw materials	**433**	¥ 891	**3,605**
Supplies	**143**	148	**1,189**
Total	**¥1,066**	¥1,039	**$8,868**

6. INVESTMENT SECURITIES

Investment securities as of March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Non-current:			
Marketable equity securities	**¥107**	¥216	**$ 886**
Non-marketable equity securities	**292**	281	**2,434**
Other	**223**	303	**1,858**
Total	**¥622**	¥800	**$5,178**

The carrying amounts and aggregate fair values of investment securities at March 31, 2003 and 2002 were as follows:

	Millions of Yen			
March 31, 2003	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	**¥104**	**¥10**	**¥ 7**	**¥107**
Other	**247**		**24**	**223**
March 31, 2002				
Securities classified as available-for-sale:				
Equity securities	216	9	9	216
Other	414		111	303

	Thousands of U.S. Dollars			
March 31, 2003	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	**$ 863**	**$80**	**$ 57**	**$ 886**
Other	**2,053**		**195**	**1,858**

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2003 and 2002 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Available-for-sale—Equity securities	**¥292**	¥281	**$2,434**

For other than temporary decline where fair values of securities at the end of the fiscal year become less than 60% of acquisition costs or fair values of securities declines by more than 30% of 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, 2003 and 2002, impairment losses of ¥280 million ($2,332 thousand) and ¥283 million, respectively, for non-current marketable equity securities were recognized.

The carrying values of other securities by contractual maturities for securities classified as available-for-sale at March 31, 2003 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due after one year through five years	**¥ 86**	**$ 718**
Due after five years through ten years	**46**	**378**
Total	**¥132**	**$1,096**

7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings as of March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Short-term borrowings:			
From banks, 1.600% to 1.875% (1.375% to 1.875% in 2002)	**¥1,922**	¥6,142	**$15,990**
From other, 1.600% (1.600% in 2002)	**67**	42	**555**
Total	**¥1,989**	¥6,184	**$16,545**

Long-term debt as of March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Unsecured 0.29% Japanese yen bonds due 2003		¥ 3,100	
Loans from banks, 0.980% to 2.855% (1.400% to 2.855% in 2002), due serially to 2008:			
Collateralized	**¥ 795**	408	**$ 6,614**
Unsecured	**36,160**	19,169	**300,833**
Installment payable for equipment, 3.120% to 4.660% (3.100% to 4.800% in 2002), due serially to 2006:			
Collateralized	**43**	151	**353**
Unsecured	**3,249**	1,595	**27,033**
Unsecured installment notes payable for equipment, 4.570% to 4.750% (4.100% to 4.800% in 2002), due serially to 2006	**242**	3,534	**2,016**
Total	**40,489**	27,957	**336,849**
Less current portion	**(13,742)**	(11,858)	**(114,330)**
Long-term debt, less current portion	**¥ 26,747**	¥ 16,099	**$ 222,519**

Collateralized loans from banks of ¥235 million ($1,955 thousand) as of March 31, 2003 were included in a current portion of long-term debt.

Annual maturities of long-term debt as of March 31, 2003 for the next five years were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2004	**¥13,742**	**$114,330**
2005	**9,577**	**79,676**
2006	**7,890**	**65,641**
2007	**5,956**	**49,554**
2008	**3,324**	**27,648**
Total	**¥40,489**	**$336,849**

The carrying amounts of assets pledged as collateral for long-term debt of ¥795 million ($6,614 thousand) and installment payable for equipment of ¥43 million ($353 thousand) at March 31, 2003 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Land	**¥ 49**	**$ 406**
Buildings and structures	**808**	**6,720**
Furniture and equipment	**16**	**146**

8. EMPLOYEES' RETIREMENT BENEFITS

Under the pension plan, employees terminating their employment are, in most circumstances, entitled to pension payments based on their average pay during their employment, length of service and certain other factors.

The liability for employees' retirement benefits, including the governmental pension program managed by the Company on behalf of the government, at March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Projected benefit obligation	**¥13,317**	¥12,286	**$110,793**
Fair value of plan assets	**(6,260)**	(6,953)	**(52,080)**
Unrecognized actuarial gain	**(2,541)**	(1,454)	**(21,144)**
Net liability	**¥ 4,516**	¥ 3,879	**$ 37,569**

The components of net periodic benefit costs for the years ended March 31, 2003 and 2002 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Service cost	**¥ 674**	¥ 822	**$5,611**
Interest cost	**307**	379	**2,555**
Expected return on plan assets	**(69)**	(173)	**(578)**
Recognized actuarial loss	**242**	299	**2,015**
Net periodic benefit costs	**¥1,154**	¥1,327	**$9,603**

Other than the above benefit costs, the Company recorded ¥25 million ($204 thousand) and ¥49 million of special severance payments for early retired employees for the years ended March 31, 2003 and 2002, respectively.

Assumptions used for the years ended March 31, 2003 and 2002 are set forth as follows:

	2003	2002
Discount rate	**2.5%**	2.5%
Expected rate of return on plan assets	**1.0%**	2.5%
Recognition period of actuarial gain/loss	**6 to 7 years**	6 to 7 years

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 Japanese Commercial Code (the "Code"). 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, 2003 and 2002 were ¥25 million ($207 thousand) and ¥424 million, respectively.

10. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Code to which certain amendments became effective from October 1, 2001.

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The revised Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders meeting and dispose of such treasury stock by resolution of the Board of Directors beginning April 1, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

The amount of retained earnings available for dividends under the Code was ¥8,183 million ($68,081 thousand) as of March 31, 2003, based on the amount recorded in the parent company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

At the general shareholders meeting held on June 27, 2002, the Company was authorized to repurchase, at management's discretion, up to 10,000 shares of the Company's common stock with an aggregate amount of ¥2,000 million for the purpose of improving the financial position of the Company or establishing additional stock option programs. Upon the approval, the Company repurchased 7,650 shares with an aggregate amount of ¥903 million ($7,510 thousand) during the fiscal year 2003. All of the repurchased shares were held in treasury stock as of March 31, 2003.

On April 2, 2001, the Company was established by way of stock transfer with SFSC and SCC at the rate of 1.00 share for each 100 shares of SFSC and 164 shares of SCC.

Total of 178,607 shares were issued to shareholders of record of SFSC and SCC on March 31, 2001.

11. LEASES

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

Total lease payments under finance leases that do not transfer ownership of the leased property to the lessee for the years ended March 31, 2003 and 2002 were ¥4,086 million ($33,992 thousand) and ¥3,409 million, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance lease, depreciation expense, interest expense 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, 2003 and 2002 was as follows:

	Millions of Yen								Thousands of U.S. Dollars			
	2003				2002				**2003**			
	Equipment	Furniture and Fixtures	Computer Software	Total	Equipment	Furniture and Fixtures	Computer Software	Total	Equipment	Furniture and Fixtures	Computer Software	Total
Acquisition cost	**¥47**	**¥19,727**	**¥35**	**¥19,809**	¥68	¥15,486	¥36	¥15,590	**$396**	**$164,116**	**$289**	**$164,801**
Accumulated depreciation	**37**	**7,018**	**29**	**7,084**	51	6,998	22	7,071	**314**	**58,383**	**236**	**58,933**
Net leased property	**¥10**	**¥12,709**	**¥ 6**	**¥12,725**	¥17	¥ 8,488	¥14	¥ 8,519	**$ 82**	**$105,733**	**$ 53**	**$105,868**

Obligations under finance leases as of March 31, 2003 and 2002:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Due within one year	**¥ 3,904**	¥2,765	**$ 32,476**
Due after one year	**9,013**	6,031	**74,985**
Total	**¥12,917**	¥8,796	**$107,461**

In addition to the above, the Group subleases to third parties certain assets which are originally leased under finance leases by the Group. The sublease terms are the same as the original finance lease agreements. As of March 31, 2003 and 2002, relating to these subleases, the Group has each of lease receivable and lease obligations under finance leases with the balance of ¥5 million ($38 thousand) and ¥2 million, of which ¥3 million ($24 thousand) and ¥0.7 million, respectively, were due within one year.

Depreciation expense and interest expense under finance leases for the years ended March 31, 2003 and 2002:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Depreciation expense	**¥3,644**	¥3,020	**$30,317**
Interest expense	**492**	379	**4,091**
Total	**¥4,136**	¥3,399	**$34,408**

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 at March 31, 2003 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	**¥2**	**$20**
Due after one year	**4**	**29**
Total	**¥6**	**$49**

12. 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 approximately 42% for the years ended March 31, 2003 and 2002. The tax effects of significant temporary differences and loss carryforwards that resulted in deferred tax assets and liabilities at March 31, 2003 and 2002 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Deferred tax assets:			
Liability for employees' retirement benefits	¥1,829	¥1,664	$15,214
Bonuses	513	569	4,266
Valuation losses of investment securities	343	231	2,853
Unpaid pension premium	33	190	275
Retirement allowances for directors and corporate auditors	161	169	1,343
Depreciation and amortization	618	516	5,140
Property and equipment	47	49	394
Enterprise tax	149	540	1,239
Allowance for doubtful accounts	845	905	7,029
Unrealized loss on available-for-sale securities		47	
Tax loss carryforwards	2,255		18,760
Other	173	48	1,436
Less valuation allowance	(1,641)		(13,648)
Deferred tax assets	5,325	4,928	44,301
Deferred tax liabilities— Property and equipment	223	232	1,859
Net deferred tax assets	¥5,102	¥4,696	$42,442

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2003 and 2002 is as follows:

	2003	2002
Normal effective statutory tax rate	42.05%	42.05%
Permanent differences	1.27	0.32
Inhabitants taxes—per capita	5.98	3.78
Dividend income not deductible for income tax purposes	(7.84)	
Valuation allowance	6.54	
Tax on undistributed profits	0.84	1.89
Effect of tax rate reduction	3.58	
Other—net	1.74	(1.12)
Actual effective tax rate	54.16%	46.92%

On March 31, 2003, a tax reform law was enacted in Japan, which changed the normal effective statutory tax rate from approximately 42.05% to 40.49%, effective for the year beginning April 1, 2004. The effect of this change was to decrease deferred tax assets as of March 31, 2003 by ¥165 million ($1,372 thousand) and to increase income taxes—deferred in the consolidated statements of income for the year ended March 31, 2003 by ¥165 million ($1,369 thousand).

13. PLEDGED ASSETS

Time deposit of ¥15 million ($125 thousand) was pledged as deposit for security for dealing as of March 31, 2003. In addition, special deposits of ¥422 million ($3,510 thousand) in short-term investments were restricted under the escrow clause of the stock purchase agreement of Shidax USA Ltd. as of March 31, 2003.

14. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Payroll	¥1,857	¥3,001	$15,446
Commissions	686	848	5,710
Provision for accrued bonuses	238	175	1,979
Retirement benefit costs	182	269	1,510
Provision for retirement allowances	18	10	147
Depreciation and amortization	304	311	2,531
Provision for allowance for doubtful accounts	71	33	594
Other	3,616	3,803	30,085
Total	¥6,972	¥8,450	$58,002

15. 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 and interest rate caps.

The Group has purchased interest rate swaps and interest rate caps to limit the unfavorable impact from increases in interest rates on floating-rate long-term debt. The interest rate swaps and interest rate caps 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 derivative and pays interests on long-term debt at fixed rates. Therefore, the Group believes 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 done by the Finance Department. Each derivative transaction is periodically reported to the management, where evaluation and analysis of derivatives are made. In addition, the Group confirms with financial institutions a notional amount and other information of each derivative transactions at the fiscal year end.

All of the Group's derivative contracts qualified for hedge accounting for the years ended March 31, 2003 and 2002 and, therefore, excluded from the disclosure of market value information.

16. 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, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Advertising revenue	**¥28**	¥42	**$230**
Purchase of meal tickets		4	
Purchase of common stock		25	

17. SEGMENT INFORMATION

The Group operates in the following industries:

"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" consists of managements of large entertainment restaurants and online karaoke houses.
"SLOGIX Businesses" consists of sales of foodstuff to office food service businesses and a restaurant industry.
"Others" consists of selling foodstuff to and providing support of clerical work for food service of business offices or catering industry.

Information about industry segments, geographical segments and sales to foreign customers of the Group for the years ended March 31, 2003 and 2002 is as follows:

(1) Industry Segments

a. Sales and Operating Income

	Millions of Yen						
	2003						
	Contracted Food Services	Medical Food Services	Restaurant and Karaoke Businesses	SLOGIX Businesses	Others	Eliminations/ Corporate	Consolidated
Sales to customers	**¥38,500**	**¥27,139**	**¥50,925**	**¥ 5,968**	**¥ 31**		**¥122,563**
Intersegment sales	**3**		**1**	**26,486**		**¥(26,490)**	
Total sales	**38,503**	**27,139**	**50,926**	**32,454**	**31**	**(26,490)**	**122,563**
Operating expenses	**36,679**	**27,233**	**43,101**	**31,662**	**58**	**(23,082)**	**115,651**
Operating income (loss)	**¥ 1,824**	**¥ (94)**	**¥ 7,825**	**¥ 792**	**¥(27)**	**¥ (3,408)**	**¥ 6,912**

b. Total Assets, Depreciation and Amortization and Capital Expenditures

	Millions of Yen						
	2003						
	Contracted Food Services	Medical Food Services	Restaurant and Karaoke Businesses	SLOGIX Businesses	Others	Eliminations/ Corporate	Consolidated
Total assets	**¥7,340**	**¥5,786**	**¥54,735**	**¥7,074**	**¥7**	**¥22,615**	**¥97,557**
Depreciation and amortization	**166**	**111**	**2,388**	**114**		**132**	**2,911**
Capital expenditures	**344**	**250**	**6,342**	**31**		**307**	**7,274**

a. Sales and Operating Income

	Thousands of U.S. Dollars						
	2003						
	Contracted Food Services	Medical Food Services	Restaurant and Karaoke Businesses	SLOGIX Businesses	Others	Eliminations/ Corporate	Consolidated
Sales to customers	**$320,297**	**$225,786**	**$423,665**	**$ 49,651**	**$ 261**		**$1,019,660**
Intersegment sales	**27**		**12**	**220,348**		**$(220,387)**	
Total sales	**320,324**	**225,786**	**423,677**	**269,999**	**261**	**(220,387)**	**1,019,660**
Operating expenses	**305,153**	**226,566**	**358,575**	**263,412**	**489**	**(192,036)**	**962,159**
Operating income (loss)	**$ 15,171**	**$ (780)**	**$ 65,102**	**$ 6,587**	**$(228)**	**$ (28,351)**	**$ 57,501**

b. Total Assets, Depreciation and Amortization and Capital Expenditures

	Thousands of U.S. Dollars						
	2003						
	Contracted Food Services	Medical Food Services	Restaurant and Karaoke Businesses	SLOGIX Businesses	Others	Eliminations/ Corporate	Consolidated
Total assets	**$61,065**	**$48,137**	**$455,369**	**$58,849**	**$59**	**$188,146**	**$811,625**
Depreciation and amortization	**1,385**	**921**	**19,867**	**952**		**1,097**	**24,222**
Capital expenditures	**2,858**	**2,081**	**52,758**	**260**	**1**	**2,556**	**60,514**

a. Sales and Operating Income

	Millions of Yen					
	2002					
	Contracted Food Services	Medical Food Services	Restaurant and Karaoke Businesses	Others	Eliminations/ Corporate	Consolidated
Sales to customers	¥72,823	¥22,571	¥43,598	¥1,312		¥140,304
Intersegment sales	2			2,930	¥(2,932)	
Total sales	72,825	22,571	43,598	4,242	(2,932)	140,304
Operating expenses	70,642	22,229	36,826	3,914	(156)	133,455
Operating income	¥ 2,183	¥ 342	¥ 6,772	¥ 328	¥(2,776)	¥ 6,849

b. Total Assets, Depreciation and Amortization and Capital Expenditures

	Millions of Yen					
	2002					
	Contracted Food Services	Medical Food Services	Restaurant and Karaoke Businesses	Others	Eliminations/ Corporate	Consolidated
Total assets	¥7,316	¥5,744	¥52,410	¥ 2,268	¥22,168	¥89,906
Depreciation and amortization	365	84	2,089	30	82	2,650
Capital expenditures	235	158	7,282	548	580	8,803

Notes: 1. Operating expenses mainly incurred in administrative departments were unallocatable and included in "Eliminations/Corporate" of operating expenses with the aggregate amounts of ¥3,516 million ($29,255 thousand) and ¥2,866 million for the years ended March 31, 2003 and 2002, respectively.

2. Total corporate assets of ¥37,926 million ($315,524 thousand) and ¥22,314 million included in "Eliminations/Corporate" of total assets as of March 31, 2003 and 2002, respectively, mainly consisted of operating funds (cash and cash equivalents), long-term investment funds (investment securities), assets used in administrative departments and receivables arising from the sale of a subsidiary's stock.

3. Due to significant business expansion in SLOGIX businesses, the Company added "SLOGIX Businesses" to the industry segment section from the fiscal year 2003 in order to disclose current status of the Group's business operations more appropriately. The following is the industry segment information for the fiscal year 2002, retroactively adjusted upon the newly applied industry segmentation:

a. Sales and operating income

	Millions of Yen						
	2002						
	Contracted Food Services	Medical Food Services	Restaurant and Karaoke Businesses	SLOGIX Businesses	Others	Eliminations/ Corporate	Consolidated
Sales to customers	¥72,823	¥22,571	¥43,598	¥ 1,108	¥204		¥140,304
Intersegment sales	2			2,928	2	¥ (2,932)	
Total sales	72,825	22,571	43,598	4,036	206	(2,932)	140,304
Operating expenses	70,642	22,229	36,826	3,742	172	(156)	133,455
Operating income	¥ 2,183	¥ 342	¥ 6,772	¥ 294	¥ 34	¥ (2,776)	¥ 6,849

b. Total assets, depreciation and amortization and capital expenditures

	Millions of Yen						
	2002						
	Contracted Food Services	Medical Food Services	Restaurant and Karaoke Businesses	SLOGIX Businesses	Others	Eliminations/ Corporate	Consolidated
Total assets	¥ 7,316	¥ 5,744	¥52,410	¥ 2,111	¥157	¥ 22,168	¥ 89,906
Depreciation and amortization	365	84	2,089	30		82	2,650
Capital expenditures	235	158	7,282	548		580	8,803

(2) Geographical Segments

The Company and subsidiaries were located and conduct their operations in Japan in the fiscal year 2003, therefore geographical segment information for the year ended March 31, 2003 was not presented.

	Millions of Yen			
	2002			
	Japan	North America	Eliminations/ Corporate	Consolidated
Sales to customers	¥106,162	¥34,142		¥140,304
Operating expenses	96,403	34,186	¥ 2,866	133,455
Operating income (loss)	¥ 9,759	¥ (44)	¥ (2,866)	¥ 6,849
Total assets	¥ 67,592		¥22,314	¥ 89,906

Notes: 1. North America mainly consists of the United States of America.
2. No assets belong to "North America" as of March 31, 2002, due to the sales of the subsidiaries located in the United States of America, as described in Note 2.a.
3. Operating expenses mainly incurred in administrative departments were unallocatable and included in "Eliminations/Corporate" of operating expenses with the aggregate amount of ¥2,866 million for the year ended March 31, 2002.
4. Total corporate assets of ¥22,314 million included in "Eliminations/Corporate" of total assets as of March 31, 2002 mainly consisted of receivable arising from the sale of the subsidiary's stock, surplus operating funds (cash and cash equivalents), long-term investment funds (investment securities) and assets used in administrative departments.

(3) Sales to Foreign Customers

No sales to foreign customers were recorded for the year ended March 31, 2003, therefore such information was not presented.

	Millions of Yen	
	2002	
	North America	Total
Sales to foreign customers (A)	¥34,142	¥ 34,142
Consolidated sales (B)		140,304
(A)/(B)	24.3%	24.3%

18. SUBSEQUENT EVENTS

a. Stock Option Program

At the general shareholders meeting held on June 27, 2003, shareholders of the Company approved a stock option program. The program provides for granting options to directors, corporate auditors and key employees of the Group to purchase up to 20,000 shares of the common stock of the Company in the period from April 1, 2006 to September 30, 2008. The options will be granted at an exercise price determined based upon the average closing market price for a month preceding the month of option grant, multiplied by 1.05. If such average market price is lower than the closing market price of a day before the date of option grant, then the stock option price will be fixed as the closing market price as of the day before the date of option grant. The exercise price will be adjusted for subsequent stock split or issuance of common stock with a lower price than fair value, based upon certain formulas, as defined. The exercise price will be also adjusted for stock split, stock consolidation or any other events which requires price adjustments after the date of option grant, based upon certain formulas, as defined. There are certain restrictions in exercising the stock option right.

b. Purchase of Treasury Stock

At the general shareholders meeting held on June 27, 2003, the Company was authorized to repurchase, at management's discretion, up to 30,000 shares of the Company's common stock with an aggregate amount of ¥2,000 million ($16,639 thousand) for the purpose of improving the financial position of the Company.

c. Appropriation of Retained Earnings

The following appropriations of retained earnings at March 31, 2003 were approved at the Company's shareholders meeting held on June 27, 2003:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥3,000 ($24.96) per share	**¥513**	**$4,266**
Bonuses to directors and corporate auditors	**76**	**632**

d. Stock Split

On May 20, 2003, upon resolution and approval of the Board of Directors on November 25, 2002, the Company made a stock split by way of a free share distribution at the rate of 2 shares for each outstanding share, and 178,607.31 shares of common stock with no par value were issued to shareholders of record on March 31, 2003. Stated capital was not changed as a result of this stock split. The starting date of the dividend computation for the stock issued upon the stock split was set on April 1, 2003.

Given that this stock split had been made on April 1, 2002 and 2001, the basic net income per share for the years ended March 31, 2003 and 2002, would have been changed to ¥5,652.20 ($47.02) and ¥17,327.90, respectively. The weighted-average number of common shares used in this computation was 357,215 for 2003 and 2002.

e. Stock Acquisition

On April 2, 2003, upon resolution and approval of the Board of Directors on February 14, 2003, the Company acquired 100% of the shares of RESTAURANT MONTE ROSA Co., Ltd. ("MONTE ROSA") for the aggregate amount of ¥1,368 million ($11,381 thousand) from TOKYU DEPARTMENT STORE CO., LTD. The following is the company profile of MONTE ROSA as of January 31, 2003 (the most recent data available):

Main business:	Restaurant management
Net sales:	¥2,058 million ($17,120 thousand)
Net income:	¥4 million ($36 thousand)
Assets:	¥1,524 million ($12,676 thousand)
Liabilities:	¥1,388 million ($11,543 thousand)
Shareholders' equity:	¥136 million ($1,133 thousand)

19. SUPPLEMENTAL CASH FLOW INFORMATION

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Cash paid during the year for interest	**¥776**	¥846	**$6,456**

The following is the balance sheet information of Shidax USA Ltd. and Bon Appétit Management Company as of March 28, 2002, which were deconsolidated at the end of the fiscal year 2002 due to the sales of their common stock (see Note 2.a):

	Millions of Yen
Current assets	¥4,456
Non-current assets	6,733
Current liabilities	3,463
Non-current liabilities	185
Minority interests	155

As noted in Note 2.a, the purchase method was applied to SFSC as the acquired company. Therefore, cash and cash equivalents of ¥8,486 million held by SFSC and its consolidated subsidiaries as of April 2, 2001, are presented as "Proceeds from acquisition of subsidiaries' stock" on the consolidated statements of cash flows of the Group.

The following are the balance sheet information of SFSC and its consolidated subsidiaries as of April 2, 2002 and the additional information regarding the acquisition of common stock of SFSC and its consolidated subsidiaries (see Note 2.a):

	Millions of Yen
Current assets	¥22,967
Non-current assets	11,584
Deferred assets	33
Current liabilities	(14,391)
Non-current liabilities	(19,945)
Minority interests	(248)
Acquisition costs	
Cash and cash equivalents	8,486
Proceeds from acquisition of subsidiaries' stock	¥ 8,486

The above amounts include cash dividends of ¥131 million and bonuses to directors and corporate auditors of ¥50 million, which were approved at the general shareholders meeting of SFSC held on June 21, 2001. In addition, cash and cash equivalents of ¥8,486 million held by SFSC and its consolidated subsidiaries were included in current assets.

Non-cash Investing Activities

Receivables of ¥15,521 million, arising from the sales of common stock of Shidax USA Ltd. and Bon Appétit Management Company, were presented as accounts receivable—other on the consolidated balance sheets at March 31, 2002.

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Deloitte Touche Tohmatsu

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
SHIDAX CORPORATION:

We have audited the accompanying consolidated balance sheets of SHIDAX CORPORATION and consolidated subsidiaries (collectively, the "Group") as of March 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, 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, procedures and practices generally accepted and applied 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 the Group as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

As discussed in Note 3 to the consolidated financial statements, effective October 1, 2002, the Group changed its method of accounting for inventories.

As discussed in Note 17 to the consolidated financial statements, the Group changed its industry segmentation from the year ended March 31, 2003.

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.

Deloitte Touche Tohmatsu

June 27, 2003