

## Attached materials

### Status of the corporate group

The corporate group of the Company consists of the Company and its affiliated companies. The company engages in operating beauty salons based on the “Beauty Therapist Law” (called “beauty shops” under that Law). At the beauty salons, beauty therapists with national licenses provide customers with beauty therapy treatments (treatments such as haircuts, perms, and hair-coloring), and sell hair-care products suitable for those customers.

Tease Co., Ltd., an affiliated company of the Company, engages in a real estate leasing business, but has no business related to that of the Company.

[Business system diagram]



## **1. Management policy**

### **1-1. Basic management policy**

The Company aims to enhance the techniques, creativity, sensitivity and service quality of its beauty therapists, while placing the greatest emphasis throughout its businesses on the use of outstanding practical techniques. Our Company's principal goal is to add beauty to the lives of our customers through beauty therapy treatments, in line with the Company's mission statement: "Our contribution to society is to give hopes and dreams to all people."

The Company acknowledges that its role in society, in conducting its businesses, is to pursue the four goals of customer satisfaction, shareholder satisfaction, employee satisfaction, and community satisfaction.

### **1-2. Basic dividend policy**

It is the Company's basic policy to ensure the stable distribution of dividends to its shareholders, to return profits to them that correspond to the Company's business results, and to make every effort to expand its operations. The retained earnings of the Company will be used to strengthen the financial position of the Company by maximizing corporate value, and to expand its businesses in the future, in order to meet shareholders' expectations.

### **1-3. Targeted financial indexes**

The Company will aim at the major financial indexes as shown below:

- (1) Return on shareholders' equity ...15%
- (2) Ratio of ordinary income to sales ...10%
- (3) Current net profit per share ...150 yen

### **1-4. Medium to long-range corporate strategy**

To strengthen revenue sources and to restructure the management base, the Company has reviewed its current medium-term corporate plan, known as the 30 billion-yen plan, and formulated a new medium-term corporate plan this year. This new plan incorporates a three-year plan, five-year plan and seven-year plan. The Company will start the new management system in April this year, and make every effort to implement the system. The outline of the plan is as follows:

#### Medium-term corporate plan

Phase 1 (Target year: Term ending March 2006)

Focusing on improved profitability, with the aim of recovering gross margin to 20%

Phase 2 (Target year: Term ending March 2008)

Aiming to increase the number of salons and shops while maintaining profitability, and establishing a strong management base

Phase 3 (Target year: Term ending March 2010)

Aiming for annual sales of 30 billion yen

## Medium-term corporate strategy

### (1) In pursuit of customer satisfaction

From April 2003, the Company will regard itself as a company starting up for the second time with renewed entrepreneurial spirit and renewed emphasis on its original goals in the services industry. The Company will systematize the expertise it has accumulated, and strive to provide the patrons to its beauty salons with services based on the slogan of “Workshop of Excellence” so that every beauty salon in the Company will provide the best customer satisfaction in each area. Through these efforts, the Company will be able to improve its repeat ratio for customers, prevent the loss of customers and maximize the number of regular customers. In Phase 1, the Company will focus on retaining customers, and increase and solidify customer equity, which is part of the Company’s assets.

### (2) Measures to increase the number of beauty salons

Of the six brands of beauty salons that the Company has been developing, the opening of the new Shampoo salons, which feature being quick, safe and inexpensive will be given top priority. The salons will be introduced along the JR and private railway lines in the Tokyo metropolitan, Kansai and other areas.

In addition to Shampoo salons, the Company has opened designer brand salons such as TAYA and TAYA & CO. GINZA (hereinafter referred to as called “designer brand salons”). These salons are being opened primarily in commercial complexes and terminal buildings in city centers. The Company will open new salons on busy streets and in residential areas, too, by selecting the locations carefully to improve the brand recognition.

In addition, the Company will open other salons by combining the features of the designer brand salons and the Shampoo salons so that customers can receive the services they prefer based on their needs.

### (3) Efficient operations

The Company has streamlined operations at its headquarters, and computerized and diversified its administrative processes. Thanks to continuous improvements in productivity in the administrative divisions, technical training for personnel, sales promotion activities, and cost reduction through the elimination of waste, the Company is close to establishing a system that can restrain any increases in expenses related to selling and general administration.

The Company will continue to maximize cost reductions, and improve profitability by reducing the ratio of selling, general and administrative expenses to the 7 percent in the final target year.

In addition, each salon will reduce costs without sacrificing the quality of customer services by taking advantage of the economies of scale. The economies of scale include cost reductions through the purchase of OEM products and an increase in purchase rebates, together with the reduction of common expenses including those for advertisement and consumables.

To improve productivity and reduce the ratio of personnel expenses in labor-intensive beauty salons, the Company will strive to accumulate customers, deploy personnel properly through flexible personnel transfers in each salon, improve the efficiency of personnel management and increase revenue.

### **1-5. Corporate strategy and problems of the Company**

In accordance with its mission statement, the Company will keep on creating an environment that benefits its customers, regardless of age, sex or nationality. The Company, as a leading company in the beauty therapy industry, will pursue profitability and growth, with an emphasis on the development of new technology, training of employees, dissemination of information, an increase in the number of its beauty salons, and reasonable cost reductions.

The Company will also cope flexibly and quickly with changes in its environment such as economic conditions and social situations, and work hard to improve and strengthen the Company's corporate structure.

### **1-6. The basic concept of corporate governance and the implementation of related measures**

<Basic concept of corporate governance>

The Company considers that the establishment of an organizational system, which is sound, transparent and responsive to the changes in the management environment, and which can facilitate prompt, appropriate decision-making, is a very important management issue.

<Implementation of measures related to corporate governance>

The Company has positioned the board of directors at the core of its management strategy. At the end of the current term, there will be thirteen directors (the Company has no outside directors). The board holds discussions at its monthly meetings and makes its decisions at that time. Special meetings of the board of directors are held whenever necessary. Directors are jointly and severally responsible for the Company's management and the conduct of its operations.

Three statutory auditors, including two external statutory auditors, attend the meetings of the board of directors and other important meetings and have carried out investigations and audits of the business and financial conditions of the Company. The statutory auditors also supervise the execution of duties by the directors. One external director is a lawyer and the other is a registered tax accountant. The supervision and direction of the Company's compliance issues are functioning properly.

The Audit Section, which will be known as the Internal Audit Section from April 1 this year, was established in the President's office. Five full-time internal auditors are responsible for conducting internal audits to verify that the Company's operations have been conducted lawfully, efficiently and in compliance with the internal regulations of the Company. The internal auditors must report any problems that they find, and provide and recommend measures for improvement, thereby endeavoring to improve the quality and efficiency of operations.

Wako Audit Corporation is the Company's external auditor, and has audited the financial statements. In addition, it provides advice on other matters, such as management and organizational problems, to the Company whenever necessary.

Over the past year, the Company has held the board of directors' meetings at least once a month to determine the Company's basic policies and important matters. In addition, the Company has promoted the timely disclosure of information to shareholders and investors by disclosing financial statements earlier and by announcing its monthly sales

information through its homepage on the fifteenth of every month. (The year-end statements are announced 39 days after the end of the year, and the interim financial statements are announced 39 days after the interim term end.)

**1-7. Purpose and policy of the reduced number of unit shares**

As additional incentive for investors to purchase the Company's shares and to promote the trading of these shares, the Company reduced the number of unit shares from 1000 to 100 on August 1, 2000. In addition, the Company may change the number of its unit shares after carefully considering such factors as the stock prices, stock market conditions, related costs and effects. However, the Company has not determined any specific measures or the timing of the changes at present.

## **2. Operating results and financial condition**

### **2-1. Overview of the current term**

The Japanese economy during the current term sank deeper into recession due to the effects of the Iraqi war, prospective concerns about the United States economy and the slowdown in the world stock market. These negative sentiments came against a backdrop of a dearth of decisive government initiatives to escape deflationary influences and provide a solution to the problems for bad loans. In addition, personal consumption that had shown signs of a temporary recovery started to decrease again after the New Year as a result of more severe household circumstances, such as deteriorating employment rates and declining income.

In the beauty therapy industry, increased prudence in personal consumption, less frequent customer visits to salons, lower spending per customer and reductions in the number of new customers became apparent. Intensified competition for customers between companies and beauty salons and lower prices became more prevalent, resulting in conditions surrounding the management environment being worse than we anticipated.

Under these circumstances, the Company directed its efforts to providing services that can satisfy more customers. The Company also opened new salons and shops, and expanded services at all salons and shops in an effort to enhance customer satisfaction.

The Company opened a total of fourteen new beauty salons, including six TAYA beauty salons, seven Shampoo salons and one Courreges Salon Beaute. The Company also converted the Shibuya outlet of MICHEL DERVYN to a Shampoo salon, and converted the outlet of Courreges Salon Beaute in the Toyama Seibu Department Store to a TAYA salon. In addition, the following outlets were relocated: TAYA (Aobadai outlet), Courreges Salon Beaute (Sapporo Robinson outlet), Courreges Salon Beaute (Hiroshima Wiz Wonderland outlet) and Courreges Salon Beaute (Kashiwa Sogo outlet). In addition, the Company completely renovated three Courreges Salon Beaute salons and partially renovated nine Courreges Salon Beaute salons and two Shampoo salons. The Company closed the following five salons: Shampoo (Otaru Vivre outlet), Shampoo (Laforet Harajuku Niigata outlet), Capelli Punto N.Y. (OPAQUE GINZA outlet), Courreges Salon Beaute (Niigata PLAKA outlet) and Shampoo (Kobe Ogasta Plaza outlet).

As a result, 145 beauty salons and two retail shops are directly operated by the Company as of the end of the current term, including 65 TAYA salons, 24 Courreges Salon Beaute outlets, 41 Shampoo salons, six TAYA & CO. GINZA salons, five Capelli Punto N.Y. salons and four Bumble and bumble NEW YORK salons.

As for beauty treatment, the Company released Curling Lotion for hair curl design in the summer, which does not damage hair and enables the hair to be treated with hair coloring on the same day. And in the fall, the Company released a new item, Moisture & Moisture, which is a popular new treatment system. The Company has developed these products from the standpoint of customers who take good care of their hair. The Company also added ten new hair care products by OEM.

But the Company's sales for the existing salons were lower than the previous year because of the severe conditions resulting from the reduced frequency of customer visits to salons, the slowdown in consumption, slower growth in the acquisition of new customers and lower transaction prices per customer resulting from soft product sales.

Despite the Company's efforts to reduce costs, the sales totaled only 14,668 million yen (an increase of 4.6% from the previous year), and ordinary income was 778 million yen (a decrease of 5.0% from the previous year). In addition, net income was 287 million yen (a decrease of 23.1% from the previous year) due to the disposal of fixed assets resulting from the positive implementation of the scrap-and-build scheme that focuses on profitability.

## 2-2. Cash flow

At the end of the current term, cash and cash equivalents (hereinafter called "funds") were 1.858 billion yen due to a decline in pre-tax income to 620 million yen (a decrease of 18.3% from the previous year), capital investments for new shops partially funded by the Company's own funds, and other reasons. As a result, the balance of funds declined by 203 million yen from the previous year (a decline of 9.9% from the previous year).

Details of cash flow during the current term are shown below.

### Cash flow from operating activities

Funds from operating activities amounted to 493 million yen (compared to 665 million yen in the previous year).

### Cash flow from investments

The decline in cash flow is primarily due to the reduction in initial investments resulting from the review of the manner in which new salons and shops are opened and the collection of leasehold deposits resulting from the closure of salons and shops.

### Cash flow from financial activities

The funds used for financial activities in the current term stood at 335 million yen, up from 205 million yen for the previous term, mainly reflecting a net decrease in long-term borrowings of 226 million yen.

	27th term (April 1, 2000 to March 31, 2001)	28th term (April 1, 2001 to March 31, 2002)	29th term (April 1, 2002 to March 31, 2003)
Capital ratio (%)	47.6	48.5	51.3
Mark-to-market capital ratio (%)	142.5	87.6	47.9
Debt retirement (years)	4.0	5.5	4.6
Interest coverage ratio	10.5	9.2	11.1

Capital ratio: Net worth/Total assets

Mark-to-market capital ratio: Total market capitalization/Total assets

Debt retirement: Interest bearing debt/Operating cash flows

Interest coverage ratio: Operating cash flows/Interest payment

\* 1. Total market capitalization was computed based on "closing stock prices at year-end" × "total outstanding shares at year-end."

2. Operating cash flow represents cash flow from operating activities in the cash flow statement. Interest-bearing debt represents all interest-bearing debts recorded on the balance sheet. In addition, interest payments represent the interest payment recorded in the cash flow statement.

## 2-3. Outlook for the next term

It is anticipated that the business environment will continue to be negative due to the

lack of indicators for recovery in personal consumption resulting from likely uncertainty in employment conditions and earning environment. Contributing to the negative environment are the record lows on the stock market since the collapse of the bubble economy.

Under these circumstances, the Company has remained aggressive in opening new salons and shops based on its mission statement: “Our contribution to society is to give hopes and dreams to everyone.” The Company will return to the core of the services industry, and place top priority on customer satisfaction in an effort to acquire new customers and retain existing customers.

The specific measures include establishing the Company’s own system under the slogan of “Workshop of Excellence,” where new customers revisit our salons and shops. We will insist that all staff comply with this slogan, providing customers with a high level of service and care, and creating salons that meet the needs of customers. Concerning beauty treatment, in June this year the Company will release its totally new range of hair coloring, know as “Metallic colors.” The Company will also add a new technique, “Spiral Highlight,” as a hair color technique, and inject new life into the maturing hair color market. For hair care products, the Company will recreate the existing OEM products into better products, and release new items. In June this year, the Company will also release shampoos, conditioners, treatments that provide the effects of color supplements, and mentholated scalp-care shampoos for limited sales during summer. In addition, the Company will open 30 new salons and shops during this term.

As a result of the above factors, sales are expected to be 16.2 billion yen, ordinary income is expected to be 1.23 billion yen and net income is expected to be 510 million yen.



### 3. Financial statements

#### Comparative balance sheet

Unit: thousand yen (amounts of less than thousand yen were rounded down)

Accounts	Term	Previous term (as of March 31, 2002)		Current term (as of March 31, 2003)		Increase or decrease
		Amount	Breakdown	Amount	Breakdown	
(Assets)			%		%	
Current assets						
Cash and deposits		2,064,128		2,053,699		-10,429
Accounts receivable		709,005		574,523		-134,482
Securities		450,473		250,609		-199,864
Merchandise		113,354		86,749		-26,605
Materials for beauty treatments		94,032		82,875		-11,157
Stored goods		40,055		45,992		5,937
Prepaid expenses		127,266		105,364		-21,902
Deferred tax assets		72,859		83,902		11,043
Others		45,481		56,776		11,295
Allowance for bad debts		-21,490		-11,050		10,440
Total current assets		3,695,165	37.3	3,329,443	34.3	-365,722
Fixed assets						
Tangible fixed assets						
Buildings		2,127,758		2,148,017		20,259
Structures		9,153		8,011		-1,142
Equipment and apparatus		23,241		17,838		-5,403
Land		1,461,114		1,461,114		-
Construction in progress		2,509		1,812		-697
Total		3,623,778	36.6	3,636,795	37.5	13,017
Intangible fixed assets		29,137	0.3	29,351	0.3	214
Investments and other assets						
Investments in subsidiaries and affiliated companies		105		105		-
Long-term loans to employees		4,106		16,320		12,214
Bankruptcy reorganization claims		27,755		7,500		-20,255
Long-term prepaid expenses		115,572		126,212		10,640
Long-term deferred tax assets		66,461		79,815		13,354
Key money and guarantee money		2,336,605		2,454,890		118,285
Membership rights		29,850		24,040		-5,810
Long-term bad debt reserves		-29,955		-9,700		20,255
Total		2,550,501	25.8	2,699,184	27.9	148,683
Total fixed assets		6,203,417	62.7	6,365,330	65.7	161,913
Total assets		9,898,582	100.0	9,694,774	100.0	-203,808

Unit: thousand yen (amounts of less than thousand yen were rounded down)

Accounts	Term	Previous term (as of March 31, 2002)		Current term (as of March 31, 2003)		Increase or decrease
		Amount	Breakdown	Amount	Breakdown	
(Liabilities)			%		%	
Current liabilities						
Notes payable		417,658		339,835		-77,823
Trade debts payable		102,395		88,010		-14,385
Short-term loans		264,600		209,400		-55,200
Long-term loans due within one year		673,592		448,668		-224,924
Accounts payable		418,576		378,489		-40,087
Accrued expenses		645,468		610,747		-34,721
Unpaid corporate taxes		142,335		162,970		20,635
Unpaid consumption taxes		119,609		118,505		-1,104
Advanced receipt		2,755		-		-2,755
Deposits received		79,741		32,562		-47,179
Deferred income		1,913		1,500		-413
Bonus reserve		165,891		168,837		2,946
Total current liabilities		3,034,539	30.7	2,559,529	26.4	-475,010
Fixed liabilities						
Long-term loans		1,446,076		1,500,048		53,972
Retirement benefit reserve		157,316		180,421		23,105
Long-term accounts payable		459,230		477,509		18,279
Total fixed liabilities		2,062,623	20.8	2,157,978	22.3	95,355
Total liabilities		5,097,162	51.5	4,717,507	48.7	-379,655
(Shareholders' equity)						
Capital stock		1,480,180	14.9	-	-	-
Capital reserve		1,702,245	17.2	-	-	-
Profit reserve		66,920	0.7	-	-	-
Other surpluses		1,670,452	16.9	-	-	-
Separate reserve		660,000		-	-	-
Unappropriated retained earnings		1,010,452		-	-	-
Company's own stock		-118,377	-1.2	-	-	-
(Shareholders' equity)						
Capital stock		-	-	1,480,180	15.3	-
Capital surplus		-	-	1,702,245	17.5	-
Capital reserve		-	-	1,702,245		-
Retained earnings		-	-	1,913,218	19.7	-
Profit reserve		-	-	66,920		-
Voluntary reserve		-	-	760,000		-
Unappropriated retained earnings		-	-	1,086,298		-
Company's own stock		-	-	-118,377	-1.2	-
Total shareholders' equity		4,801,420	48.5	4,977,266	51.3	175,846
Total liabilities and shareholders' equity		9,898,582	100.0	9,694,774	100.0	-203,808

## Comparative income statement

Unit: thousand yen (amounts of less than thousand yen were rounded down)

Accounts	Term		Term		Comparison with the previous term	
	Previous term (April 1, 2001 to March 31, 2002)		Current term (April 1, 2002 to March 31, 2003)		Increase or decrease	Ratio to the previous term
	Amount	Breakdown	Amount	Breakdown		
I Sales	14,018,345	%	14,668,666	%	350,321	%
II Cost of sales	11,613,714	100.0	12,388,533	100.0	774,819	104.6
Gross profit	2,404,631	82.9	2,280,132	84.5	-124,499	106.7
III Sales and administrative expenses	1,546,743	17.1	1,485,955	10.1	-60,788	94.8
Operating profit	857,887	11.0	794,177	10.1	-63,710	96.1
IV Non-operating income	39,674	6.1	50,431	5.4	10,757	92.6
Interest income	1,902	0.3	885	0.3	-1,017	127.1
Other non-operating income	37,772		49,545		11,774	
V Non-operating expenses	78,042	0.6	66,438	0.4	-11,604	85.1
Interest expense	63,452		55,190		-8,262	
Other non-operating expenses	14,589		11,247		-3,342	
Ordinary income	819,520	5.8	778,171	5.3	-41,349	95.0
VI Extraordinary income	-	-	34,659	0.2	34,659	-
Indemnification gain on closed salons and shops	-		24,219		24,219	
Reversal of allowance for bad debts	-		10,440		10,440	
VII Extraordinary losses	59,358	0.4	192,046	1.3	132,688	323.5
Loss on depletion of fixed assets	36,102		186,236		150,134	
Additions to bad debt reserve	22,455		-		-22,455	
Appraisal loss on membership rights	800		5,810		5,010	
Current income before tax	760,162	5.4	620,784	4.2	-139,378	81.7
Corporate tax, inhabitant tax and enterprise tax	405,996	2.9	358,070	2.4	-47,926	88.2
Amount of adjustment for corporate tax	-19,333	-0.2	-24,397	-0.2	-5,064	126.2
Current net profit	373,499	2.7	287,111	2.0	-86,388	76.9
Profits carried-over from the previous term	636,953		799,187		162,234	
Unappropriated retained earnings at the end of the current term	1,010,452		1,086,298		75,846	

## Cash flow statement

Unit: thousand yen (amounts of less than thousand yen were rounded down)

Accounts	Term	Previous term (April 1, 2001 to March 31, 2002)	Current term (April 1, 2002 to March 31, 2003)
		Amount	Amount
I. Cash flow from operations			
Current income before tax		760,162	620,784
Depreciation		209,392	205,571
Increase in bonus reserve		23,891	2,946
Increase in retirement benefit reserve		22,391	23,104
Increase in bad debt reserve (- denoting decreased amount)		40,905	-30,695
Interest received		-1,902	-885
Interest paid		63,452	55,190
Loss from disposal of fixed assets		36,102	186,236
Income from compensation for closed beauty salons		-	-24,219
Appraisal loss of membership rights		800	5,810
Increase in accounts receivable (- denoting increased amount)		-217,316	151,981
Increase in inventory (- denoting increased amount)		-14,799	31,824
Increase in trade payables (-denoting decreased amount)		5,803	-64,240
Increase in unpaid consumption tax		-20,346	-1,103
Payment of directors' bonuses		-38,000	-
Others		312,926	-143,696
Sub-total		1,183,464	1,018,610
Amount of received interest		2,263	902
Amount of interest payments		-60,776	-56,461
Paid corporate taxes		-563,796	-337,435
Cash flow from operations		561,155	625,615
II. Cash flow from investments			
Payment for time deposits		-980,216	-891,855
Income from withdrawal of time deposits		966,863	898,766
Payment for the acquisition of tangible fixed assets		-339,048	-352,510
Expenditure for payment of security deposit and guarantee money		-317,213	-233,841
Income due to the recovery of security deposit and guarantee money		49,155	88,300
Others		-44,941	-2,378
Cash flow from investments		-665,311	-493,518
III. Cash flow from financial operations			
Income from additional short-term loans		1,037,000	876,000
Repayment of short-term loans		-973,552	-931,200
Income from additional long-term loans		220,000	533,600
Repayment of long-term loans		-398,729	-704,552
Income from sale of company's own stocks		5,370	-
Dividend payments		-96,045	-109,325
Cash flow from financial operations		-205,955	-335,477
IV. Amount of decrease in cash and cash equivalents		-310,111	-203,381
V. Opening balance of cash and cash equivalents		2,371,655	2,061,543
VI. Closing balance of cash and cash equivalents		2,061,543	1,858,162

### Comparative profit disposal plan

Unit: thousand yen (amounts of less than thousand yen were rounded down)

Term	Previous term (April 1, 2001 to March 31, 2002)	Current term (April 1, 2002 to March 31, 2003)	Comparison with the previous term
Accounts	Amount	Amount	Amount
I. Unappropriated retained earnings at the end of the current term	1,010,452	1,086,298	75,846
II. Amount of profit disposal			
1. Dividends to shareholders	111,265 (22 yen per share)	126,437 (25 yen per share)	15,172
2. Other reserves	100,000	100,000	-
III. Profits carried-forward to the next term	799,187	859,861	60,673

#### (Dividends per share)

Term	Term ending March 2002			Term ending March 2003		
Accounts	Annual dividend	Interim dividend	Final dividend	Annual dividend	Interim dividend	Final dividend
	yen sen	yen sen	yen sen	yen sen	yen sen	yen sen
Common stock	22 00	0 00	22 00	25 00	0 00	25 00

## Important accounting policy

1. Standards and methods for the evaluation of securities
  - (1) Securities
    - Other securities  
Without market price: at cost, based on the moving average method.
  - (2) Inventories
    - Merchandise and materials for beauty treatments: at cost, based on the moving average method.
    - Supplies: at cost, based on the final purchase cost.
2. Depreciation of fixed assets
  - (1) Tangible fixed assets
    - Declining method. However, the straight-line method is applied to the buildings acquired on and after April 1, 1998 (excluding attached equipment).
      - Useful lives: Buildings: 8 to 60 years  
Equipment and apparatus: 3 to 10 years
  - (2) Intangible fixed assets
    - Straight-line method. The straight-line method is applied to software for the Company's use based on the usable period in the Company (five years).
  - (3) Long-term prepaid expenses
    - Straight-line method.
3. Accounting standards for reserves
  - (1) Reserves for bad debts
    - As the reserve for losses from the default on payment of accounts receivable, the amount that it is impossible to collect is set aside based on the actual bad debt ratio for general receivables and by individually considering the possibility of collecting specified receivables, such as receivables over which there is concern about their collection.
  - (2) Bonus reserve
    - A reserve is set aside for the payment of bonuses to employees to provide for bonuses accrued in the current term, based on bonuses to be paid in the future.
  - (3) Retirement benefits and allowances reserve
    - A reserve for the retirement benefits of employees. A certain amount is set aside based on the expected amount of retirement benefit liabilities at the end of the current term.
      - The entire amount of the difference from the actuarial calculation shall be treated as an expense in the accounting term when that difference occurs.
4. Lease transactions
  - Finance lease transactions, other than those under which ownership of the leased equipment is transferred to the lessee, are based on the accounting method applied to operating lease transactions.
5. Accounting for hedging activities
  - (1) Accounting for hedging activities
    - Because interest rate swap transactions satisfy the requirements for special

treatment, this special treatment is applied to these transactions.

- (2) Hedging vehicles and hedged items
    - 1) Hedging vehicles: Interest rate swap
    - 2) Hedged items: Borrowings
  - (3) Hedging policy

The Company uses hedging transactions in order to avert risks associated with interest rate changes in the future.
  - (4) Valuation method for the effectiveness of hedging activities

The Company's method satisfies the requirements for special treatment of interest rate swap transactions, and the effectiveness of hedging activities is determined based on the effectiveness of that method.
6. Scope of assets in the Cash Flow Statement
- Assets in the Cash Flow Statement (cash and cash equivalents) consist of cash on hand, deposits that can be withdrawn at any time, and short-term investments that can be converted into cash easily, involve only a minor risk of price fluctuation, and can be reimbursed within three months of their acquisition.
7. Consumption tax
- Based on net sales exclusive of taxes.

<Changes in accounting practice>

- (1) The Company has adopted the system of accounting for treasury stocks and the reversal of legal reserves (Corporate Accounting Standards No. 1) in the current term. Adopting this accounting practice has no effect on the operating results of the current fiscal term. The shareholders' equity on the Company's balance sheet was prepared based on the revised regulations for financial statements.
- (2) Per share information

The Company has adopted the system of accounting for net income per share (Corporate Accounting Standards No. 2) and the guidelines for accounting for net income per share (Guidelines for Corporate Accounting Standards No. 4) in the current term. Adopting these accounting practices has no effect on the operating results of the current fiscal term.

## Notes

Unit: thousand yen (amounts of less than thousand yen were rounded down)

[Notes on Balance Sheet]

	Previous term (as of March 31, 2002)	Current term (as of March 31, 2003)
1. Accumulated amount of depreciation on tangible fixed assets	1,191,755	1,228,362
2. Assets provided as security		
(1) Assets provided as security		
Buildings	644,479	632,700
Land	1,401,124	1,401,124
Key money and guarantee money	525,493	499,244
(2) Liabilities in connection with the above		
Key money and guarantee money	251,000	193,000
Long-term loans payable (including long-term loans repayable within one year)	2,102,968	1,936,576
3. Contingent liabilities		
Guarantee for borrowings from financial institutions		
• Guarantees for ex-employees based on a program to assist employees become independent	55,163	26,669

[Notes on Income Statement]

	Previous term (April 1, 2001 to March 31, 2002)	Current term (April 1, 2002 to March 31, 2003)
1. Amount of depreciation		
Tangible fixed assets	205,871	205,427
Intangible fixed assets	3,520	144

[Notes on Cash Flow Statement]

Relationship between the closing balance of cash and cash equivalents and the amount recorded in the Balance Sheet

	Previous term (as of March 31, 2002)	Current term (as of March 31, 2003)
Cash and cash accounts	2,064,128	2,053,699
Time deposit, deposited for a period of three months or more	-453,057	-446,146
Securities	450,473	250,609
Cash and cash equivalents	2,061,543	1,858,162



[Notes on lease transactions]

	Previous term (April 1, 2001 to March 31, 2002)	Current term (April 1, 2002 to March 31, 2003)
(1) Amount equivalent to the acquisition price of leased property	1,296,522	1,233,361
Amount equivalent to accumulated depreciation	621,740	518,969
Amount equivalent to closing balance	674,781	714,392
(2) Amount equivalent to the closing balance of prepaid lease fees	721,103	753,101
(Amount included in the above for the period of one year or less)	252,006	270,760
(Amount included in the above for a period exceeding one year)	469,096	482,341
(3) Lease fees paid	280,727	288,059
Amount equivalent to depreciation expenses	260,046	272,749
Amount equivalent to paid interest	18,995	19,533

(4) Method of calculating the amount equivalent to depreciation expenses  
This was calculated based on the straight-line method over the lease period with a residual value of zero.

(5) Method of calculating the amount equivalent to interest paid  
The difference between the total amount of lease fees and the amount equivalent to the acquisition price of the leased properties is assumed to be the amount equivalent to the interest paid, and the method of allocation to each term is based on the interest method.

#### 4. Comparison of sales by category

Unit: thousand yen (amounts of less than thousand yen were rounded down)

Accounts	Term	Previous term (April 1, 2001 to March 31, 2002)		Current term (April 1, 2002 to March 31, 2003)		Comparison with the previous term	
		Amount	Breakdown	Amount	Breakdown	Amount	Ratio to the previous term
			%		%		%
Beauty therapy treatments		12,464,203	88.9	13,130,674	89.5	666,471	105.3
Merchandise		1,450,034	10.4	1,428,538	9.7	-21,496	98.5
Others		104,106	0.7	109,453	0.8	5,346	105.1
Total		14,018,345	100.0	14,668,666	100.0	650,321	104.6

#### 5. Securities

Market value of securities (Unit: thousand yen)

##### Current term

Securities

Details of major “securities” not valued on a market value basis

An amount shown on  
the Balance Sheet

Other securities

Money management fund 250,609

##### Previous term

Securities

Details of major “securities” that are not appraised on a market value basis

An amount shown on  
the Balance Sheet

Other securities

Money management fund 250,473

Bond investment trust 200,000

#### 6. Derivative transactions

##### Current term

Derivative transactions were not disclosed because the Company adopted the accounting for hedging transactions for all these transactions.

##### Previous term

There were no applicable items, because the Company did not engage in any derivative transactions.

#### 7. Profit or loss under the equity method

##### Current term

Not applicable.

##### Previous term

Not applicable.

## 8. Retirement benefits

### (1) Outline of the Company's retirement benefit system

The Company has adopted a lump sum retirement allowance system based on a defined benefit system.

### (2) Details of retirement benefit liabilities

(Unit: thousand yen, less than thousand yen was rounded down)

	Previous term (as of March 31, 2002)	Current term (as of March 31, 2003)
① Retirement benefit liabilities	-157,316	-180,421
② Retirement benefits reserve	-157,316	-180,421

### (3) Details of retirement benefits costs

(Unit: thousand yen, less than a thousand yen was rounded down)

	Previous term (April 1, 2001 to March 31, 2002)	Current term (April 1, 2002 to March 31, 2003)
① Service costs	41,570	41,570
② Pension funds	2,698	3,146
③ Disposed amount of the expense for the difference in actuarial calculation	916	3,335
④ Retirement benefits cost (① + ② + ③)	45,215	48,052

### (4) Assumptions for the calculation of retirement benefit liabilities

① Periodic allocation method of expected retirement benefit amounts:	Periodic fixed amount standard
② Discount rate	2.0%
③ Number of years for amortization of the difference in actuarial calculation:	Writing off of the entire amount when it occurred

## 9. Tax effect accounting

### (1) Breakdown of the reasons for deferred tax assets and deferred tax liabilities:

(Unit: thousand yen, less than thousand yen was rounded down)

	Previous term (as of March 31, 2002)	Current term (as of March 31, 2003)
Deferred tax assets		
Amount exceeding the limit of the addition to bonus reserve	48,160	61,151
Amount of the denial of unpaid enterprise tax	11,101	11,491
Excess amount of retirement benefit reserve	53,538	64,870
Others	26,520	26,204
Total deferred tax assets	139,320	163,718
Net deferred tax assets	139,320	163,718

### (2) Where, after applying tax effect accounting, there is an important difference between a legal effective tax rate and the tax rate for corporate tax, the breakdown of major items making up the reasons for that difference:

(Unit: %)

	Previous term (April 1, 2001 to March 31, 2002)	Current term (April 1, 2002 to March 31, 2003)
Legal effective tax rate	42.0	42.0
(Breakdown)		
Items permanently unable to be included in non-taxable expenses, such as entertainment expenses	1.0	1.1
Per capita equalization of inhabitants tax	7.8	10.1
Others	0.1	0.6
Tax rate of corporate tax after the application of tax effect accounting	50.9	53.8

Note: The legal effective tax rates used in the computation of deferred tax assets are 42.0% for the previous term and the current asset classification and 40.7% for the fixed asset classification. As a result, deferred tax assets decreased by 2.657 million yen, and adjustment in corporate tax that was expensed in the current term increased by the same amount.

## 10. Transactions with related parties

### Current term

There were no items applicable.

### Previous term

There were no items applicable.

## 11. Change in officers

- (1) There was no change of representative director.
- (2) Change of other directors.
  - 1) Candidate for Director:  
Director Yasuhito Matsumoto (Currently, General Manager of Personnel Planning Division)
  - 2) Candidate for Statutory Auditor:  
Full-time Statutory Auditor Yoshiaki Kubota (Currently, Deputy General Manager of President's Office)
  - 3) Retiring Statutory Auditor  
Full-time Statutory Auditor Hiroaki Matsui