

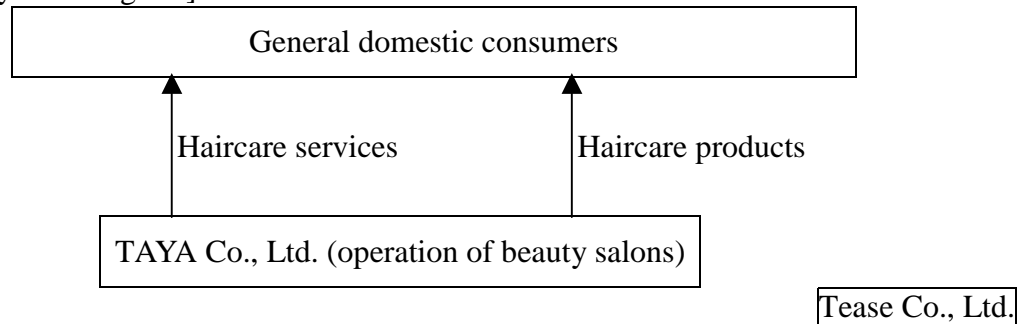
Attached materials

## Status of the corporate group

The corporate group of the Company consists of the Company and its affiliated companies. The company operates beauty salons based on the “Beauticians Law” (called “beauty shops” under that Law). At the beauty salons, beauticians with national licenses provide customers with haircare (treatments such as haircuts, permanents, and hair coloring), and sell haircare products suitable for those customers.

Tease Co., Ltd., although an affiliate of the Company, engages in real estate leasing business and there no commercial transactions exist with each other.

[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 great emphasis throughout its businesses on the use of exceptional practical techniques. Our Company's principal goal is to add beauty to the lives of our customers through haircare, in line with the Company's mission statement: "Our contribution to society is to provide everybody with hopes and dreams."

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 shareholders in line with 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 its financial position by maximizing corporate value. Retained earnings will also be used to expand the Company's businesses in the future to meet the expectations of shareholders.

To enable the rapid execution of capital policies in response to changes in the management environment, the following resolution was approved at the shareholders' meeting held on June 17 of last year, as a management option for the acquisition of treasury shares in accordance with Article 210 of the Commercial Code. The final decision, size, timing, method, and other details of the acquisition of treasury shares will be properly decided in a timely manner in light of market movements and management needs.

- (1) Type of shares to be acquired: Common shares of the company
- (2) Total number of shares to be acquired: A maximum of 100,000 shares
- (3) Total amount of share acquisition costs: A maximum of 120 million yen

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

The Company aims at achieving the major financial indexes 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-term corporate strategy**

Under the theme of creating three kinds of assets, "Creation of Customer Assets," "Creation of Brand Assets" and "Creation of Employee Assets," the Company has mapped out "Paradigm Change 45" (a fundamental management improvement plan) for business innovation and early recovery of business performance. In order to promote functionally and efficiently, the Company as a whole will make every effort to carry out this plan, following reorganization in April this year. The outline of this plan is as follows:

Gist of "Paradigm Change 45" (fundamental management improvement plan)

"Paradigm Change 45" will be effective for two years from April 2004 to March 2006, and corporate systems, business policies and profit structures will be reviewed to cope with major changes in business environment.

Medium-term corporate strategy

#### **(1) Business policy**

##### **(i) Business promotion**

The Company will conduct national campaigns separately for the period to

attract new customers and for the period to offer fine-tuned services to customers. It will also use image characters to seasonally promote proposals by target generation through mass media. By boosting its profile and brand image, the Company will motivate many consumers to revisit its beauty salons and thus develop customer assets.

In addition, the Company will increase its share of customer through further quality improvement of “hair treatment” which it has worked on ahead of other companies in this industry, as well as through the introduction of new product lineups and renewals of salons to meet the needs of consumers.

(ii) Improvement of attitude toward customers (pursuit of customer satisfaction)

In order to improve the quality of customer services and to maintain their level at all salons, a customer service special division will be set up, and all employees from receptionists to salon managers will be provided with thorough instruction and training in their attitude toward customers.

Furthermore, by receiving fair and objective evaluation based on thorough surveys on salons and employees by external institutions, the Company will operate salons in a way the customers will fully appreciate.

For beauticians and technical trainers, a new personnel system based on performance will be introduced to strengthen their motivation for their own jobs and higher performances. More flexible personnel transfers will be conducted to maintain the balance of efficient workforce at each salon. Internal and external seminars on self-development will be offered to cultivate employees not only versed in haircare but also with rich humanity. Thus, the Company will establish a relationship of trust with customers.

For salons, key points to business promotion and customer services will be narrowed down by brand, location and customer segment. Salon managers will be relieved from managerial work to specialize in “customer services” and “training of staff (beauticians).” As a result, the gap between the needs of customers and services provided at salons will be closed, and efficient sales promotion and training will be realized. As for managerial work, after the reorganization and personnel transfers at headquarters in April, the Company will establish a system for salons to be able to concentrate on pursuit of customer satisfaction with the introduction of IT and full support of headquarters.

(2) Profit structure improvement policy

(i) Expansion of existing salons

To ensure profits at existing salons, the Company will proceed with “curtailment of new openings,” “renovation of old salons for revitalization,” and “disposal of unprofitable salons.”

(ii) Establishment of a flagship salon

A flagship salon will be set up for each brand, and positioned as a model shop for brand-specific techniques, services and salon designing. With brand concepts clarified and brand quality maintained, it will be utilized as a place for an on-the-job training.

(iii) Reduction of fixed costs

Losses will be eliminated by reducing costs through sales promotion focusing on OEM products, thorough technical education on rational utilization of agents (used in perm and coloring), and reduction of stock goods at salons.

By heightening the motivation of employees through the introduction of new personnel systems and flexible personnel transfers, the resigning of employees will be

reduced and mid-career recruitment costs will be lowered.

#### **1-5. Corporate strategy of the Company and items to be considered**

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 haircare industry, will pursue profitability and growth, with an emphasis on the development of new technology, training of employees, dissemination of information, 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. Basic concept of corporate governance and implementation of related measures**

<Basic concept of corporate governance>

The Company believes 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 highly critical management issue.

<Implementation of corporate governance related measures>

The board of directors is positioned as the core of our management strategy, and consists of 14 directors (external directors are not appointed) as of the end of the current term. The board meets once a month to take decisions after sufficient considerations. Extraordinary board meetings will also be held if necessary, and the directors are jointly responsible for management and business operations.

Three statutory auditors, including two external statutory auditors, attend the meetings of the board of directors and other important meetings and carry out examinations 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 statutory auditor is a lawyer and the other being a registered tax accountant, who appropriately supervise and direct the Company's compliance issues.

An internal audit section is set up in the President's office (integrated into the Strategic Planning Office from the President's office on April 1, 2004). Four full-time internal auditors are responsible for internal audits to verify that the operations are conducted lawfully and efficiently in compliance with the internal rules and regulations. They point out and recommend issues to be improved, and also advise reform measures to improve our operational quality and efficiency.

Wako Audit Corporation is the Company's accounting auditor and audits the closing accounts. In addition, it provides advice on other matters, such as management and organizational issues, to the Company whenever necessary.

Over the past year, the Company has held board of directors' meetings at least once a month to determine the Company's basic policies and its critical issues. In addition, the Company has promoted a timely disclosure of information to shareholders and investors by releasing through its homepage financial statements and monthly sales information on the tenth of every month.

#### **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.

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

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

Despite some signs of recovery, the Japanese economy still suffered from slow growth in consumer spending, concerns over employment conditions and deterioration in the deflationary economy for the current term.

The haircare industry also faced continued severe business environment with weak individual consumption, effects of unusually cold summer and warm winter, and intensified competition among companies and beauty salons.

Under such conditions, the Company has strived to insure customer assets focusing on the pursuit of “customer satisfaction,” the starting point of the service business.

The Company opened a total of 14 new beauty salons, including nine TAYA salons, four Courreges salon de beaute salons, and one Shampoo salon. It also reconstructed three TAYA salons, relocated one TAYA salon and entirely renovated another, and partially renovated one Courreges salon de beaute salon to reactivate the existing salons. In addition, given the changing business environment, it made brand conversions, with three Bumble and bumble New York salons converted to two Capelli Punto N.Y. salons and one TAYA salon, and one Capelli Punto N.Y. salon converted to one TAYA salon. The Company closed one Bumble and bumble New York salon, one TAYA salon, and one retail shop for internal reinforcement.

As a result, 157 beauty salons and one retail shop were directly operated by the Company as of the end of the current term, including 75 TAYA salons, 28 Courreges salon de beaute salons, 42 Shampoo salons, six TAYA & CO. GINZA salons, and six Capelli Punto N.Y. salons.

In haircare services, the Company introduced new menus to meet the diversified needs, such as “Metallic Color,” an entirely new hair color that can control hair fading and damage, and a new straight permanent technique to reduce hair damage when receiving a permanent. In addition, 12 new items were released, including original haircare products and hair styling agents. In order to stimulate potential demand, the Company also launched four home maintenance hair coloring products, and two partial hair dye products for gray hair. This launch is the first time in the industry that hair coloring products are retailed in beauty salons.

On the other hand, although the frequency of customer visits and revisits increased, the Company was forced to face more-than expected severe conditions due to continuing dull consumer behavior, further outflow of price sensitive customers, slower growth of new customers and product sales, and lower transaction price per customer. In particular, owing to cold summer and warm winter, traditionally peak summer and winter sales remained stagnant, and sales at existing salons declined below the level of the previous term. Even at new salons, it took time to start up, resulting in lower than expected performances.

Consequently, sales totaled only 13,924 million yen (down 5.1% on a year-on-year basis), with recurring profits of 62 million yen (down 92.0% YoY) despite cost-cutting efforts. Affected by the retirement of fixed assets due to salon renewals, the bottom line turned into red, with a net loss of 118 million yen (net profit of 287 million yen in previous term).

### **2-2. Cash flow**

Cash and cash equivalents (hereinafter referred to as “capital”) decreased by 357 million yen from the end of the previous term to 1,500 million yen (down 19.2% YoY) at the end of the current term. During the current term, 630 million yen was financed as capital expenditures for the reconstruction, relocation and new opening of the Company’s own

salons, thereby stagnating business operations at salons for a long time, and sales at salons slowed down.

Detailed cash flows in the current term are as shown below.

<Cash flow from operating activities>

Cash from operating activities came to 62 million yen (down 563 million yen from the previous term) due mainly to a pre-tax net loss of 83 million yen.

<Cash flow from investment activities>

Cash used for investment in the current term stood at 392 million yen (down 101 million yen from the previous term). This was primarily attributable to the withdrawal of time deposits to pay for the acquisition of tangible fixed assets resulting from reconstruction and new opening of salons, and to pay for key money and deposits.

<Cash flow from financial activities>

Cash used for financial activities amounted to 28 million yen (down 307 million yen from the previous term) in the current term, mainly reflecting a net increase in long-term borrowings of 97 million yen (a net decrease in long-term borrowings of 226 million yen in the previous term).

	28 <sup>th</sup> term (April 1, 2001 to March 31, 2002)	29th term (April 1, 2002 to March 31, 2003)	30th term (April 1, 2003 to March 31, 2004)
Capital ratio (%)	48.5	51.3	50.4
Mark-to-market capital ratio (%)	87.6	47.5	51.1
Debt retirement (years)	5.5	6.1	55.7
Interest coverage ratio	9.2	11.1	1.3

Capital ratio: Net worth/Total assets

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

Debt retirement: Interest bearing debts/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 debts represent 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

Going forward, the business environment surrounding the Company will likely remain difficult as competitions among companies and beauty salons are expected to stiffen, given changes in consumer life styles and prolonged sluggish personal consumption.

To cope with such conditions, under the corporate philosophy of “contributing to society through dreams and hopes to all people,” the Company will strive for business innovation and early improvement of its business performance, focusing on the creation of three kinds of assets including “Creation of Customer Assets,” “Creation of Brand Assets” and “Creation of Employee Assets.”

As specific measures, the Company will thoroughly promote the developed “Paradigm Change 45” (fundamental management improvement plan).

Considering the above factors, sales are expected to reach 15,000 million yen, with recurring profits of 600 million yen and net profits of 180 million yen for the next term.



### 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, 2003)		Current term (as of March 31, 2004)		Increase or decrease
		Amount	Breakdown	Amount	Breakdown	
(Assets)			%		%	
Current assets						
Cash and deposits		2,053,699		1,661,415		(392,284)
Accounts receivable-trade		574,523		564,890		(9,633)
Securities		250,609		-		(250,609)
Merchandise		86,749		85,878		(871)
Materials for beauty treatments		82,875		61,569		(21,305)
Supplies		45,992		44,741		(1,250)
Prepaid expenses		105,364		113,658		8,294
Deferred tax assets		83,902		94,572		10,670
Other accounts receivable		55,444		95,697		40,,253
Others		1,332		3,667		2,334
Allowance for bad debts		(11,050)		(6,680)		4,370
Total current assets		3,329,443	34.3	2,719,411	29.0	(610,031)
Fixed assets						
Tangible fixed assets						
Buildings		2,148,017		2,329,092		181,074
Structures		8,011		14,542		6,530
Furniture and fixtures		17,838		13,298		(4,540)
Land		1,461,114		1,461,114		-
Construction in progress		1,812		7,824		6,012
Total		3,636,795	37.5	3,825,872	40.8	189,076
Intangible fixed assets		29,351	0.3	36,120	0.4	6,769
Investments and other assets						
Investments in subsidiaries and affiliated companies		105		105		-
Long-term loans to employees		16,320		14,457		(1,863)
Bankruptcy reorganization claims		7,500		19,150		11,650
Long-term prepaid expenses		126,212		94,696		(31,516)
Deferred tax assets		79,815		92,796		12,981
Other long-term accounts receivable		-		15,750		15,750
Key money and guarantee money		2,454,890		2,579,199		124,309
Membership rights		24,040		12,390		(11,650)
Long-term bad debt reserves		(9,700)		(21,350)		(11,650)
Total		2,699,184	27.9	2,807,195	29.9	108,011
Total fixed assets		6,365,330	65.7	6,669,187	71.0	303,857
Total assets		9,694,774	100.0	9,388,599	100.0	(306,174)

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

Accounts	Previous term (as of March 31, 2003)		Current term (as of March 31, 2004)		Increase or decrease
	Amount	Breakdown	Amount	Breakdown	
(Liabilities)		%		%	
Current liabilities					
Notes payable	339,835		365,059		25,223
Trade accounts payable	88,010		109,239		21,228
Short-term loans	209,400		149,000		(60,400)
Long-term loans due within one year	448,668		625,779		177,111
Accounts payable-other	378,489		403,929		25,439
Accrued expenses	610,747		568,910		(23,836)
Unpaid corporate taxes	162,970		34,634		(128,336)
Unpaid consumption taxes	118,505		56,314		(62,194)
Deposits received	32,562		31,783		(779)
Unearned revenues	1,500		1,599		98
Bonus reserve	168,837		136,031		(32,776)
Total current liabilities	2,559,529	26.4	2,500,311	26.6	(59,217)
Fixed liabilities					
Long-term loans payable	1,500,048		1,481,059		(18,989)
Retirement benefit reserve	180,421		203,914		23,493
Long-term accounts payable	477,509		471,409		(6,099)
Total fixed liabilities	2,157,978	22.3	2,156,383	23.0	(1,594)
Total liabilities	4,717,507	48.7	4,656,695	49.6	(60,812)
(Shareholders' equity)					
Capital stock	1,480,180	15.3	1,480,180	15.8	-
Capital surplus	1,702,245	17.5	1,702,245	18.1	-
Capital reserve	1,702,245		1,702,245		-
Retained earnings	1,913,218	19.7	1,667,856	17.8	(245,362)
Profit reserve	66,920		66,920		-
Voluntary reserve	760,000		860,000		100,000
Separate reserve	760,000		860,000		100,000
Unappropriated retained earnings	1,086,298		740,936		(345,362)
Treasury stock	(118,377)	(1.2)	(118,337)	(1.3)	-
Total shareholders' equity	4,977,266	51.3	4,731,904	50.4	(245,362)
Total liabilities and shareholders' equity	9,694,774	100.0	9,388,599	100.0	(306,174)

## 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, 2002 to March 31, 2003)		Current term (April 1, 2003 to March 31, 2004)		Increase or decrease	Ratio to the previous term
	Amount	Breakdown	Amount	Breakdown		
I Sales	14,668,666	%	13,924,928	%	(743,737)	%
II Cost of sales	12,388,533	100.0	12,403,764	100.0	15,230	94.9
Gross profit	2,280,132	84.5	1,521,164	89.1	(758,968)	100.1
III Sales and administrative expenses	1,485,955	15.5	1,456,681	10.9	(29,273)	66.7
Operating profit	794,177	10.1	64,483	10.5	(729,694)	98.0
IV Non-operating income	50,431	5.4	68,850	0.4	18,419	8.1
Interest income	885	0.3	859	0.5	(25)	136.5
Other non-operating income	49,545		67,990		18,445	
V Non-operating expenses	66,438	0.4	71,211	0.5	4,773	107.2
Interest expense	55,190		50,457		(4,733)	
Other non-operating expenses	11,247		20,754		9,507	
Ordinary income	778,171	5.3	62,122	0.4	(716,048)	8.0
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	192,046	1.3	145,847	1.0	(46,199)	75.9
Loss on retirement of fixed assets	186,236		137,750		(48,485)	
Loss on sales of fixed assets	-		816		816	
Bad debt expense	-		7,280		7,280	
Appraisal loss on membership rights	5,810		-		(5,810)	
Current net profit (loss) before tax	620,784	4.2	(83,725)	(0.6)	(704,509)	(13.5)
Corporate tax, inhabitant tax and enterprise tax	358,070	2.4	58,851	0.4	(299,219)	16.4
Amount of adjustment for corporate tax	(24,397)	(0.2)	(23,651)	(0.1)	746	96.9
Current net profit (loss)	287,111	2.0	(118,924)	(0.9)	(406,035)	(41.4)
Profits carried-over from the previous term	799,187		859,861		60,673	
Unappropriated retained earnings at the end of the current term	1,086,298		740,936		(345,362)	

## Cash flow statement

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

Accounts	Term	Previous term (April 1, 2002 to March 31, 2003)	Current term (April 1, 2003 to March 31, 2004)
		Amount	Amount
I. Cash flow from operations			
Current net profit (loss) before tax		620,784	(83,725)
Depreciation		205,571	216,672
Increase (decrease) in bonus reserve		2,946	(32,776)
Increase in retirement benefit reserve		23,104	23,493
Increase (decrease) in bad debt reserve		(30,695)	7,280
Interest received		(885)	(859)
Interest paid		55,190	50,457
Loss from retirement of fixed assets		186,236	137,750
Loss on sales of tangible fixed assets		-	816
Income from compensation for closed beauty salons		(24,219)	-
Appraisal loss of membership rights		5,810	-
Decrease in accounts receivable-trade		151,981	9,633
Decrease in inventory		31,824	23,427
Increase (decrease) in trade payables		(64,240)	61,328
Decrease in unpaid consumption tax		(1,103)	(62,190)
Others		(143,696)	(52,644)
Sub-total		1,018,610	298,664
Amount of received interest		902	880
Amount of interest payments		(56,461)	(49,786)
Paid corporate taxes		(337,435)	(187,187)
Cash flow from operations		625,615	62,569
II. Cash flow from investments			
Payment for time deposits		(891,855)	(570,700)
Income from withdrawal of time deposits		898,766	855,901
Payment for acquisition of tangible fixed assets		(352,510)	(472,019)
Expenditure for payment of security deposit and guarantee money		(233,841)	(206,627)
Income due to the recovery of security deposit and guarantee money		88,300	10,610
Others		(2,378)	(9,415)
Cash flow from investments		(493,518)	(392,250)
III. Cash flow from financial operations			
Income from additional short-term loans		876,000	738,000
Repayment of short-term loans		(931,200)	(798,400)
Income from long-term loans		533,600	630,000
Repayment of long-term loans		(704,552)	(471,878)
Dividend payments		(109,325)	(125,733)
Cash flow from financial operations		(335,477)	(28,011)
IV. Amount of decrease in cash and cash equivalents		(203,381)	(357,692)
V. Opening balance of cash and cash equivalents		2,061,543	1,858,162
VI. Closing balance of cash and cash equivalents		1,858,162	1,500,469

### Comparative profit disposal plan

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

Term	Previous term (April 1, 2002 to March 31, 2003)	Current term (April 1, 2003 to March 31, 2004)	Comparison with the previous term
Accounts	Amount	Amount	Amount
I. Unappropriated retained earnings at the end of the current term	1,086,298	740,936	(345,362)
II. Amount of profit disposal			
1. Dividends to shareholders	126,437 (25 yen per share)	126,437 (25 yen per share)	-
2. Other reserves	100,000	-	(100,000)
III. Profits carried-forward to the next term	859,861	614,499	(245,362)

#### (Dividends per share)

Term	Term ending March 2003			Term ending March 2004		
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	25 00	0 00	25 00	25 00	0 00	25 00

## Material accounting policy

1. Standards for and methods of evaluating assets
  - (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  
Furniture and fixtures: 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. Method for hedging accounting
  - (1) Method for hedging accounting
    - 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 cash in the Cash Flow Statement
- Cash 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.

## Notes

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

[Notes on Balance Sheet]

	Previous term (as of March 31, 2003)	Current term (as of March 31, 2004)
1. Accumulated amount of depreciation on tangible fixed assets	1,228,362	1,269,000
2. Assets provided as security		
(1) Assets provided as security		
Buildings	632,700	540,494
Land	1,401,124	1,398,741
Key money and guarantee money	499,244	499,244
(2) Liabilities in connection with the above		
Short-term loans payable	193,000	149,000
Long-term loans payable (including long-term loans repayable within one year)	1,936,576	2,099,258
3. Contingent liabilities		
Guarantee for borrowings from financial institutions		
• Guarantees for ex-employees based on a program to assist employees in becoming independent	26,669	16,450

[Notes on Income Statement]

	Previous term (April 1, 2002 to March 31, 2003)	Current term (April 1, 2003 to March 31, 2004)
1. Amount of depreciation		
Tangible fixed assets	205,427	215,551
Intangible fixed assets	144	1,120

[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, 2003)	Current term (as of March 31, 2004)
Cash and cash accounts	2,053,699	1,661,415
Time deposit, deposited for a period of three months or more	(446,146)	(160,945)
Securities	250,609	-
Cash and cash equivalents	1,858,162	1,500,469



[Notes on lease transactions]

	Previous term (April 1, 2002 to March 31, 2003)	Current term (April 1, 2003 to March 31, 2004)
(1) Amount equivalent to the acquisition price of leased property	1,233,361	1,310,209
Amount equivalent to accumulated depreciation	518,969	599,820
Amount equivalent to closing balance	714,392	710,388
(2) Amount equivalent to the closing balance of prepaid lease fees	753,101	740,150
(Amount included in the above for the period of one year or less)	270,760	272,037
(Amount included in the above for a period exceeding one year)	482,341	468,112
(3) Lease fees paid	288,059	305,901
Amount equivalent to depreciation expenses	272,749	289,393
Amount equivalent to paid interest	19,533	16,605

(4) Method of calculating the amount equivalent to depreciation expenses  
This was calculated based on the straight-line method over the lease period as its useful life 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, 2002 to March 31, 2003)		Current term (April 1, 2003 to March 31, 2004)		Comparison with the previous term	
		Amount	Breakdown	Amount	Breakdown	Amount	Ratio to the previous term
			%		%		%
Haircare services		13,130,674	89.5	12,468,801	89.5	(661,873)	95.0
Merchandise		1,428,538	9.7	1,371,094	9.8	(57,444)	96.0
Others		109,453	0.8	85,033	0.6	(24,420)	77.7
Total		14,668,666	100.0	13,924,928	100.0	(743,737)	94.9

#### 5. Securities

Market value of securities (Unit: thousand yen)

##### Current term

Securities

Details of major "securities" not valued on a market value basis

There were no items applicable.

##### Previous term

Securities

Details of major "securities" not valued on a market value basis

Amount shown on  
the Balance Sheet

Other securities

Money management fund

250,609

#### 6. Derivative transactions

##### Current term

Derivative transactions were not indicated because the Company adopted the hedging accounting 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

There were no items applicable.

##### Previous term

There were no items 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, 2003)	Current term (as of March 31, 2004)
① Retirement benefit liabilities	(180,421)	(203,914)
② Retirement benefit reserves	(180,421)	(203,914)

### (3) Details of retirement benefits costs

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

	Previous term (April 1, 2002 to March 31, 2003)	Current term (April 1, 2003 to March 31, 2004)
① Service costs	41,570	44,981
② Interest expense	3,146	3,608
③ Disposed amount of the expense for the difference in actuarial calculation	3,335	3,981
④ Retirement benefits cost (① + ② + ③)	48,052	52,571

### (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 in the term 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, 2003)	Current term (as of March 31, 2004)
Deferred tax assets		
Amount exceeding the limit of the addition to bonus reserve	61,151	55,363
Amount of the denial of unpaid enterprise tax	11,491	-
Excess amount of retirement benefit reserve	64,870	78,091
Others	26,204	53,915
Total deferred tax assets	163,718	187,369
Net deferred tax assets	163,718	187,369

### (2) Where, after applying tax effect accounting, there is a material 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 is as follows:

(Unit: %)

	Previous term (April 1, 2002 to March 31, 2003)	Current term (April 1, 2003 to March 31, 2004)
Legal effective tax rate	42.0	-
(Adjustment)		
Items permanently unable to be included in non-taxable expenses, such as entertainment expenses	1.1	-
Per capita equalization of inhabitants tax	10.1	-
Others	0.6	-
Tax rate of corporate tax after the application of tax effect accounting	53.8	(Note) -

Note: Breakdown of the major items of material difference between a legal effective tax rate and tax rate for corporate tax after the application of tax effect accounting is not shown due to a net loss before tax for the current term.

## 10. Transactions with related parties

### Current term

There were no items applicable.

### Previous term

There were no items applicable.

## 11. Change in officials (As of June 22, 2004)

- (1) There was no change of representative director.
- (2) Change of other officials.
  - 1) Candidate for Director:
    - Director Noriyuki Ishida (Currently, General Manager of the Education Department)
  - 2) Retiring Director
    - Executive vice chairman Takeo Irie