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May 11, 2016

Summary of Financial Results for the Fiscal Year Ending March 31, 2016 [Japanese standards] (Consolidated)

Company name: SATO RESTAURANT SYSTEMS COMPANY LIMITED Stock Exchange listings: Tokyo
 Securities code: 8163 URL: <http://www.sato-restaurant-systems.co.jp>
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 Scheduled date of ordinary general meeting of shareholders: June 29, 2016
 Scheduled date of payment of dividend: June 30, 2016
 Scheduled date of filing securities report: June 30, 2016
 Preparation of supplementary references regarding financial results: No
 Holding the briefing of financial results: Yes (For institutional investors and analysts)

(All amounts are rounded down to the nearest million yen)
(△ means negative)

1. Financial results of the Fiscal Year Ending March 31, 2016 (April 1, 2015 – March 31, 2016)

(1) Consolidated operating results

(Percentages represent changes from previous year)

	Net Sales		Operating income		Ordinary income		Income attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY03/2016	40,061	5.5	542	△54.2	361	△72.8	6	△99.2
FY03/2015	37,969	15.9	1,183	33.1	1,330	57.2	840	63.5

(Note) Comprehensive income FY03/2016: △126 million yen (—%)
 FY03/2015: 974 million yen (93.8%)

	Net income per share	Diluted net income per share	Ratio of net income to equity	Ratio of ordinary income to total assets	Ratio of operating income to sales
	Million yen	Million yen	%	%	%
FY03/2016	0.21	—	0.1	1.4	1.4
FY03/2015	29.79	—	8.5	5.5	3.1

(Reference) Equity in earnings of affiliated companies FY03/2016: — million yen
 FY03/2015: — million yen

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
FY03/2016	27,820	14,531	51.8	434.35
FY03/2015	24,272	10,456	42.5	365.89

(Reference) Shareholders equity FY03/2016: 14,424 million yen
 FY03/2015: 10,321 million yen

(3) Consolidated cash flow status

	Cash flow from operating activities	Cash flow from investments	Cash flow from financial activities	Balance of cash and cash equivalents
	Million yen	Million yen	Million yen	Million yen
FY03/2016	1,261	△1,579	3,246	8,616
FY03/2015	2,721	△1,220	△1,597	5,532

2. Dividends

	Annual dividend					Total dividends (consolidated)	Dividend ratio (consolidated)	Ratio of dividends to net assets (consolidated)
	1Q-end	2Q-end	3Q-end	Year-end	Annual			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
FY03/2015	—	—	—	5.00	5.00	141	16.8	1.4
FY03/2016	—	—	—	5.00	5.00	166	2,331.2	1.3
FY03/2017 (forecasts)	—	—	—	5.00	5.00		41.5	

3. Consolidated performance forecasts for the Fiscal Year Ending March 31, 2017 (April 1, 2016 – March 31, 2017)

(Percentages represent changes from previous year; △ means negative)

	Net sales		Operating income		Ordinary income		Income attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
2Q (cumulative total)	20,900	6.1	310	△38.5	330	△22.9	△20	—	△0.60
Full term	43,400	8.3	850	56.8	940	160.1	400	—	12.04

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***Notes**

- (1) Changes in important subsidiaries during the current period
(changes in specific subsidiaries resulting in modifications of the consolidation scope): None
New company: None
Excluded company: None
- (2) Changes in accounting principles, changes and restatements of accounting estimates
1) Changes in accounting principles caused by revision of accounting standards: Yes
2) Changes other than 1): None
3) Changes in accounting estimates: None
4) Restatements: None
- (3) Number of outstanding shares (common shares)
1) Number of shares outstanding at the end of the period (including treasury stock)
FY03/2016: 33,209,080 shares
FY03/2015: 28,209,080 shares
2) Number of treasury stock at the end of the period
FY03/2016: 212 shares
FY03/2015: 163 shares
3) Average number of shares outstanding during the period
FY03/2016: 32,055,055 shares
FY03/2015: 28,208,952 shares

(Reference) Unconsolidated business results

1. Unconsolidated business results of the Fiscal Year Ending March 31, 2016 (April 1, 2015 – March 31, 2016)

(1) Unconsolidated operating results

(Percentages represent changes from previous year; Δ means negative)

	Net Sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY03/2016	33,173	14.1	113	Δ 84.6	159	Δ 82.7	11	Δ 98.2
FY03/2015	29,064	8.8	735	Δ 3.1	921	25.0	606	27.4

	Net income per share	Diluted net income per share
	Yen	Yen
FY03/2016	0.35	—
FY03/2015	21.51	—

(2) Unconsolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
FY03/2016	25,723	14,183	55.1	427.11
FY03/2015	21,841	10,076	46.1	357.22

(Reference) Shareholders equity FY03/2016: 14,183 million yen
FY03/2015: 10,076 million yen

2. Unconsolidated forecast for the Fiscal Year Ending March 31, 2017 (April 1, 2016 - March 31, 2017)

(Percentages represent changes from previous year; Δ means negative)

	Net sales		Ordinary profit		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Yen
2Q (cumulative total)	17,100	5.3	110	Δ 68.7	Δ 100	—	Δ 3.01
Full term	35,700	7.6	570	256.8	260	—	7.83

*** Presentation concerning implementation status of audit procedures**

This summary of financial results are not the subject of a review procedure based on the Financial Instruments and Exchange Act, and at the time of disclosing this summary of financial results, review procedures regarding the financial statements based on the Financial Instruments and Exchange Act has not been completed.

*** Explanation regarding appropriate use of the earnings forecast and other special notes**

Descriptions about the future such as performance forecasts contained in this document are based on information currently available to the Company and certain presumptions considered to be reasonable, and therefore actual business performance and other elements may differ substantially due to various factors.

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1. Analysis on operating results and financial position**(1) Analysis on operating results**

① Consolidated performance

	FY03/2015			FY03/2016		
	Actual results	+/- amounts YoY	+/-% YoY	Actual results	+/- amounts YoY	+/-% YoY
Net sales	37,969	5,206	15.9%	40,061	2,091	5.5%
Operating income	1,183	294	33.1%	542	△641	△54.2%
Ordinary income	1,330	483	57.2%	361	△968	△72.8%
Income attributable to owners of parent	840	326	63.5%	6	△833	△99.2%

As for consolidated performance of the current consolidated fiscal year, net sales increased due to increase in number of restaurants in operation and relatively solid growth of sales of existing restaurants. Profitability in the current fiscal year was, as described in the document "Notice of amendment to performance forecasts" published on Apr. 28, 2016, lower as compared to the previous year, due to (in addition to the decision to pay unpaid wages for overtime working for the preceding two years) such as increase in labor cost because of raised hourly wages for part-time employees, increase in expenses associated with opening new restaurants, and occurrence of foreign exchange losses.

② Measures for opening new restaurants

(numbers of restaurants)

Category	As of end of the previous consolidated fiscal year	Newly opened restaurants	Closed restaurants	As of end of the current consolidated fiscal year	Planned to open during the current consolidated fiscal year
Washoku Sato	198 (—)	3 (—)	— (—)	201 (—)	3 (—)
Sushi-han	14 (—)	— (—)	— (—)	14 (—)	— (—)
Tendon & Tenpura restaurant Santen	12 (—)	10 (—)	— (—)	22 (—)	20 (4)
Nigiri Chojiro	52 (—)	1 (—)	— (—)	53 (—)	4 (—)
Nigiri Chujiro	3 (—)	3 (—)	— (—)	6 (—)	3 (—)
Katsuya	23 (11)	6 (3)	1 (—)	28 (14)	16 (10)
Miyakobito	21 (20)	— (—)	3 (3)	18 (17)	— (—)
Total	323 (31)	23 (3)	4 (3)	342 (31)	46 (14)

NOTE: Numbers in parentheses represent FC restaurants

In the current consolidated fiscal year, that is, the second year of our mid-term management plan, total 46 of directly managed and FC restaurants were planned to be opened; in practice, however, 3 directly managed "Washoku Sato" restaurant, 10 directly managed "Tendon & Tenpura restaurant Santen", 1 directly managed "Nigiri Chojiro" restaurants, 3 directly managed "Nigiri Chujiro", 6 "Katsuya" restaurants including 3 directly managed and 3 FC restaurants were newly opened, totaling 23 new restaurants among all categories during the current consolidated fiscal year. It should be noted that in addition to the abovementioned restaurants already in operation, contracts have been executed for opening 18 new restaurants (as of March 31, 2016). Meanwhile, 1 directly managed "Katsuya" restaurant and 3 FC restaurants of "Miyakobito", totaling 4 restaurants were closed.

As part of overseas development, President Chain Store Corp. ("PCSC") and President Sato Co., Ltd. ("PSC") which had been established in Taiwan with responsibilities for developing business of "Washoku Sato" restaurants, were transferred to the Group together with their entire shares as of February 26, 2016, having become one of the wholly-owned subsidiaries. For this reason, it renamed to SRS Taiwan Company Limited. From now on, SRS Taiwan will put its efforts into agile restaurant management and opening more new restaurants. In addition, 1 new restaurant in Indonesia and 2 new restaurants in Thailand were opened, whereas 3 restaurants in Taiwan were closed, so currently there are 6 restaurants in operation overseas.

These developments have resulted in 348 restaurants of the entire Group in operation domestic and overseas at the end of the current fiscal year.

③ Other measures

With respect to human resource measures, 8 female regular employees who had been promoted to regular employees from part-time workers following the "short-time regular employee system" adopted in October, 2014, have been newly appointed as store managers. Such enhanced system will make it possible for us to put our efforts to arrange working environment for our employees to work in a comfortable and stable way, by means of, for example, further driving active participation of female staff and providing working environment in harmony with changes in their personal life stages.

As operational measures at "Washoku Sato" restaurants, programmable IH cooking heaters have been installed at every restaurant thereby enhancing basic menu such as "Oyako-don" (bowl of rice topped with boiled chicken and eggs), and improving efficiency in cooking processes and quality stability. Moreover, in order to increase sales of "Sato-Shabu" being the core menu of all-you-can-eat style Shabu-Shabu, "Buta-Shabu" (featuring pork) course has been newly added and offered at every restaurant.

At "Santen" restaurants, seasonal fair menus are brought forward 7 times in a year in an attempt to attract more customers coming more frequently, and at the same time, delivery service started at 3 restaurants, all of which have received much appreciation.

At "Nigiri Chojiro" restaurants, seasonal menus have been updated and offered every several weeks so that customers could enjoy various dishes using seasonal fresh materials. Furthermore, foodstuffs direct from the origins such as "Barfin flounder" are sold in limited quantities, which also have received very much appreciation. In addition, investment in renovating existing restaurants was actively carried out, including installation of elevator at Uenoshiba branch for purpose of greater convenience.

As part of our efforts across restaurant categories, for purposes of more efficient store operations and improved working environment, business hours were reviewed and changes were made to times when last orders are taken.

It should be noted that the Group is a single segment of food service business and therefore description of segmental performance is omitted.

④ Forecasts for the next term

For the next term Japanese economy expects some demand rise associated with growing number of inbound travelers from abroad, whereas the environment surrounding company management would remain hard due to, on top of decline in consumer confidence caused by reduced real wages, increased labor cost caused by rising hourly wage, recruitment cost, and expanded scope of social insurance system, etc. In these circumstances, the Group will put its efforts into various measures focusing on further accelerated opening of new restaurants and increasing profitability, in order to achieve its goal of "being an essential social infrastructure and prosper over 100 years to come" as described in the mid-term management plan. As for opening of new restaurants, the Group plans to open 4 directly managed "Washoku Sato" restaurants, 25 "Tendon & Tenpura restaurant Santen" including 20 directly managed and 5 FC restaurants, 6 directly managed "Nigiri Chojiro" restaurants, 4 directly managed "Nigiri Chujiro" restaurants, 11 "Katsuya" restaurants including 5 directly managed and 6 FC restaurants, namely totaling 50 new restaurants. As part of its efforts towards increasing profitability, in order to minimize influence of steep price rise of raw materials, the Group will further promote improved purchasing power by using foodstuff common to multiple restaurants and increase proportion of materials directly imported from overseas, as well as more efficiency in indirect business operations by grouping together financial and accounting departments. Also, in response to rising labor costs, the Group will continue to build up a mechanism enabling restaurant operations with proper labor costs while observing labor legislation by means of store assistance system, and will try to improve retention of employees by, for example, enhancing employees evaluation scheme and recruit scheme of regular employees.

In such context, consolidated performance for the next term is at present expected as net sales of 43,400 million yen, operating income of 850 million yen, ordinary income of 940 million yen and income attributable to owners of parent of 400 million yen.

(2) Analysis on financial position

① Status of assets, liabilities and net assets

Total assets at the end of the current consolidated fiscal year was 27,820 million yen (increase by 3,548 million yen YOY).

Current assets was 10,765 million yen (increase by 3,239 million yen YOY). It comprises mainly, for example, increase in cash and deposits by 3,084 million yen and increase in deferred tax assets by 62 million yen.

Non-current assets was 17,053 million yen (increase by 311 million yen YOY). It comprises mainly, for example, increase in intangible assets - other by 154 million yen and increase in long-term loans receivable by 134 million yen.

Current liabilities was 7,352 million yen (increase by 67 million yen YOY). It comprises mainly, for example, increase in accounts payable - other by 451 million yen, decrease in reserve for bonuses by 199 million yen and decrease in current liabilities - other by 186 million yen.

Non-current liabilities was 5,936 million yen (decrease by 594 million yen YOY). It comprises mainly, for example, decrease in long-term loans payable by 638 million yen and increase in lease obligations by 65 million yen.

Net assets was 14,531 million yen (increase by 4,074 million yen YOY).

② Cash flow status

Cash and cash equivalents (hereinafter, "business fund") at the end of the current consolidated fiscal year was 8,616 million yen (increase by 3,084 million yen YOY).

Each cash flow status and factors thereof in the current consolidated fiscal year are as follows.

(Cash flow from operating activities)

Business fund resulting from operating activities was 1,261 million yen (whereas it was 2,721 million yen in the previous consolidated fiscal year). It comprises mainly, for example, net income before income taxes of 248 million yen and depreciation of 1,369 million yen.

(Cash flow from investment activities)

Business fund used for investment activities was 1,579 million yen (whereas it was 1,220 million yen in the previous consolidated fiscal year). It comprises mainly, for example, purchase of property, plant and equipment of 867 million yen, payments of construction assistance fund receivables of 278 million yen, and purchase of intangible assets of 242 million yen.

(Cash flow from financial activities)

Business fund resulting from financial activities was 3,246 million yen (whereas 1,597 million yen was spent in the previous year). It comprises mainly, for example, proceeds from issuance of common stock of 4,313 million yen, net decrease in long-term loans payable by 605 million yen and repayment of finance lease obligations of 221 million yen.

(Reference) Transition of cashflow-related indicators

	FY03/2012	FY03/2013	FY03/2014	FY03/2015	FY03/2016
Equity ratio (%)	37.1	46.3	39.6	42.5	51.8
Equity ratio based on market value (%)	78.1	84.2	91.4	123.4	94.1
Ratio of cash flow to interest-bearing liabilities (year)	6.1	4.6	7.9	3.0	6.0
Interest coverage ratio (times)	7.4	9.3	7.5	17.7	9.1

Equity ratio: Equity / Total assets

Equity ratio based on market value: Aggregate market value / Total assets

Ratio of cash flow to interest-bearing liabilities: Interest-bearing liabilities / Cash flow

Interest coverage ratio: Cash flow / Interest payment

NOTES:

1. Aggregate market value is calculated based on the number of shares issued, excluding treasury stock.
2. Cash flow from operating activities is used.
3. Interest-bearing liabilities include all the liabilities listed on the balance sheet for which interests have been paid.

(3) Basic principle of profit allocation and dividends for the current/next term

Basic idea concerning profit allocation is that in principle it should be determined according to business performance, and the Company does not prefer an idea towards keeping a certain level of dividend ratio but has its policy to retain as much stable dividends as possible. We would like to earmark our retained earnings for investment in opening new restaurants and in renovation of existing restaurants so that the Company's business quality could be enhanced. Under the abovementioned policy, the Company has carried out business reform to enhance its profitability and endeavored to improve its financial strength. The Company has, taking into account comprehensively its business development in the future and retained earnings, decided to provide year-end dividend of 5.00 yen per share. And also for the next term, it is expected that year-end dividend of 5.00 yen per share would be paid out.

In accordance with the resolution adopted at the 43rd annual meeting of shareholders held on June 29, 2011, the Company's articles of incorporation include a stipulation that "The Company may provide dividends of surplus upon resolution by its board of directors, pursuant to Article 459, Section 1 of the Company Act of Japan".

Dividend of surplus for the current fiscal year is as follows.

Date of resolution	Total amount of dividend (thousand yen)	Dividend per share (yen)
May 11, 2016 Board of directors	166,044	5.00

(4) Risk of businesses

Potential risk factors which may have some impact on, for example, the Group's operating results, share price and financial position include the following.

It should be noted that descriptions concerning the future in the text are based on judgement of the Company as of the end of the current consolidated fiscal year.

① Sales fluctuations

The Group operates restaurants as its core business and therefore if sales is substantially reduced due to some events causing significant decline in incentive for consumers to dine out, namely adverse effects such as large scale natural disaster, social disruption caused by war and terrorism, new infectious disease, and abnormal weather during busy season, operating results may be affected.

② Trend of competition

In the food service industry in which the Group does its business, it is predicted that competition with home-meal replacement industry such as convenience stores and delicatessens would be tougher, as well as that with conventional competitors. If the Group fails to provide highly value-added commodities meeting consumer needs, such situation may lead to decline in market share and in brand power of commodities, and eventually operating results may be affected.

③ Dependence on main restaurant category

Majority of consolidated sales of the Group depends on "Washoku Sato" restaurants. In order to grow out of such dependence on a single category, the Group puts its efforts into fostering other categories such as "Santen", "Nigiri Chojiro" and "Katsuya" restaurants, but it still depends heavily on "Washoku Sato" restaurants and therefore operating results may be affected by business performance of them.

④ Food safety

The Group operates various restaurants as "restaurant business" based on Food Sanitation Act of Japan. As the highest priority, the Group has organized its internal regime such as appointing persons responsible for "safety and sanitation, SRS Group audit office", and regularly inspects compliance with nationally established criteria, quality control status of foodstuff and sanitary control conditions of the restaurants. However, if ever any severe problem questioning food safety occurs inside or outside the Company, operating results may be affected.

⑤ Purchase price fluctuations and stable procurement

Operating results may be affected in the event of substantial fluctuations in prices of items to be purchased and in supplied amount due to, for example, abnormal weather and large scale natural disaster, international conflict, safety issues such as residual pesticides and food additives, outbreak of infectious diseases of livestock, and exchange rate fluctuations.

⑥ Opening new restaurants

The Group mainly operates Japanese restaurants chains and therefore if appropriate sites for opening new restaurants could not be acquired or if the Company is forced to withdraw due to unexpected change in roads around any planned site for opening new restaurant and/or in development conditions, or due to significant change in location environment caused by any competitor restaurant opening in the neighborhood, operating results may be affected.

⑦ Dependence on leased properties for restaurants

The Group has most of its offices and premises on leased properties. Duration of lease contract can be renewed upon agreement with the lessor, whereas lease contract might be terminated due to some reason on the part of the lessor. Unplanned withdrawal might occur due to early termination of lease contract.

In addition, guarantee deposits have been provided to lessors based on contracts with each of them. Although the Group pays adequate attentions to situations of lessors to ensure recovery of deposits, if such recovery is difficult due to, for example, bankruptcy of a lessor, operating results may be affected.

⑧ Interest-bearing liabilities

The Group raises funds for opening new restaurants and for other purposes from financial institutions and other sources. Although it aims to operate with conservative financial policies including reduction in outstanding interest-bearing liabilities, operating results may be affected in the event of interest rate fluctuations.

⑨ Impairment loss and loss on withdrawal

The Group applies "accounting standard for impairment of non-current assets". In the event of significant decline in profitability in any of the Group's restaurants due to, for example, striking change in external environment, impairment loss may be declared thereby affecting operating results.

In addition, some underperforming restaurants have been closed based on our withdrawal criteria. If any loss on retirement of non-current assets, any penalty and/or subleasing cost for the relevant property occur upon withdrawal, or if some allowance should be allocated for expected loss on such withdrawal, operating results may be affected.

⑩ Control of personal information

The Group manages and uses information handled and/or collected by each group companies (including (specific) personal information) as its significant resources. Despite maximum efforts to control personal information,

including outsourcing those matters related to the governmental "My Number" system to an external professional agent, operating results may be affected in the event of leak of personal information for some reason that could cause compensation for damage and collapse of social trust.

⑪ Retaining human resources

In order to continue smooth operation of the Group's business, retaining and fostering human resources including short-time workers are of importance. The Group puts its efforts into retaining human resources including personnel relocation and mid-career employment. However, operating results may be affected if in the future human resources could not be retained as planned or in case of unexpectedly sharp rise in labor costs due to recruit environment.

⑫ Labor issues

The Group, not only restaurants but also including headquarters, in order to prevent labor issues, puts its efforts into building up compliance scheme concerning working hours administration and other matters together with awareness raising among employees, and has established its own helpline as internal & external "consultation desk for employees". However, should any labor issue occur, claim from any injured party for damage, declined creditworthiness of the Group and other factors might have some impact on the Group's brand image, and even on its operating results.

⑬ Natural disaster and others

The Group's bases of production, logistics, sales, information control facilities and others may suffer enormous damage from natural disaster such as earthquake and typhoon. Although the Group inspects its out facilities regularly, impacts from these disasters may not be completely prevented or mitigated. In the event of natural disaster such as large scale earthquake and typhoon, operating results may be affected due to interruption of production activities and to delay in product supply.

⑭ Impairment of goodwill

The Group allocates substantial amount of goodwill associated with acquisition of a corporation on the consolidated balance sheets. Such allocation of goodwill is considered as properly reflecting the future profitability, whereas should outcome be less than expected, then impairment loss may be declared for the relevant goodwill thereby affecting financial position and operating results of the Group.

⑮ Risk in overseas business

In developing overseas business, there exist various potential risks including laws, systems, political/economic/social circumstances, cultures, business practices, foreign exchanges in countries where the Group operates, and if it could not proceed with business development as planned because of, for example, being unable to deal with such risks, operating results may affected by necessity for handling impairment of investment (e.g. handling impairment of investment securities).

2. Corporate group

The Group consists of the Company and its four affiliates, main business of which is operating family restaurants.

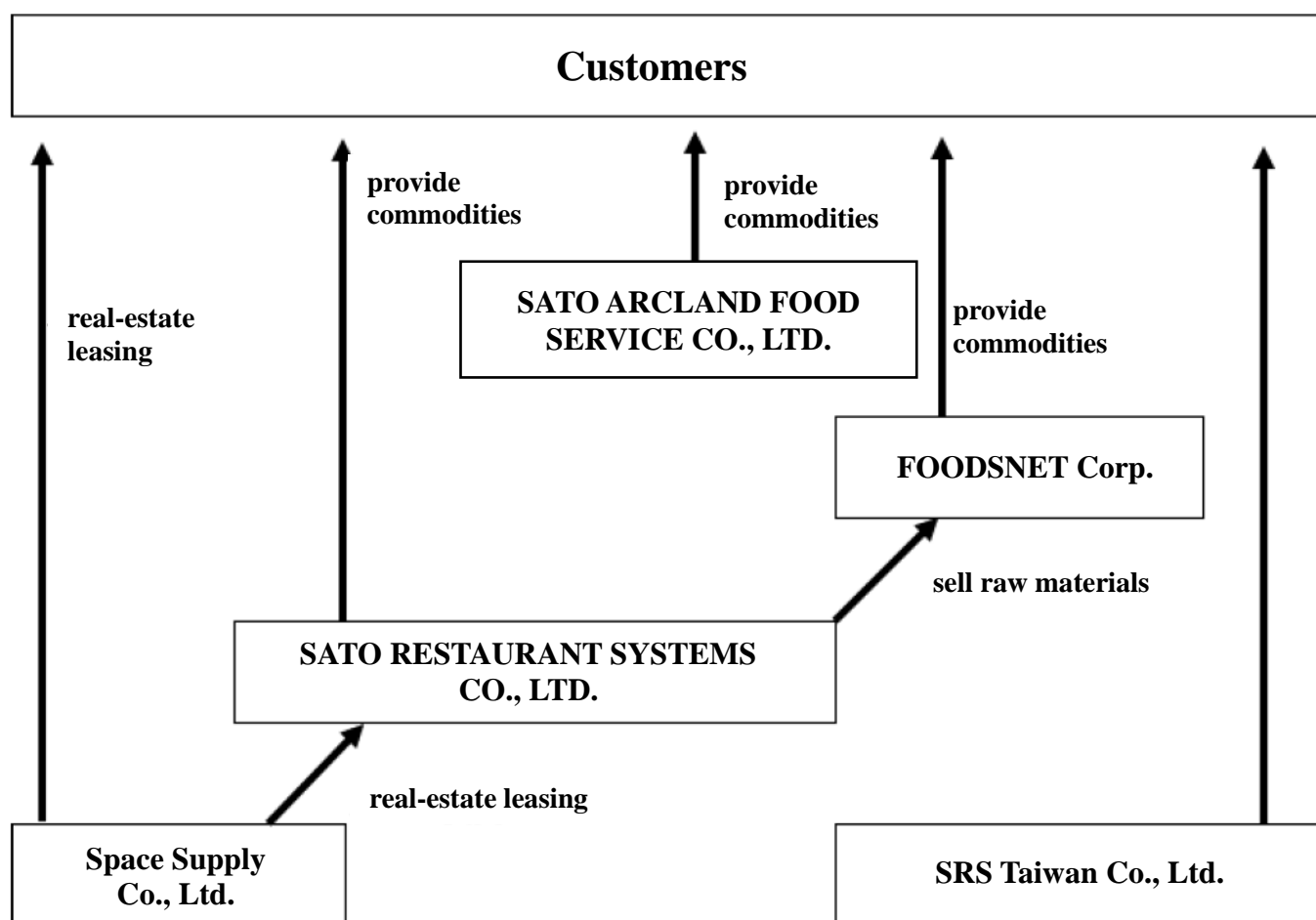
Description of the Group's business, relationship with the Company, and systematic chart of business are as shown below.

(1) Description of the Group's business and relationship with the Company

[Operating family restaurants] The Company operates family restaurants centering on Japanese cuisine. SATO ARCLAND FOOD SERVICE CO., LTD. operates and manages 14 "Katsuya" restaurants in Kansai area. FOODSNET Corp. operates and manages 53 "Nigiri Chojiro" restaurants, 1 "Miyakobito" restaurant and 6 "Nigiri Chujiro" restaurants in Kansai and Kanto areas. SRS Taiwan Co., Ltd. operates and manages 1 "Wasoku Sato" restaurant in Taiwan.

[Others] Space Supply Co., Ltd. engages mainly in real estate leasing.

(2) Systematic chart of business



3. Management policy

(1) Basic policy of managing the Company

The Group's philosophy is "Contributing to society through food" and aims to realize good life by establishing "food" that is the most important element for people to live as its pillar of business and by providing opportunities to enjoy affluent meals, with its basic policy of being "the restaurant that brings the highest customer satisfaction" as a company which is essential for the community.

(2) Management indicators to be the targets

The Group has set its goal of increasing ratio of ordinary income on sales, as one of important management indicators towards improved corporate value and enhanced shareholders profit. Also, it has set its goal to achieve ratio of ordinary income on sales of 5% as its middle-and-long term goal.

(3) Middle-and-long term management strategies

As middle-and-long term management strategies and towards the basic policy of being "the restaurant that brings the highest customer satisfaction", the Group will put its efforts into various business challenges with three important themes of "lowering break-even point by improved productivity", "continued opening new restaurants of conventional categories and accelerated opening new restaurants in new business domain", and "fundamental reform of financial structure".

(4) Issues to be addressed

For achieving its middle-and-long term management strategies, the Group continues to consider the years to come as "periods of growth and development", bring forward the fast-casual categories of "Santen" and "Katsuya" restaurants as its growth drivers, and put its efforts into various measures so that they would get on track of growth and expansion as early as possible.

Specifically, for "Santen" restaurants, early formation of dominant areas by accelerated opening of new restaurants will be promoted along with opening them in new areas, business districts and shopping centers, as well as opening as FC affiliates. For "Katsuya" restaurants, the Group will accelerate further opening new directly managed and FC restaurants in Kansai area aiming at, like "Santen" restaurants, early formation and expansion of dominant areas. At "Washoku Sato" restaurants, main category of the Group, it continues to enhance sales of its core menu of "Sato-Shabu" (all-you-can-eat style Shabu-Shabu) and measures for attracting wider range of customers, while for purpose of profitability it aims at higher efficiency in restaurant operations by table order system using tablet terminals and functionally strengthened store assistance system. In addition, continued opening new restaurants in potential areas will take place mainly in Chubu region in Japan.

And at "Nigiri Chojiro" restaurants, the Group continues to realize synergies generated by them forming part of the Group, and works on management efficiency centered on cost reduction in purchasing by using common materials and by higher logistic efficiency, along with fostering human resources for opening new restaurants. Proactively opening new restaurants will also be driven within the Group's logistics network.

In terms of finance, the Group continues putting its efforts to make more sound financial structure by diversified fund-raising.

As previously announced on April 28, 2016, the Group decided to pay unpaid wages for overtime working for the preceding two years. The Group shall accept this fact of the matter seriously, and, for purpose of more intensive compliance, continue to examine its compliance status by means of internal control system, together with reforming corporate climate and awareness-raising including eradication of working long hours. Also, as part of corrective measures against improper treatment in working hours administration such as compliance violations and others, new helpline will be established as an external consultation desk associated with a law firm in addition to the pre-existing helpline, so that a mechanism could be reinforced to prevent various problems beforehand and respond promptly, by building up such mechanism in which one could consult directly with that external desk.

4. Basic idea for the selection of accounting standards

The Group has decided to adopt Japanese accounting standards for the time being, but taking into account the trend in proportion of foreign shareholders and in adoption of International Financial Reporting Standards (IFRS) at other domestic companies, it looks to consider when IFRS should be adopted.

5. Consolidated financial statements

(1) Consolidated balance sheets

	(Thousand yen; △ means negative)	
	Previous consolidated fiscal year (Mar. 31, 2015)	Current consolidated fiscal year (Mar. 31, 2016)
Assets		
Current assets		
Cash and deposits	5,532,308	8,616,381
Accounts receivable - trade	541,833	603,001
Merchandise	36,395	41,279
Raw materials and supplies	651,647	710,854
Deferred tax assets	250,648	312,739
Other	514,238	481,583
Allowance for doubtful accounts	△477	—
Total current assets	7,526,595	10,765,840
Non-current assets		
Property, plant and equipment		
Buildings and structures	17,075,451	17,644,900
Accumulated depreciation	※3 △14,242,874	△14,892,714
Buildings and structures, net	※2 2,832,576	※2 2,752,185
Machinery, equipment and vehicles	714,244	738,969
Accumulated depreciation	※3 △593,039	※3 △631,411
Machinery, equipment and vehicles, net	121,205	107,558
Land	※2, ※4 4,742,506	※2, ※4 4,742,506
Lease assets	1,601,603	1,839,803
Accumulated depreciation	※3 △483,416	※3 △659,886
Lease assets, net	1,118,187	1,179,916
Construction in progress	49,650	28,341
Other	3,005,858	3,242,428
Accumulated depreciation	※3 △2,500,593	※3 △2,679,506
Other, net	505,264	562,922
Total property, plant and equipment	9,369,391	9,373,431
Intangible assets		
Goodwill	1,206,282	1,116,373
Other	822,990	977,751
Total intangible assets	2,029,273	2,094,124
Investment and other assets		
Investment securities	※1, ※2 822,623	※1, ※2 805,407
Long-term loans receivable	698,913	833,744
Guarantee deposits	3,051,899	3,039,010
Deferred tax assets	401,559	445,963
Other	383,435	475,766
Allowance for doubtful accounts	△14,665	△13,505
Total investments and other assets	5,343,765	5,586,386
Total non-current assets	16,742,431	17,053,942
Deferred assets	3,259	649
Total assets	24,272,286	27,820,432

(Thousand yen; △ means negative)

	Previous consolidated fiscal year (Mar. 31, 2015)	Current consolidated fiscal year (Mar. 31, 2016)
Liabilities		
Current liabilities		
Accounts payable - trade	1,111,667	1,179,980
Current portion of bonds	100,000	50,000
Current portion of long-term loans payable	※2 2,403,186	※2 2,437,500
Lease obligations	214,976	221,793
Accounts payable-other	1,686,382	2,137,639
Income taxes payable	297,104	230,746
Reserve for bonuses	471,966	272,916
Provision for loss on store closing	—	8,599
Other	999,149	812,967
Total current liabilities	7,284,433	7,352,143
Non-current liabilities		
Bonds	50,000	7,352,143
Long-term loans payable	※2 4,398,835	※2 3,759,945
Lease obligations	989,588	1,055,259
Deferred tax liabilities for land revaluation	※4 289,282	※4 274,908
Deferred tax liabilities	84,719	83,745
Provision for directors' retirement benefits	31,403	29,578
Asset retirement obligations	478,446	510,772
Other	208,637	222,218
Total non-current liabilities	6,530,912	5,936,428
Total liabilities	13,815,345	13,288,571
Net assets		
Shareholders' equity		
Capital stock	6,361,756	8,532,856
Capital surplus	2,810,575	4,981,675
Retained earnings	1,535,148	1,400,978
Treasury shares	△129	△173
Total shareholders' equity	10,707,350	14,915,337
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	228,418	108,976
Revaluation reserve for land	※4 △614,436	※4 △600,061
Total accumulated other comprehensive income	△386,018	△491,085
Non-controlling interests	135,607	107,608
Total net assets	10,456,940	14,531,860
Total liabilities and net assets	24,272,286	27,820,432

(2) Consolidated statement of income and statement of comprehensive income)

(Consolidated statement of income)

(Thousand yen; △ means negative)

	Previous consolidated fiscal year (Apr. 1, 2014 - Mar. 31, 2015)	Current consolidated fiscal year (Apr. 1, 2015 - Mar. 31, 2016)
Net sales	37,969,881	40,061,632
Cost of sales	12,979,959	13,864,299
Gross profit	24,989,921	26,197,333
Selling, general and administrative expenses		
Directors' compensations	143,430	174,280
Salaries and allowances	10,721,630	11,992,955
Employees' bonuses	251,647	284,954
Provision for bonuses	461,972	268,467
Welfare expenses	892,368	1,005,468
Retirement benefit expenses	206,598	207,339
Utilities expenses	1,817,141	1,678,394
Supplies expenses	1,034,995	1,130,375
Rent expenses	3,935,700	4,048,411
Repair expenses	408,026	439,064
Depreciation	1,314,188	1,360,673
Miscellaneous expenses	2,528,726	2,974,872
Amortization of goodwill	89,909	89,909
Total selling, general and administrative expenses	23,806,336	25,655,166
Operating income	1,183,585	542,166
Non-operating income		
Interest income	12,944	14,189
Dividends income	17,082	17,762
House rent income	101,982	100,153
Foreign exchange gains	220,910	—
Miscellaneous income	77,904	50,295
Total non-operating income	430,822	182,400
Non-operating expenses		
Interest expenses	153,954	138,821
Expenses of real estate rent	83,883	81,227
Foreign exchange losses	—	65,798
Stock issuance cost	—	28,261
Miscellaneous loss	46,477	49,031
Total non-operating expenses	284,315	363,140
Ordinary income	1,330,092	361,427
Extraordinary income		
Gain on sales of non-current assets	4,129	—
Total extraordinary income	4,129	—
Extraordinary losses		
Loss on retirement of non-current assets	※1 24,733	※1 17,510
Loss on sales of noncurrent assets	—	※2 13,128
Loss on valuation of investment securities	26,084	—
Loss on cancellation of rental contracts	2,400	5,541
Impairment loss	—	※2 68,256
Provision for loss on store closing	—	8,599
Total extraordinary losses	53,217	113,036
Income before income taxes and minority interests	1,281,004	248,390
Income taxes - current	417,944	339,772
Income taxes - deferred	16,780	△70,257
Total income taxes	434,724	269,514
Net income or loss (△)	846,279	△21,124
Net income or loss (△) attributable to non-controlling interests	5,822	△27,999
Net income attributable to owners of parent	840,456	6,875

(Consolidated statement of comprehensive income)

(Thousand yen; △ means negative)

	Previous consolidated fiscal year (Apr.1, 2014 - Mar.31, 2015)	Current consolidated fiscal year (Apr.1, 2015 - Mar.31, 2016)
Net income or loss (△)	846,279	△21,124
Other comprehensive income		
Valuation difference on available-for-sale securities	97,311	△119,441
Revaluation reserve for land	30,545	14,374
Total other comprehensive income	※ 127,856	※ △105,067
Comprehensive income	974,135	△126,191
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	968,313	△98,191
Comprehensive income attributable to non-controlling interests	5,822	△27,999

(3) Consolidated statements of shareholders' equity

Previous consolidated fiscal year (Apr. 1, 2015 - Mar. 31, 2015)

(Thousand yen; △ means negative)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the start of current period	6,361,756	2,810,575	779,318	△85	9,951,564
Changes of items during the period					
Issuance of new shares					
Dividends from surplus			△84,626		△84,626
Income attributable to owners of parent			840,456		840,456
Purchase of treasury stock				△43	△43
Changes of items other than shareholders' equity (net)					
Total changes of items during the period	—	—	755,829	△43	755,786
Balance at the end of current period	6,361,756	2,810,575	1,535,148	△129	10,707,350

	Accumulated other comprehensive income			Minority shareholders' equity	Total net assets
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Total accumulated other comprehensive income		
Balance at the start of current period	131,106	△644,981	△513,874	129,785	9,567,474
Changes of items during the period					
Issuance of new shares					
Dividends from surplus					△84,626
Income attributable to owners of parent					840,456
Purchase of treasury stock					△43
Changes of items other than shareholders' equity (net)	97,311	30,545	127,856	5,822	133,679
Total changes of items during the period	97,311	30,545	127,856	5,822	889,465
Balance at the end of current period	228,418	△614,436	△386,018	135,607	10,456,940

Current consolidated fiscal year (Apr. 1, 2015 - Mar. 31, 2016)

(Thousand yen; △ means negative)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the start of current period	6,361,756	2,810,575	1,535,148	△129	10,707,350
Changes of items during the period					
Issuance of new shares	2,171,100	2,171,100			4,342,200
Dividends from surplus			△141,044		△141,044
Income attributable to owners of parent			6,875		6,875
Purchase of treasury stock				△43	△43
Changes of items other than shareholders' equity (net)					
Total changes of items during the period	2,171,100	2,171,100	△134,169	△43	4,207,986
Balance at the end of current period	8,532,856	4,981,675	1,400,978	△173	14,915,337

	Accumulated other comprehensive income			Minority shareholders' equity	Total net assets
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Total accumulated other comprehensive income		
Balance at the start of current period	228,418	△614,436	△386,018	135,607	10,456,940
Changes of items during the period					
Issuance of new shares					4,342,200
Dividends from surplus					△141,044
Income attributable to owners of parent					6,875
Purchase of treasury stock					△43
Changes of items other than shareholders' equity (net)	△119,441	14,374	△105,067	△27,999	△133,066
Total changes of items during the period	△119,441	14,374	△105,067	△27,999	4,074,920
Balance at the end of current period	108,976	△600,061	△491,085	107,608	14,531,860

(4) Consolidated cash flow statement

(Thousand yen; △ means negative)

	Previous consolidated fiscal year (Apr. 1, 2014 - Mar. 31, 2015)	Current consolidated fiscal year (Apr. 1, 2015 - Mar. 31, 2016)
Cash flow from operating activities		
Net income before income taxes	1,281,004	248,390
Depreciation	1,322,538	1,369,980
Amortization of goodwill	89,909	89,909
Impairment loss	—	68,256
Increase/decrease in reserve for bonuses (△ means decrease)	58,630	△199,050
Increase/decrease in allowance for doubtful accounts (△ means decrease)	△1,772	△1,637
Increase/decrease in provision for directors' retirement benefits (△ means decrease)	—	△1,825
Increase/decrease in provision for loss on store closing (△ means decrease)	—	8,599
Interest and dividends income	△30,026	△31,951
Interest expenses	153,954	138,821
Profit/loss on valuation of investment securities (△ means profit)	26,084	—
Profit/loss on sales of non-current assets (△ means profit)	△4,129	13,128
Loss on retirement of non-current assets	24,733	17,510
Loss on cancellation of leasehold contracts	2,400	5,541
Increase/decrease in sales credit (△ means increase)	△56,274	△61,168
Increase/decrease in inventories (△ means increase)	△8,511	△64,090
Increase/decrease in notes and accounts payable-trade (△ means decrease)	10,263	68,313
Increase/decrease in accounts payable-other (△ means decrease)	142,984	450,095
Increase/decrease in accrued consumption taxes (△ means decrease)	469,638	△349,803
Other	△261,167	87,094
Subtotal	3,220,261	1,856,114
Interest and dividends income received	16,772	17,608
Interest expenses paid	△155,023	△140,702
Income taxes paid	△360,657	△471,389
Cash flow from operating activities	2,721,353	1,261,631
Cash flow from investment activities		
Payments into time deposits	—	△1,000,000
Proceeds from withdrawal of time deposits	—	992,719
Purchase of property, plant and equipment	△829,070	△867,749
Proceeds from sales of property, plant and equipment	4,239	4,382
Purchase of investment securities	△49,932	△21,147
Purchase of intangible assets	△237,559	△242,834
Proceeds from sales of intangible assets	—	24,443
Purchase of stocks of subsidiaries and affiliates	—	△118,288
Payments for guarantee deposits	△88,335	△102,535
Proceeds from collection of guarantee deposits	125,986	105,422
Payments of construction assistance fund receivables	△177,000	△278,437
Collection of construction assistance fund receivables	91,696	95,466
Other	△60,031	△170,874
Cash flow from investment activities	△1,220,007	△1,579,430
Cash flow from financial activities		
Proceeds from long-term loans payable	1,550,000	2,000,000
Repayment of long-term loans payable	△2,770,449	△2,605,139
Repayment of finance lease obligations	△192,501	△221,011
Redemption of bonds	△100,000	△100,000
Proceeds from issuance of common stock	—	4,313,938
Purchase of treasury stock	△43	△43
Cash dividends paid	△84,626	△141,044
Cash flow from financial activities	△1,597,621	3,246,698
Effect of exchange rate change on cash and cash equivalents	95,403	155,174
Increase/decrease in cash and cash equivalents (△ means decrease)	△871	3,084,073
Balance of cash and cash equivalents at beginning of the period	5,533,179	5,532,308
Balance of cash and cash equivalents at end of the period	※1 5,532,308	※1 8,616,381