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# KOURAKUEN CORPORATION

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## 1. Basic Information on the Company

<b>Name of the Issuer:</b>	KOURAKUEN CORPORATION
<b>Registered head office:</b>	1-1, Aza-Kawakubo, Tamura-machi-Kanaya, Koriyama-shi, Fukushima 963-0725, Japan
<b>Form of the entity:</b>	Joint stock corporation with limited liability under Japanese law
<b>Date of incorporation:</b>	1970 in Fukushima
<b>Duration:</b>	Unlimited
<b>Rating:</b>	None

## 1. History and Activities

### *History*

The Company is a leading operator of a chain of *ramen* restaurants in the Tohoku and Kanto regions of Japan. Ramen is a Japanese-style Chinese noodle, usually served in a broth with bits of meat and vegetables, and is a popular food among Japanese.

The origin of the Company's business can be traced back to 1954 when Tsukasa Niida, the father of Tsutae Niida, the current Chairman and Representative Director of the Company, opened his first restaurant in the city of Aizu-Wakamatsu, Fukushima. The Company was incorporated in 1970 and consisted of four ramen restaurants in Aizu-Wakamatsu.

In 1975, the Company opened a factory which produced noodles, *gyoza* (Chinese dumpling) and other food and food ingredients to supply to the Company's restaurants. In 1984, the Company expanded its operations outside of the prefecture of Fukushima by opening a restaurant in the city of Sendai, Miyagi. The Company continued to open additional restaurants in the surrounding areas and, in 2003, it opened its first ramen restaurant in central Tokyo. In the year ended March 31, 2004, approximately half of the ramen restaurants the Company opened during this period were located in the greater Tokyo area.

In 1998, the Company launched its pork cutlet business and opened its first restaurant primarily serving pork cutlets. In 1999, the Company established K.K. Tonkararin, a wholly owned subsidiary of the Company, to conduct the pork cutlet and *obento* (Japanese assorted meal boxes) business. Commencing in October 2002, the Company converted all of its pork cutlet restaurants into Japanese food restaurants offering various low-priced Japanese foods under the name "Wafu Chubo Denpachi". In April 2003, K.K. Tonkararin changed its name to K.K. Denpachi.

The Shares were registered for trading on the over-the-counter market of the Japan Securities Dealers Association in 1997, and listed on the Second Section of the Tokyo Stock Exchange, Inc. ("TSE") in 2002 and on the First Section of the TSE in 2003.

#### *Activities*

The present business of the Company comprises of three business segments: Ramen, Other food services and Other.

#### *Ramen*

The Ramen segment is engaged in the production and sale of ramen and gyoza and the sale of noodles, soups, food ingredients and sundry supplies. Most of the ramen restaurants operate under the name "KOURAKUEN".

In order to manage its relatively large ramen chain, the Company has developed uniform methods regarding food preparation, sales and store management which are adopted at all of its ramen restaurants. A large amount of the food used by the ramen restaurants, such as noodles and gyoza, are produced by the Company's two factories, and are supplied to the restaurants through the Company's own distribution system. In June 2004, the Company commenced the operation of its second factory in the city of Odawara, Kanagawa.

On June 7, 2004, the Company executed a basic agreement with the city of KyoTanabe to purchase land located in the prefecture of Kyoto for the purpose of constructing its third factory. The purchase of the land is subject to approval by the city council of Kyo-Tanabe. The Company expects to spend approximately JPY 3.5 billion to acquire the land, construct the factory and acquire the necessary equipment to operate the third factory. The third factory is scheduled to commence operations in January 2007.

Most of the ramen restaurants are directly managed by the Company, although some of the restaurants are operated by franchisees under franchise agreements with the Company. The Company uses standard forms of franchise agreements. The term of the agreements is three or five years. The agreements are automatically renewed every three years, provided, however, that if either of the franchisor or franchisee terminates the agreement, the agreement shall not be renewed. Franchisees are required to pay to the franchisor a royalty each month based on a certain percentage of the monthly gross sales of each franchisee restaurant. As of March 31, 2004, the royalty fee was five percent. K.K. Kourakuen Associate Tokyo, a wholly owned subsidiary of the Company, is engaged in the business of developing new franchisees and providing management training to franchisees in the central Tokyo area. As of March 31, 2004, the Company or its subsidiaries operated 181 ramen restaurants and its franchisees operated additional 18 ramen restaurants.

#### *Other food services*

The Other food services segment operates and manages the Japanese food restaurants under the name "Wafu Chubo Denpachi" and sells pork cutlets, other Japanese foods and obento. In the past, a wholly-owned subsidiary of the Company called K.K. Tonkararin (currently, K.K. Denpachi) was engaged in the sale of pork cutlets and obento in this segment. However, K.K. Tonkararin recorded an operating loss for each of the four consecutive years ended March 31, 2003 and all restaurants operated in this segment were converted into the above Japanese food restaurants in the year ended March 31, 2003.

The Company supplies certain food ingredients and rents certain real estate to K.K. Denpachi to conduct its business.

As of March 31, 2004, K.K. Denpachi directly operated seven restaurants. No franchisee restaurant is operated in this segment.

*Other*

This segment includes all of the other businesses engaged in by the Company and its subsidiaries. Three companies, wholly owned by the Company, conduct these businesses. K.K. Den Hoken is engaged in the insurance agency business. It arranges damage and life insurance policies mainly for the Company, its subsidiaries and the franchisees of the Company. K.K. Value Line provides construction and design services. It designs and constructs restaurant interiors and provides related construction management and supervision services for the Ramen and Other food services segments. K.K. Screen conducts an advertising agency and marketing business. It produces and sells printed advertising materials, television commercials and plans and manages special events for businesses engaged in by the Ramen and Other food services segments of the Company.

The following is a summary of the Company's consolidated financial data for the years ended March 31, 2002, 2003 and 2004 and as at March 31, 2003 and 2004.

	March 31, 2002	Year ended March 31, 2003	March 31, 2004
	(Millions of Yen)		
Net sales	12,647	15,885	19,747
Operating income	947	1,337	1,769
Net income	530	706	884
Net income per Share (Yen):			
Basic	37.94	46.52	56.60
Diluted	37.43	45.98	56.43
Total assets	-----	11,029	14,377
Shareholders' equity	-----	5,800	8,096

Note:

The following is a summary of the Company's non-consolidated financial data for the years ended March 31, 2002, 2003 and 2004 and as at March 31, 2003 and 2004.

	March 31, 2002	Year ended March 31, 2003	March 31, 2004
		(Millions of Yen)	
Net sales	12,053	15,299	18,876
Operating income	925	1,370	1,767
Net income	538	777	935
Total assets	-----	11,092	14,094
Shareholders' equity	-----	5,983	8,330

The following tables show a breakdown of the Company's consolidated net sales by business segment or by prefecture where the Company operates its restaurants, respectively, for the three years ended March 31, 2004.

Segment <sup>(Note)</sup>	Year ended		
	March 31, 2002	March 31, 2003	March 31, 2004
		Millions of Yen (Percentage)	
Ramen	12,036 (95.2%)	15,242 (95.9%)	18,831 (95.4%)
Other food services (Pork Cutlet)	611 (4.8%)	600 (3.8%)	781 (3.9%)
Other	- (-)	43 (0.3%)	135 (0.7%)
Total	12,647 (100.0%)	15,885 (100.0%)	19,747 (100.0%)

Note:

Effective April 4, 2003, the Company changed the Pork Cutlet segment to the Other food services segment.

This table shows the net sales to outside customers for each segment.

Prefecture	March 31,	Year ended March 31,	March 31,
	2002	2003	2004
		(Millions of Yen)	
		(Percentage)	
Fukushima	2,654 (22.2%)	2,904 (19.2%)	3,295 (17.5%)
Miyagi	1,946 (16.3%)	2,089 (13.8%)	2,203 (11.7%)
Yamagata	450 (3.8%)	496 (3.3%)	504 (2.7%)
Tochigi	1,218 (10.2%)	1,299 (8.6%)	1,404 (7.5%)
Niigata	458 (3.8%)	453 (3.0%)	449 (2.4%)
Ibaraki	955 (8.0%)	1,230 (8.1%)	1,385 (7.4%)
Gunma	686 (5.7%)	800 (5.3%)	841 (4.5%)
Saitama	1,979 (16.5%)	2,853 (18.9%)	3,316 (17.6%)
Chiba	1,139 (9.5%)	1,996 (13.2%)	2,545 (13.5%)
Tokyo	125 (1.0%)	304 (2.0%)	1,320 (7.0%)
Kanagawa	136 (1.1%)	410 (2.7%)	768 (4.1%)
Akita	228 (1.9%)	296 (1.9%)	349 (1.8%)
Shizuoka	-	-	321 (1.7%)
Yamanashi	-	-	104 (0.6%)
Aichi	-	-	6 (0.0%)
Mie	-	-	4 (0.0%)
Gifu	-	-	4 (0.0%)
Total	11,974 (100.0%)	15,130 (100.0%)	18,818 (100.0%)

Note:

This table only shows the results of restaurants directly operated by the Company.

## **2. Recent Business and Outlook**

### *Recent Business*

For the year ended March 31, 2004, the Company's consolidated net sales amounted to JPY 19,747 million, a 24.3 % increase from JPY 15,885 million in the previous year, although the food services industry in Japan was generally weak during such period due to the decline in consumer confidence, the occurrence of the Bovine Spongiform Encephalopathy (BSE) disease and the avian influenza, bad

weather conditions and other factors. The increase in consolidated net sales resulted from the Company's effort to strengthen its competitiveness mainly by aggressively opening new restaurants and improving the menu items. As the ratio of increase in consolidated net sales exceeded the ratios by which cost of sales and selling, general and administrative expenses increased during the same period (23.4% and 23.6%, respectively), the operating income rose to JPY 1,769 million, up 32.3% compared with JPY 1,337 million in the previous year.

By segment, the net sales to outside customers and the operating income in the Ramen segment increased by 23.5% to JPY 18,831 million and by 20.4% to JPY 3,305 million, respectively. In the Other food services segment, net sales to outside customers increased by 30.2% to JPY 781 million. The segment recovered from the operating loss in the previous year and recorded an operating income of less than JPY 1 million. The net sales to outside customers in the Other segment increased to JPY 135 million and the operating income grew to JPY 117 million.

Reflecting the various factors as described above and an increase in the income taxes, net income for the year ended March 31, 2004 was JPY 884 million, a 25.2% increase from JPY 706 million in the previous year.

#### *Outlook*

The management of the Company is not yet able to accurately estimate the Company's results for the current year ending March 31, 2005, while it expects an expansion similar to the year ended March 31, 2004 in the Company's consolidated net sales and operating income.

### **3. Board of Directors and Corporate Auditors**

<u>Name</u>	<u>Title</u>
Tsutaе Niida*	Chairman
Toshihiro Hasegawa*	President
Kiyoshi Sato*	Vice President and General Manager of Supply Division
Naoyuki Ujiie	Managing Director and Head of Internal Auditing Office
Norihisa Takeda	Managing Director, General Manager of Administrative Division and Manager of General Affairs Department
Takehiko Hoshi	Standing Corporate Auditor
Morino Yashima	Corporate Auditor
Heizou Hayashi	Corporate Auditor
Hirobumi Matsumoto	Corporate Auditor

\*Representative Director

### **4. Number of Employees**

661 employees (as of March 31, 2004) on a consolidated basis.

### **5. Use of Proceeds**

The net proceeds from issue of the Notes with Stock Acquisition Rights will be applied towards the Company's capital expenditure, including investment in facilities of newly opened restaurants.

## **2. Information Concerning the Shares of the Company**

### **1. Capital**

- Number of Shares constituting one unit: 100 Shares
- Number of Shares authorized: 40,000,000 Shares
- Number of Shares issued as of March 31, 2004: 16,065,841 Shares

On September 20, 2002, the Company has granted stock acquisition rights to subscribe for the Shares to the directors and employees of the Company and its subsidiaries. As of May 31, 2004, the outstanding stock acquisition rights covered 499,557 Shares, and their exercise period was from October 1, 2002 through March 31, 2005, and their exercise price was JPY 1,385 per Share.

The changes in the issued share capital of the Company for the last five years are as follows:

<u>Date</u>	<u>Type of issue</u>	<u>Number of Shares issued</u>	<u>Total number of Shares in issue</u>
October 12, 1999	Issued upon exercise of subscription rights	2,000	4,385,768
December 13, 1999	Public offering of new Shares	300,000	4,685,768
March 27, 2000	Issued upon exercise of subscription rights	1,000	4,686,768
May 19, 2000	Stock split (1:1.1)	468,676	5,155,444
From April 1, 2000 through March 31, 2001	Issued upon exercise of subscription rights	7,000	5,162,444
May 18, 2001	Stock split (1:1.3)	1,548,733	6,711,177
From April 1, 2001 through March 31, 2002	Issued upon exercise of subscription rights	177,140	6,888,317
May 20, 2002	Stock split (1:1.5)	3,444,158	10,332,475
August 28, 2002	Public offering of new Shares	800,000	11,132,475
From April 1, 2002 through March 31, 2003	Issued upon subscription rights and stock acquisition rights	332,095	11,464,570
May 20, 2003	Stock split (1:1.3)	3,439,371	14,903,941
August 15, 2003	Public offering of new Shares	1,000,000	15,903,941

September 16, 2003	Private allocation of new Shares to Daiwa Securities SMBC Co. Ltd.	100,000	16,003,941
From April 1, 2003 through March 31, 2004	Issued upon exercise of stock acquisition rights	61,900	16,065,841
From April 1 through May 31, 2004	-	0	16,065,841

## **2. Dividends per Share**

<u>Record date</u>	<u>Yen per Share</u>
March 31, 1999	¥12.0
September 30, 1999	¥0.0
March 31, 2000	¥15.0
September 30, 2000	¥0.0
March 31, 2001	¥15.0
September 30, 2001	¥0.0
March 31, 2002	¥20.0
September 30, 2002	¥0.0
March 31, 2003	¥22.0
September 30, 2003	¥0.0
March 31, 2004	¥24.0

## **3. Listing and Price Range of Shares**

The Shares of the Company were registered for trading on the over-the-counter market of the Japan Securities Dealers Association in September 1999, and were listed on the Second Section of the TSE in March 2002, and have been listed on the First Section of the TSE since March 2003. The high and low prices of the Shares (adjusted for the stock dividend and the free share distribution) for the periods indicated were as follows:

### Share Price Performance (Yen):

Calendar Year	1999	2000	2001	2002	2003	2004 Up to June 18
High (Yen per Share)	2,000	1,550 1,260*	1,330 1,250**	1,900 1,850***	1,980 1,750****	1,585
Low (Yen per Share)	720	1,200 950*	1,000 930**	1,150 1,000***	1,580 1,259****	1,256

\* after March 28, 2000, the ex-rights date for the 1.1 for 1 stock split which became effective on May 19, 2000.

\*\* after March 27, 2001, the ex-rights date for the 1.3 for 1 stock split which became effective on May 18, 2001.

\*\*\* after March 26, 2002, the ex-rights date for the 1.5 for 1 stock split which became effective on May 20, 2002.

\*\*\*\* after March 26, 2003, the ex-rights date for the 1.3 for 1 stock split which became effective on May 20, 2003.

The Closing Price of the Shares on the TSE on June 18, 2004: JPY 1,531

#### **4. Voting Rights and General Meetings of Shareholders**

Each shareholder of the Company who has a minimum of one unit of Shares (currently being 100 Shares) shall have one vote for each unit of Shares. A shareholder may exercise his or her voting rights by a proxy who is also a shareholder with voting rights of the Company. Except as otherwise provided for by law or ordinance or the Company's Articles of Incorporation, all resolutions of a general meeting of shareholders are to be adopted by a majority of votes of the shareholders present or represented thereat.

The ordinary general meeting of shareholders of the Company is normally held in June of each year. The extraordinary general meetings of shareholders may be convened as and when necessary.

#### **5. Transfer of the Shares**

Under the Commercial Code, the transfer of Shares is effected by delivery of share certificates, but in order to assert shareholders' rights against the Company, the transferee must have his or her name and address registered on the Company's register of shareholders. For this purpose, shareholders are required to file their names, mailing addresses and seals with the transfer agent of the Company. Foreign shareholders may file specimen signatures in lieu of seals. Non-resident shareholders are required to appoint a proxy in Japan or provide an address in Japan. Japanese securities firms and commercial banks customarily act as a standing proxy and provide related services for standard fees. The transfer agent of the Company is Tokyo Securities Transfer Agent Co., Ltd.

The central securities custody and book-entry transfer system under the Law Concerning Central Clearing of Share Certificates and Other Securities in Japan applies to the Shares. Pursuant to this system, a holder of Shares is able to choose, at his or her discretion, to participate in this system and all certificates of Shares elected to be put into this system are deposited with Japan Securities Depository Center, Inc. ("JASDAQ") (through a participating institution, such as securities companies and banks, having a clearing account with JASDAQ, if the holder is not such a participating institution) and all such Shares are registered in the name of JASDAQ on the Company's register of shareholders. Each participating shareholder will, in turn, be registered in the register of beneficial shareholders of the Company and will be treated in the same way as shareholders registered on the Company's register of shareholders. In connection with the transfer of Shares held under this system, entry of the share transfer in the book maintained by JASDAQ for the participating institutions and/or the book maintained by each participating institution for its customers shall have the same effect as physical delivery of share certificates.

The Commercial Code has been subject to frequent amendments in recent years and further amendments are being considered. An amendment setting forth the dematerialization of shares has been approved at the Diet and will become effective within five years from the date of publication.

## 6. Principal Shareholders

As of March 31, 2004, the Company had 10,752 holders of its Shares. As of the same date, the ten largest shareholders of the Company and the percentages of the Shares held by them were as follows:

Name	Number of Shares held	Percentage of Shares held to all issued Shares
	(Thousands)	(%)
Tsutae Niida	3,582	22.30
Y.K. NT Shouji	1,336	8.31
The Daito Bank, Ltd.	733	4.56
Nitto Flour Milling Co., Ltd.	345	2.15
THE TOHO BANK, LTD.	321	2.00
Kourakuen Employee Stockholding Association	321	1.99
The Master Trust Bank of Japan, Ltd. (Trust Account)	243	1.51
Japan Trustee Service Bank, Ltd. (Trust Account)	231	1.44
Takeo Niida	169	1.05
Kineo Okada	130	0.80
Total	7,415	46.15

### **3. Financial Information on the Company**

#### **1. Financial Year**

The financial year of the Company currently begins on April 1 of each year and ends on March 31 of the following year.

#### **2. Accounting Principles**

The accompanying financial statements of the Company are in accordance with the accounting principles generally accepted in Japan.

#### **3. Independent Auditors**

Shin Nihon & Co. is the independent auditor of the Company within the meaning of the Certified Public Accountants Law of Japan.

#### **4. Outstanding Bonds and/or Notes (*Shasai*)**

None

#### **5. Subsidiaries and Affiliates**

As at March 31, 2004 the Company had 5 subsidiaries which were consolidated. The Company had no other subsidiaries or affiliates.

The following are the Company's consolidated subsidiaries as of March 31, 2004:

Name	Issued share capital	Percentage directly or indirectly owned by the Company	Principal business
	(Thousands of Yen)	(Percentage)	
K.K. Denpachi	480,000	100.0%	Other food services (Japanese food restaurant business)
K.K. Den Hoken	30,000	100.0%	Other (insurance agency business)
K.K. Kourakuen Associate Tokyo	50,000	100.0%	Ramen (franchisee development and training business)
K.K. Value Line	50,000	100.0%	Other (construction supervision business)
K.K. Screen	50,000	100.0%	Other (advertisement agency business)