## Results of Operations

In the fiscal year ended March 31, 2001, net sales increased 7.4% to ¥32,241 million and operating income rose 62.1% to ¥1,959 million. Existing-store sales were strong, increasing X.X%. On a consolidated basis, there were 79 stores as of March 31, 2001, including 14 stores opened by ABC and 27 stores of subsidiaries.

The gross profit margin improved dramatically from XX.X% to XX.X%. This was primarily attributable to two factors. First, retail sales, which have a higher profit margin, accounted for a larger share of total sales, rising to XX.X% in the past fiscal year. Second, the company implemented a merchandise policy in which increasing emphasis was placed on distinctive products that can be sold at lower prices than existing merchandise yet generate higher gross profit margins. Demonstrating this progress is the growth in “true value” products to 20% of total sales. The company plans to continue increasing the gross profit margin by raising “true value” and internally developed products as a share of total sales.

On April 1, 2000, ABC purchased all the outstanding shares of two middle-market food retailers through an exchange of stock. Operating profit margins at these companies are to be increased to ABC’s average of 6% through the following four measures. First, creating a flat organization in which human resources can be shared with those of ABC. Second, supplying merchandise to all stores, including those of the new subsidiaries, from the ABC distribution center. The application of ABC’s proprietary merchandise policy is expected to lead to higher gross profit margins. Third, introducing a results-based remuneration system and cost-cutting programs. Fourth, channeling resources to stores that perform well while moving quickly to close substandard stores. During the year ended March 31, 2001, five inefficient stores of subsidiaries were closed, leaving 27 subsidiary-operated stores. Following the April 1, 2001 merging of the subsidiaries with ABC, these stores can now make a significant contribution to the company’s future results.

## Financial Strategy – Raise Returns on Capital

The central tenet of ABC’s financial strategy is to place emphasis on the cost of capital, a stance that ties in with procuring funds efficiently and maximizing cash flows. Cost of capital is at the heart of all management decisions. Decisions are reached quickly and accurately by comparing the cost of capital with the projected returns of a particular business. Adhering to this policy enables ABC to generate a high ROI and sustain an ROA and ROE that rank among the highest in the industry.

The goal of management is to generate the highest possible operating income from the smallest possible investments. ROI is used to determine whether or not to open a new store. Setting high hurdles, ABC has established ROI targets of 60% for DEF and GHI stores and 70% for JKL stores. To recover investments quickly, store managers are asked to achieve an operating income margin of at least 6%.

Funds from operations are used to open new stores. All stores occupy leased spaces.

Management is constantly seeking ways to reduce the cost of opening new stores even more. One example is assuming operations of stores abandoned by other retailers. Due to such actions, capital expenditures in the past year amounted to only XXX compared with the ¥1 billion that was initially budgeted. Raising returns on capital is another theme. Here, ABC is selling non-essential assets while raising earnings in an effort to improve the quality and productivity of its assets.