

## [Reference]



October 6, 2005

# Semiannual Nonconsolidated Financial Results for the Six-Month Period Ended August 31, 2005

## Denny's Japan Co., Ltd.

--President and C.E.O.: Kenichi Asama

--Date of the Board of Directors' meeting to approve the accounts: October 6, 2005

### 1. Business Results for the Current Interim Period (from March 1, 2005 to August 31, 2005)

#### (1) Results of Operations (Millions of yen, except per share amounts)

	Revenue from operations		Net Sales		Operating Income	
Current Interim Period	49,526	(1.3%)	49,479	(1.2%)	2,198	(5.2%)
Prior Year's Interim Period	50,181	1.3%	50,096	1.3%	2,319	10.4%
Prior Fiscal Year	96,523	0.9%	96,360	0.9%	3,220	7.9%

  

	Ordinary Income		Net Income		Net Income per Share	
Current Interim Period	2,277	(3.1%)	1,138	10.2%	35.40	(yen)
Prior Year's Interim Period	2,351	7.1%	1,033	41.4%	32.12	(yen)
Prior Fiscal Year	3,317	3.1%	1,284	11.4%	39.08	(yen)

Notes: 1. All amounts less than one million yen have been disregarded.

2. Average number of shares outstanding:

Current interim period: 32,176,189 shares      Prior year's interim period: 32,184,560 shares

Prior fiscal year: 32,181,444 shares

3. Change in accounting policies: no

4. Percentages above represent increase/(decrease) over prior year's interim period/fiscal year, unless otherwise stated.

#### (2) Financial Position

(Millions of yen, except per share amounts)

	Total Assets	Shareholders' Equity	Ratio of Shareholders' Equity to Total Assets	Shareholders' Equity per Share
August 31, 2005	68,371	58,407	85.4%	1,815.34 (yen)
August 31, 2004	68,571	57,985	84.6%	1,801.98 (yen)
February 28, 2005	66,184	57,752	87.3%	1,794.00 (yen)

Notes: 1. Number of outstanding shares at the end of the period:

Current interim period: 32,174,416 shares      Prior year's interim period: 32,178,670 shares

Prior fiscal year: 32,177,089 shares

2. Number of treasury stock at the end of the period:

Current interim period: 182,194 shares      Prior year's interim period: 177,940 shares

Prior fiscal year: 179,521 shares

#### (3) Cash Flows

	Cash Flows from Operating Activities	Cash Flows from Investing Activities	Cash Flows from Financing Activities	Cash and Cash Equivalents at End of the Period
Current Interim Period	3,294	(535)	(502)	30,118
Prior Year's Interim Period	3,380	(1,796)	(527)	28,947
Prior Fiscal Year	3,488	(2,487)	(1,029)	27,862

### 2. Business Outlook for the Fiscal Year Ending February 28, 2006 (from March 1, 2005 to February 28, 2006)

(Millions of yen)

Revenue from Operations	Net Sales	Operating Income	Ordinary Income	Net Income
100,500      4.1%	100,400      4.2%	4,200      30.4%	4,300      29.6%	2,000      55.8%

(Reference) Expected net income per share (for the year ending February 28, 2006) : 62.16 yen

Note: Percentages above represent increase/decrease over prior fiscal year.

#### FORWARD-LOOKING STATEMENTS

This document contains certain statements based on Denny's Japan's current plans, estimates and strategies; all statements that are not of historical fact are forward-looking statements. These statements represent the judgments and hypotheses of the Company's management based on currently available information. It is possible that the Company's future performance will differ significantly from the contents of these forward-looking statements. Accordingly, there is no assurance that the forward-looking statements in this document will prove to be accurate.

## BALANCE SHEETS

(Millions of yen)

	August 31, 2005		August 31, 2004		February 28, 2005	
	Amount	%	Amount	%	Amount	%
<b>ASSETS</b>						
<b>Current assets</b>	<b>43,682</b>	<b>63.9</b>	<b>42,366</b>	<b>61.8</b>	<b>41,002</b>	<b>62.0</b>
Cash and bank deposits	30,118		28,947		27,862	
Accounts receivable	453		434		338	
Inventories	638		484		429	
Deposits held by financial service company	10,000		10,000		10,000	
Other	2,472		2,499		2,371	
<b>Non-current assets</b>	<b>24,688</b>	<b>36.0</b>	<b>26,204</b>	<b>38.2</b>	<b>25,181</b>	<b>38.0</b>
<b>Property and equipment</b>	<b>13,114</b>	<b>19.2</b>	<b>14,391</b>	<b>21.0</b>	<b>13,624</b>	<b>20.6</b>
Buildings	8,773		9,727		9,197	
Restaurant facilities	1,089		1,226		1,158	
Furniture, fixtures and equipment	1,418		1,565		1,394	
Land	1,708		1,864		1,864	
Other	124		8		9	
<b>Intangible assets</b>	<b>648</b>	<b>0.9</b>	<b>898</b>	<b>1.3</b>	<b>779</b>	<b>1.1</b>
<b>Investments and other assets</b>	<b>10,924</b>	<b>16.0</b>	<b>10,914</b>	<b>15.9</b>	<b>10,778</b>	<b>16.3</b>
Securities	495		387		415	
Long-term leasehold deposits	9,332		9,705		9,392	
Other	1,097		822		969	
<b>TOTAL ASSETS</b>	<b>68,371</b>	<b>100.0</b>	<b>68,571</b>	<b>100.0</b>	<b>66,184</b>	<b>100.0</b>

(Millions of yen)

	August 31, 2005		August 31, 2004		February 28, 2005	
	Amount	%	Amount	%	Amount	%
<b>LIABILITIES</b>						
<b>Current liabilities</b>	<b>9,348</b>	<b>13.7</b>	<b>9,913</b>	<b>14.4</b>	<b>7,750</b>	<b>11.7</b>
Accounts payable, trade	3,074		2,809		2,171	
Accounts payable, other	843		893		756	
Accrued expenses	2,975		3,151		2,447	
Income taxes payable	1,269		1,142		860	
Allowance for bonuses to employees	510		793		618	
Accounts payable, construction	154		348		232	
Other	520		773		664	
<b>Non-current liabilities</b>	<b>615</b>	<b>0.9</b>	<b>672</b>	<b>1.0</b>	<b>681</b>	<b>1.0</b>
Accrued pension and severance costs	306		353		345	
Allowance for retirement benefits to directors and corporate auditors	259		270		285	
Other	49		49		49	
<b>TOTAL LIABILITIES</b>	<b>9,963</b>	<b>14.6</b>	<b>10,586</b>	<b>15.4</b>	<b>8,432</b>	<b>12.7</b>
<b>SHAREHOLDERS' EQUITY</b>						
<b>Common stock</b>	<b>7,125</b>	<b>10.4</b>	<b>7,125</b>	<b>10.4</b>	<b>7,125</b>	<b>10.8</b>
<b>Capital surplus</b>	<b>9,785</b>	<b>14.3</b>	<b>9,784</b>	<b>14.3</b>	<b>9,785</b>	<b>14.8</b>
Additional paid-in capital	9,784		9,784		9,784	
Other	0		0		0	
<b>Retained earnings</b>	<b>41,669</b>	<b>60.9</b>	<b>41,303</b>	<b>60.2</b>	<b>41,055</b>	<b>62.0</b>
Legal reserve	1,383		1,383		1,383	
General reserve	36,408		36,409		36,409	
Unappropriated retained earnings	3,877		3,510		3,262	
<b>Net unrealized gains on available-for-sale securities</b>	<b>173</b>	<b>0.3</b>	<b>108</b>	<b>0.2</b>	<b>126</b>	<b>0.2</b>
<b>Treasury stock</b>	<b>(345)</b>	<b>(0.5)</b>	<b>(337)</b>	<b>(0.5)</b>	<b>(340)</b>	<b>(0.5)</b>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>58,407</b>	<b>85.4</b>	<b>57,985</b>	<b>84.6</b>	<b>57,752</b>	<b>87.3</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>68,371</b>	<b>100.0</b>	<b>68,571</b>	<b>100.0</b>	<b>66,184</b>	<b>100.0</b>

# STATEMENTS OF INCOME

(Millions of yen)

	Current Interim Period		Prior Year's Interim Period		Prior Fiscal Year	
	Amount	%	Amount	%	Amount	%
(Revenue from operations)	(49,526)		(50,181)		(96,523)	
<b>Net sales</b>	<b>49,479</b>	<b>100.0</b>	<b>50,096</b>	<b>100.0</b>	<b>96,360</b>	<b>100.0</b>
<b>Cost of sales</b>	<b>16,444</b>	<b>33.2</b>	<b>16,459</b>	<b>32.9</b>	<b>31,932</b>	<b>33.1</b>
<b>Gross Profit</b>	<b>33,034</b>	<b>66.8</b>	<b>33,636</b>	<b>67.1</b>	<b>64,428</b>	<b>66.9</b>
<b>Revenue from other operations</b>	<b>46</b>	<b>0.1</b>	<b>85</b>	<b>0.2</b>	<b>162</b>	<b>0.1</b>
<b>Operating gross profit</b>	<b>33,081</b>	<b>66.9</b>	<b>33,721</b>	<b>67.3</b>	<b>64,590</b>	<b>67.0</b>
Selling, general and administrative expenses	30,882	62.4	31,402	62.7	61,370	63.7
<b>Operating income</b>	<b>2,198</b>	<b>4.4</b>	<b>2,319</b>	<b>4.6</b>	<b>3,220</b>	<b>3.3</b>
Non-operating income	124	0.3	104	0.2	199	0.2
Non-operating expenses	45	0.1	72	0.1	102	0.1
<b>Ordinary income</b>	<b>2,277</b>	<b>4.6</b>	<b>2,351</b>	<b>4.7</b>	<b>3,317</b>	<b>3.4</b>
Special gains	333	0.7	-	-	104	0.1
Special losses	376	0.8	318	0.6	681	0.7
<b>Income before income taxes</b>	<b>2,233</b>	<b>4.5</b>	<b>2,033</b>	<b>4.1</b>	<b>2,740</b>	<b>2.8</b>
Income taxes - current	1,153	2.3	1,119	2.2	1,617	1.7
Income taxes - deferred	(58)	(0.1)	(120)	(0.2)	(161)	(0.2)
<b>Net income for the period (year)</b>	<b>1,138</b>	<b>2.3</b>	<b>1,033</b>	<b>2.1</b>	<b>1,284</b>	<b>1.3</b>
Retained earnings brought forward	2,738		2,477		2,477	
Interim dividends	-		-		498	
<b>Unappropriated retained earnings</b>	<b>3,877</b>		<b>3,510</b>		<b>3,262</b>	

# STATEMENTS OF CASH FLOWS

(Millions of yen)

	Current Interim Period	Prior Year's Interim Period	Prior Fiscal Year
<b>Cash flows from operating activities</b>			
Income before income taxes	2,233	2,033	2,740
Depreciation and amortization	1,002	1,123	2,307
(Decrease) increase in accrued bonuses to employees	(108)	164	(10)
Reversal of accrued pension and severance costs	(39)	(31)	(38)
Interest and dividend income	(19)	(19)	(37)
Gain on sale of investments in securities	-	-	(4)
Net (gain) loss on sales and disposal of property and equipment	(174)	210	298
Impairment loss	160	-	228
(Increase) decrease in accounts receivable	(114)	(91)	4
(Increase) decrease in inventories	(208)	(30)	23
Increase (decrease) in accounts payable	903	501	(136)
Other, net	519	462	(170)
Sub-total	4,153	4,323	5,204
Interest and dividends received	9	8	16
Income taxes paid	(868)	(951)	(1,732)
<b>Net cash provided by operating activities</b>	<b>3,294</b>	<b>3,380</b>	<b>3,488</b>
<b>Cash flow from investing activities</b>			
Acquisition of property and equipment	(913)	(1,840)	(2,414)
Proceeds from sales of property and equipment	500	-	-
Acquisition of intangible assets	(12)	(22)	(177)
Proceeds from sales of investments in securities	-	-	6
Payment of leasehold deposits	(179)	(104)	(235)
Refund of leasehold deposits	69	170	332
Other, net	0	0	1
<b>Net cash used in investing activities</b>	<b>(535)</b>	<b>(1,796)</b>	<b>(2,487)</b>
<b>Cash flows from financing activities</b>			
Cash dividends paid	(497)	(498)	(998)
Purchase of treasury stock	(5)	(31)	(35)
Proceeds from sales of treasury stock	0	2	3
<b>Net cash used in financing activities</b>	<b>(502)</b>	<b>(527)</b>	<b>(1,029)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>2,255</b>	<b>1,056</b>	<b>(28)</b>
<b>Cash and cash equivalents at beginning of the period (year)</b>	<b>27,862</b>	<b>27,891</b>	<b>27,891</b>
<b>Cash and cash equivalents at end of the period (year)</b>	<b>30,118</b>	<b>28,947</b>	<b>27,862</b>

## Significant Accounting Policies for the Preparation of Semiannual Financial Statements

### 1. Valuation method for major assets

#### (1) Valuation method for securities

Available-for-sale securities are classified into two categories: (i) fair value is available and (ii) fair value is not available.

- (i) Securities, whose fair value is available, are valued at the quoted market price prevailing at the end of the interim period. Net unrealized gains or losses on these securities are reported as a separate component of the shareholders' equity at a net-of-tax amount. Cost of sales is determined by the moving-average method.
- (ii) Securities, whose fair value is not available, are valued at cost, determined by the moving-average method.

#### (2) Valuation method for inventories

Merchandise inventories of Denny's Japan Co., Ltd. (the "Company") are valued at cost, determined by the last purchase price method.

### 2. Depreciation and amortization

#### (1) Property and equipment

Depreciation expense is computed using the declining-balance method, at rates based on the estimated useful lives of assets.

#### (2) Intangible assets

Amortization expense of intangible assets is computed using the straight-line method. Software is amortized using the straight-line method over an estimated useful life of 5 years.

### 3. Allowances

#### (1) Allowance for bonuses to employees

An allowance for bonuses to employees is provided at the amount expected to be paid in respect of the calculation period ended on the balance sheet date.

#### (2) Allowance for accrued pension and severance costs

An allowance for accrued pension and severance costs is provided at the amount incurred during the interim period, which is based on the estimated present value of the projected benefit obligation less the estimated fair value of plan assets at the end of the fiscal year. Unrecognized prior service costs are amortized on a straight-line basis over the period of 10 years from the year in which they arise. Unrecognized actuarial differences are amortized on a straight-line basis over the period of 10 years from the next year in which they arise.

#### (3) Allowance for retirement benefits to directors and corporate auditors

An allowance for retirement benefits to directors and corporate auditors is provided in accordance with the Company's internal policy.

### 4. Leases

All finance lease contracts, other than those for which the ownership of the leased assets is to be transferred to lessees, are accounted for as operating leases.

### 5. Accounting for consumption taxes

Consumption taxes are separately accounted for, and are excluded from the amounts of the underlying income and expense transactions.

### 6. Cash and cash equivalents

Cash and cash equivalents in the accompanying statements of cash flows are composed of cash on hand, bank deposits which are able to be withdrawn at any time, and short-term investments which are considered to represent a low risk of market price fluctuation.

## Notes to Nonconsolidated Financial Statements

### Nonconsolidated Balance Sheet

(Millions of yen)

	As of August 31, 2005	As of August 31, 2004	As of February 28, 2005
1. Accumulated depreciation of property and equipment	26,918	25,867	26,725
2. Contingent liabilities	0	7	0

### Nonconsolidated Statement of Income

(Millions of yen)

	For the six-month period ended August 31, 2005	For the six-month period ended August 31, 2004	For the year ended February 28, 2005
1. Interest income included in non-operating income	17	17	35
2. Special gains			
-Gain on sales of property and equipment	333	-	-
3. Depreciation and amortization			
-Property and equipment	907	985	2,040
-Intangible assets	95	138	267
Total	1,002	1,123	2,307
4. Special losses			
-Loss on disposal of property and equipment	158	210	298
-Impairment loss	160	-	228
-Head office relocation expenses	-	89	89
-Organization expenses for holding company	58	-	-
Total	376	300	616

### 5. Impairment loss

(Millions of yen)

	For the six-month period ended August 31, 2005	For the six-month period ended August 31, 2004	For the year ended February 28, 2005
Buildings	129	-	184
Others	30	-	43
Total	160	-	228
Description	Operating stores	-	Operating stores
Location	(Number of stores)		(Number of stores)
	Tokyo and other 9	-	Tokyo and other 15

The Company groups its fixed assets by operating stores, which is the minimum cash-generating unit. Impairment losses were recognized and recorded in "Special losses" in accordance with "Accounting Standard for Impairment of Fixed Assets." Impairment losses are carrying amounts in excess of the recoverable value of stores whose operations are in a slump.

Recoverable value of the group of assets is value in use, which was calculated by discounting estimated future cash flows to which the 6 % discount rate was applied.

## Nonconsolidated Statement of Income

Reconciliation of cash and cash equivalents for the statements of cash flows to account balances for the balance sheets

(Millions of yen)

	As of August 31, 2005	As of August 31, 2004	As of February 28, 2005
Cash and bank deposits	30,118	28,947	27,862

## Leases

[1] Information for financial lease contracts other than those for which the ownership of the leased assets is to be transferred to lessee.

1. As lessee

(1) Acquisition cost, accumulated depreciation and net book value of the leased assets are summarized as follows:

(Millions of yen)

	As of August 31, 2005	As of August 31, 2004	As of February 28, 2005
	Facilities and equipment	Facilities and equipment	Facilities and equipment
Acquisition cost	4,708	5,835	5,623
Accumulated depreciation	2,162	2,563	2,749
Net book value	2,546	3,272	2,874

(2) The amounts of outstanding future lease payments are summarized as follows:

(Millions of yen)

	As of August 31, 2005	As of August 31, 2004	As of February 28, 2005
Within one year	843	960	855
Over one year	1,748	2,349	2,059
Total	2,592	3,310	2,915

(3) Lease payments and depreciation expense of the leased assets are as follows:

(Millions of yen)

	For the six-month period ended August 31, 2005	For the six-month period ended August 31, 2004	For the year ended February 28, 2005
Lease payments	474	555	1,133
Depreciation expense	449	526	1,073
Interest expense	29	31	65

(4) Depreciation method and method of calculating the interest portion

- Depreciation expense is computed using the straight-line method over the lease term of the leased assets assuming no residual value.
- Interest expense is calculated as the total lease payments less the original acquisition cost of leased equipments. Allocation of interest expense to each period is calculated using the interest method.

[2] Operating leases

As lessee

The amounts of outstanding future lease payments are summarized as follows:

(Millions of yen)

	As of August 31, 2005	As of August 31, 2004	As of February 28, 2005
Within one year	183	287	247
Over one year	345	1,136	759
Total	529	1,423	1,007



## **Securities Information**

### 1. Available-for-sale securities (fair value is available)

(Millions of yen)

Description	As of August 31, 2005			As of August 31, 2004			As of February 28, 2005		
	Acquisition cost	Book value	Net unrealized gain s/(losses)	Acquisition cost	Book value	Net unrealized gain s/(losses)	Acquisition cost	Book value	Net unrealized gain s/(losses)
Equity securities	162	455	293	164	347	183	162	375	213
Total	162	455	293	164	347	183	162	375	213

### 2. Major securities whose fair value is not available

(Millions of yen)

Description	As of August 31, 2005	As of August 31, 2004	As of February 28, 2005
	Book value	Book value	Book value
Unlisted securities (excluding the OTC securities)	40	40	40
Total	40	40	40

## **Derivative Transactions**

There were no derivative transactions for the six-month periods ended August 31, 2005, 2004 and for the fiscal year ended February 28, 2005.

## **Equity in earnings of affiliates**

There were no affiliates that should be accounted for by equity method for the six-month period ended August 31, 2005, 2004 and for the fiscal year ended February 28, 2005.

## **Subsequent Events**

On September 1, 2005, the Company established Seven & I Holdings, Co., Ltd. with Seven-Eleven Japan Co., Ltd. ("SEJ") and Ito-Yokado Co., Ltd. ("Ito-Yokado") by means of stock-transfer and the Company, SEJ and Ito-Yokado became wholly owned subsidiaries of Seven & I Holdings, Co., Ltd.

As a result, the Company's treasury stock of ¥345 million were converted to the stock of the parent company and recorded in "Current Assets" instead of deduction item in "Shareholders' Equity".