

3. Qualitative information on the progress of consolidated business results for the first three quarters and forecasts for the full year

(1) Qualitative information on the progress of consolidated business results

During the first nine months of the fiscal year under review (from April 2005 to December 2005), the global economy in the United States, Asia and Europe was stable. Japan's economy also showed signs of nearing an end of deflation in consumer prices as well as in asset values. A rising trend in capital spending, growth in corporate earnings, and other factors contributed to an improvement in employment conditions and consumer spending.

In this environment, Sanrio Group entered the latter half of the second year of its Project 2006 medium-term management plan. With the aim of achieving steady earnings, we developed various characters such as "Cinnamoroll" in addition to "Hello Kitty" and strived to provide products which satisfy changing demands in the market.

As a result, sales in the first nine months of the fiscal year decreased by ¥0.9 billion to ¥76.2 billion (down 1.3% from the same period in the previous year). Excluding the impact from the sale of non-core businesses, comparable sales increased by ¥2.0 billion (up 2.7%) from the previous year. The expansion in comparable sales was fuelled by a 2.9% increase in license income from "Cinnamoroll" and others, a significant sales growth in "Lucky Draw Kit" using not only our characters but also other companies' characters in convenience stores, as well as sales growth in Europe, Asia, and South America. Gross margin improved by 150 basis points from the previous year, thanks to the parent company's efforts to reduce purchasing costs despite the negative impact from yen weakness and a decline in depreciation at theme park facilities on a consolidated basis. Selling, general and administrative expenses were reduced by ¥0.7 billion to ¥24.9 billion due to the impact from the sale of the above-mentioned two subsidiaries. Thus, operating profits amounted to ¥6.3 billion (up 30.8%). Notable non-operating items were a ¥0.4 billion reduction in interest payments thanks to a reduction in interest bearing debt and ¥0.1 billion in currency gains on dollar-denominated account receivables as a result of the depreciating yen. Ordinary profits increased ¥2.2 billion to ¥5.9 billion (up 59.6%). Gains of ¥0.8 billion on sales of investment securities were recorded as extraordinary gains. Income before taxes and other adjustments amounted to ¥6.5 billion while net income after taxes and other adjustments for the first nine months (from April to December) ended at ¥4.2 billion (¥20.4 billion improvement from the same period of the previous year.)

By business segment, the social communication gift business increased sales and operating profits by 1.0% and 12.1% respectively compared to the same period in the previous year, thanks to growth in licensing income from popularity of "Cinnamoroll" in Japan and of "Hello Kitty" overseas.

The theme park business recorded a sales growth of 1.7% and operating loss of ¥0.1 billion (¥0.6 billion improvement from the same period of the previous year.) Sanrio Puroland celebrated its 15th anniversary special Christmas with events such as a parade using “Kuromi”, a popular character in the TV animation program “Onegai My Melody” and new shows including the acrobatic musical show titled “Forest Märchen ~ True Love Is Everlasting ~” with the theme of pure love. A variety of events such as the new show collaborated with “Osharemajo LOVE & Berry”, featuring very popular characters among girls developed by SEGA SAMMY HOLDINGS INC., expanded our customer base. As a result, the number of visitors at Sanrio Puroland increased by 1.9% and sales grew by 6.1%. At the same time, Harmonyland, the outdoor theme park, saw a 2.4% rise in the number of visitors and a 7.9% sales gain.

In the other business, sales declined by 58.5% from the same period in the previous year, due to withdrawal from non-core restaurant operations during that period. The business, however, recorded operating profits of ¥50 million, which is an improvement from operating losses of ¥40 million in the same period of the previous year.

By geographic segment, Japan’s sales declined by 2.8% from the same period of the previous year but a reduction in costs of products and a profit improvement in the theme park business resulted in a significant profit growth of 30.9%. In North America, sales and operating profits declined by 7.3% and 6.9% respectively, due to competition among some GMS. However, we strengthened our marketing efforts in licensing. A major U.S. bank adopted “Hello Kitty” on their credit cards - this is expected to contribute to increased licensing income in the future. Other geographic areas recorded a significant 88.8% growth in operating profits on a 39.6% sales gain, thanks to continued strength in Asia and Europe and solid growth in Brazil.

In sum, Sanrio Group achieved a significant profit growth in the first nine months of the current year under review, thanks to significant expansion in Europe, Asia, and Brazil more than offsetting sluggish trends in Japan and North America. In addition, profit-enhancement measures in the theme park business started to show a positive impact on the number of visitors and the average spend per visitor.

(2) Qualitative information on changes in consolidated financial position

Total assets at the end of the third quarter increased ¥5.1 billion to ¥98.6 billion, from the end of the previous fiscal year.

With regard to major changes in assets, notes and accounts receivable in current assets in the third quarter (from October to December), which represent 30% of annual sales, increased by ¥4.6 billion (decline of ¥0.9 billion compared to the third quarter of the

previous year), while tangible and intangible fixed assets declined by ¥0.4 billion due to depreciation of ¥1.0 billion and others. Investment securities increased ¥4.4 billion thanks to a rise in stock prices and investment in unconsolidated subsidiaries. The sale of subsidiaries in non-core businesses reduced guaranteed deposits by ¥1.3 billion.

In liabilities, notes and accounts payable in current liabilities increased ¥3.0 billion (down ¥0.4 billion compared to the third quarter of the previous year). Our efforts for financial improvement led to a ¥3.4 billion reduction in interest-bearing debt, a sum of short and long-term debt and corporate bonds, to ¥39.9 billion. Shareholders' equity increased by ¥5.9 billion from the end of the previous fiscal year. Net income in the first nine months and a gain in investment securities increased net unrealized gains on securities by ¥0.7 billion while yen weakness increased translation adjustments by ¥0.8 billion. The equity ratio turned out to be 31.6%.

(3) Qualitative information on forecasts for consolidated business results

We have revised our forecasts previously announced on November 14, 2005.

Please see details on the "Announcement regarding revision of forecasts" released today.

Dividend forecasts for the current fiscal year remain unchanged at ¥10 per common share.

Note 1. Sales exclude consumption tax.

Note 2. Amounts less than 100 million yen are discarded on the texts.

Disclaimer:

This is an English translation of the Japanese documents. This translation is prepared and provided only for the purpose of the reader's convenience. All readers are recommended to refer to the original version in Japanese for complete information.