

CircleK Sunkus



**Innovation in Motion**



## **Annual Report 2011**

For the fiscal year ended February 28, 2011

# Circle K Sunkus will develop convenience stores that also accommodate older (middle-aged and elderly) customers.

## Steering a New Course

For many years, Circle K Sunkus' primary customer base has been men in their 20s and 30s. Meanwhile, middle-aged and senior citizens aged 50 or older, as well as women of all age groups, have traditionally shied away from convenience stores. This is because of a generally held public notion that convenience stores are for young people and men. As a result, middle-aged and senior citizens, and women do most of their shopping at supermarkets.

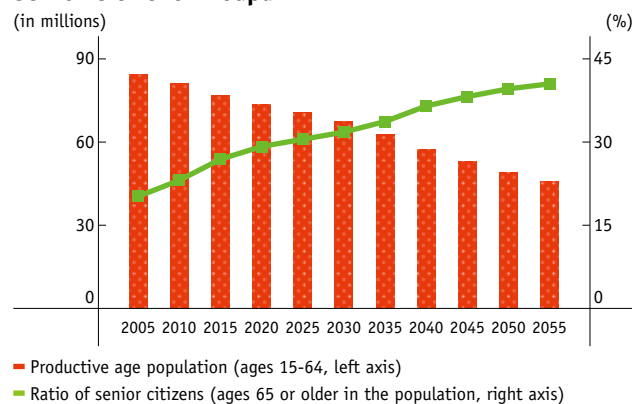
This means that convenience stores still have large growth potential if they can develop middle-aged and senior citizens and women into customers. Circle K Sunkus thus sees increasing demand from middle-aged and senior citizens as an opportunity for growth. For this reason, we are working to develop convenience stores that are friendly to middle-aged and senior citizens.



## The Arrival of a Hyper-Aged Society

According to the Annual Report on the Aging Society, Japan saw the number of senior citizens aged 65 or older reach 29.58 million as of October 2010. The aging rate, which is defined as the ratio of senior citizens to the total population, increased to 23%. Furthermore, the aging rate is estimated to rise to 35.7% in 2050, marking the arrival of a hyper-aged society where one in every three people will be aged 65 or older. In line with this trend, the number of single senior-citizen households is projected to represent 37.7% of all households. Given that the convenience store industry has developed into an integral part of Japan's ready-made meal sector, convenience stores will play an increasingly crucial role in Japan's aging society.

## Projected Productive Age Population and Ratio of Senior Citizens in Japan



Source: Data projections for October 1 of each year, based on the median birthrate and death rates estimated in December 2006 for the National Institute of Population and Social Security Research, "Population Statistics of Japan."







We will develop retail spaces that fit the unique aspects of each store by offering product lineups based on each type of location.



### STANDARD CONVENIENCE STORES



### FRESH PRODUCE CONVENIENCE STORES

We will attract new customer segments to stores by enhancing the lineup of perishable food and daily delivered foods.



### MINI-STORES

We will develop a new mini-store format by opening small stores serving limited-access markets.



### HYBRID STORES

We will develop new store formats that are the fruit of collaboration with other different business sectors.

CircleK Sunkus



### NEW SERVICES:

Online shopping  
Delivery acceptance and holding

We will provide a diverse array of services based on an Internet environment.



### OVERSEAS EXPANSION

We aim to open stores overseas by surveying and exploring potential locations for overseas expansion.



### M&As

We will promote capital and business tie-ups with companies in other industries, including the use of sites where we have closed convenience stores.



Established through a merger in September 2004, Circle K Sunkus Co., Ltd.'s main business is the management of stores and franchise business in respect to the Circle K and Sunkus convenience store chains. Circle K Sunkus is the fourth largest convenience store operator in Japan's convenience store industry, with total store sales at Circle K Sunkus proper, including area franchisers, of almost ¥1 trillion and a combined network of more than 6,000 Circle K and Sunkus stores. Going forward, we will take on various challenges in order to make our customers' lives more convenient and enjoyable in a variety of life-style contexts, with the aim of creating truly exciting convenience stores.

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### Cautionary Statement With Respect to Forward-looking Statements

Statements in this annual report include forward-looking statements about the future performance of Circle K Sunkus Co., Ltd. that are based on assumptions and beliefs in light of information currently available. Accordingly, these statements involve certain risks and uncertainties.

# Consolidated Financial Highlights

Circle K Sunkus Co., Ltd.

Years ended February 28, 2011, 2010 and 2009, February 29, 2008 and February 28, 2007.

	Millions of Yen					Thousands of U.S. Dollars
	2011	2010	2009	2008	2007	2011
<b>For the year:</b>						
Total store sales	¥923,185	¥902,318	¥940,232	¥902,424	¥911,282	\$11,258,354
Total operating revenue	192,305	194,143	213,398	206,373	194,393	2,345,183
Operating income	18,572	15,200	23,010	21,096	23,113	226,488
Income before income taxes and minority interests	13,254	10,781	17,956	15,240	18,387	161,634
Net income	7,165	5,555	9,435	8,580	10,237	87,378
<b>At year-end:</b>						
Total assets	240,027	224,844	222,305	218,821	212,377	2,927,159
Total equity	136,672	132,832	130,656	124,632	119,883	1,666,732
<b>Financial indicators:</b>						
	Yen					U.S. Dollars
Return on equity (ROE)	5.3%	4.2%	7.4%	7.0%	8.7%	—
Shareholders' equity ratio	56.9%	59.1%	58.8%	57.0%	56.4%	—
Net income per share	85.55	66.32	112.65	102.43	119.92	1.04
Dividends per share	40.00	40.00	40.00	40.00	38.00	0.49
Dividend payout ratio	46.8%	60.3%	35.5%	39.1%	31.7%	—
Shareholders' equity per share	1,631.86	1,585.98	1,559.97	1,487.72	1,431.27	—
<b>Number of stores:</b>						
Circle K	2,905	2,861	2,846	2,809	2,898	—
Sunkus	2,096	2,097	2,093	2,119	2,205	—
Consolidated five area franchisers	383	276	263	257	265	—
99 ICHIBA	61	68	61	52	—	—
Total	5,445	5,302	5,263	5,238	5,369	—

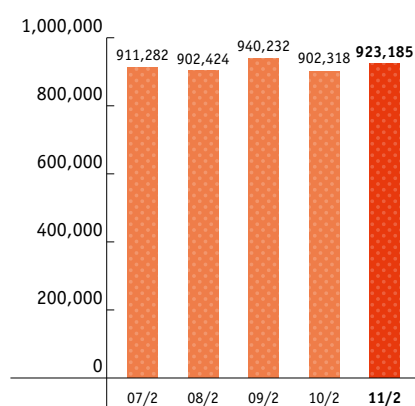
Notes: 1. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥82 to U.S.\$1, the rate of exchange at February 28, 2011.

2. Circle K Sunkus Co., Ltd. had five consolidated subsidiaries in the fiscal year ended February 28, 2007, six consolidated subsidiaries in the fiscal years ended February 29, 2008 and February 28, 2009, seven consolidated subsidiaries in the fiscal year ended February 28, 2010 and eight consolidated subsidiaries in the fiscal year ended February 28, 2011.

3. The total number of stores for the fiscal years ended February 28, 2007 and February 29, 2008 includes 1 new-concept store.

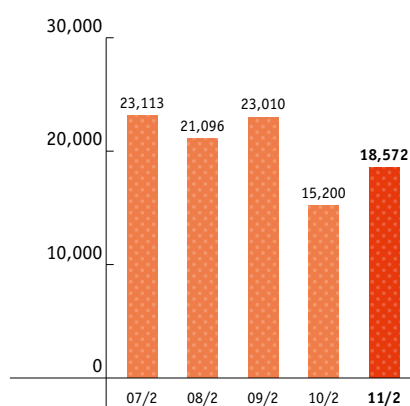
## Total Store Sales

(Millions of Yen)



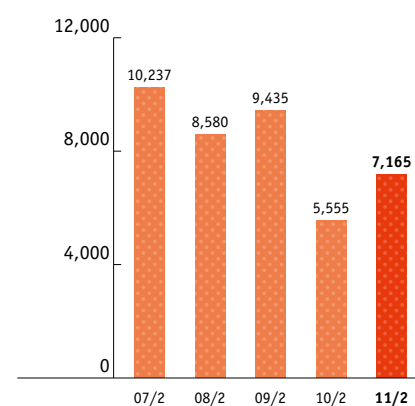
## Operating Income

(Millions of Yen)



## Net Income

(Millions of Yen)





Motohiko Nakamura, President

On March 11, 2011, an earthquake and tsunami of unprecedented proportions struck the Tohoku region of Japan. Circle K Sunkus had 596 stores in the Tohoku region and Ibaraki Prefecture. After the disaster, around 200 stores had to temporarily suspend operations.

Immediately after the disaster, Circle K Sunkus set up a Disaster Management Headquarters at Head Office and began the work of confirming the safety of its employees and gauging the extent of damage at stores.

On a visit to the devastated areas on March 14, I joined the search for missing store personnel, while instructing staff to verify the extent of damage, find out what supplies were needed, and conduct other response measures. What I saw at the front lines of the disaster reaffirmed my faith in the strength of our company. I saw Circle K Sunkus employees tirelessly delivering products even after product delivery routes were cut off. I also saw storeowner franchisees and store staff working hard in stores darkened by power outages. Ultimately, we had no choice but to close 10 stores due to flooding and structural damage to buildings.

However, all other stores have resumed operations as a result of determined store restoration efforts. The first Sunkus store opened for business in the Tohoku region 30 years ago. Given that our work is only possible because of our close ties to the local community, I firmly recognize the importance of these ties especially in the affected regions. Hoping for a full and speedy recovery in the near future, we will return to the basics of our business as we continue to put our full support behind recovery and reconstruction efforts.

### Review of the Fiscal Year Ended February 28, 2011

Our management policy for the fiscal year ended February 28, 2011 was that everyone should think and act together. The key words of our management policy were “visualize” and “enjoy.” Guided by these concepts, we embraced challenges on many different fronts.

Circle K Sunkus gave top priority to enhancing customer satisfaction and boosting franchisee earnings. In an effort to extend assistance to franchisees, a new budget for supervisor-franchisee sales promotion expenses was established to bolster sales initiatives in line with actual conditions at each individual store. One positive outcome was that we increased the motivation of franchised stores by actively running TV commercials and sold approximately 3 million servings of *Tenshi no Cheesecake* (Angel's Cheesecake) under the *Cherie Dolce* original dessert brand in the first month of release. In addition, Circle K Sunkus held Franchised Store Forums at 44 locations nationwide to promote direct dialogue between franchisees and management. The various views the franchisees expressed in these forums were translated into speedy business reforms.

Furthermore, we began opening tie-up stores with *cocokara fine Inc.*, a drugstore chain operator, as part of a business partnership between the two companies.

Circle K Sunkus also took steps to enhance services. We strove to increase customer convenience by broadening the array of payment methods centered on electronic money formats that various transportation companies offer, including Suica Cards offered by East Japan Railway Company (JR East). The QUO Card, a widely used nationwide prepaid





Payment with a diversifying array of electronic money

cash card, is also now accepted at our stores. We also developed deeper ties with membership organizations of partner companies through improved incentive-point exchange programs between *KARUWAZA CLUB* and various electronic money formats. Those efforts helped raise membership in *KARUWAZA CLUB* to more than a million customers by February 28, 2011. In February 2011, we launched *Omise de Tsuhan*, a new type of online shopping service that enables users to perform ordering of merchandise on in-store *KARUWAZA STATION* multimedia terminals, and pay for and take delivery of merchandise at stores. With this new service, we have paved the way for a more expansive range of future online shopping services.

Consequently, existing store sales decreased 1.4% year on year on a non-consolidated basis, but were 1.8 percentage points higher than forecast. Total store sales, including Circle K Sunkus' six consolidated subsidiaries in the convenience store business, rose 2.3% year on year to ¥923,185 million.

### Management Policy for the Fiscal Year Ending February 29, 2012: "Rethink and Review Everything and Put Innovation into Action"

Circle K Sunkus' management policy for the fiscal year ending February 29, 2012 is "Rethink and Review Everything and Put Innovation Into Action." The new fiscal year will mark the beginning of a drive to reinvent convenience stores. It will be a year of review and reform as we adapt to the new era. The key theme for reinventing convenience

stores is to develop convenience stores that are friendly to middle-aged and senior citizens.

With the aging of society, Japan is seeing an increase in the number of single senior-citizen households. There is now a stronger preference for shopping at nearby convenience stores rather than distant supermarkets. In this context, we will consider developing convenience stores with enhanced perishable food lineups and rolling out new delicatessen items in line with the characteristics of the local environment around stores. Eyeing the future development of nursing care and nursing services products for store pickup and meal services, we began offering *KARUWAZA ONLINE* as a new online shopping service using the Company's store network. Through this measure, we aim to develop a product range that extends beyond traditional limitations of convenience stores in terms of retail space and product categories.

During the fiscal year ending February 29, 2012, we have also developed stores under the new mini-store format. Through this new format, our plans have been to open stores in small locations previously passed over by traditional convenience stores while holding down equipment and operating costs. The goal is to develop a new customer base. On the other hand, we plan to develop retail spaces that are more finely tuned to the markets served by individual stores based on their location, customer base and other factors, as we move away from traditional uniform selling spaces. To achieve this goal, we will reform retail spaces using layout proposals based on location type in order to develop stores with more unique features.

Ever since my appointment as president, I have consistently urged employees "to enjoy their work while holding high aspirations." This is because I am convinced that we can realize our ambitions by embracing challenges. I look forward to the continued support and understanding of shareholders and other investors as we continue to scale new heights.

August 2011

*Motohiko Nakamura*  
Motohiko Nakamura, President

# *Aiming to Develop Convenience Stores Friendly to Senior Citizens*

## **Medium-term Management Strategy**



### **Implemented Organizational Restructuring**

In regard to the new organizational structure for the fiscal year ending February 29, 2012, the Company merged its store operations divisions and store development divisions throughout Japan to introduce a system based on a Store Development & Operations Division in their place. This was done to raise the level of coordination between the functions these once-separate divisions served. Each regional Store Development & Operations Division will establish a Regional Strategy Department to strengthen and speed up the administration of store rentals and leases, as well as assistance to franchisees in training their staff. For creating new convenience stores, the Company has established a Group Merchandise Planning Department under the Merchandising Division to strengthen the development of private-label merchandise for the UNY Group. The Company has also established a Daily Delivered Food Department for bolstering the product lineup of fresh and perishable produce. Through these measures, we have established a strong organizational structure that will enable us to develop convenience stores friendly to middle-aged and senior citizens.

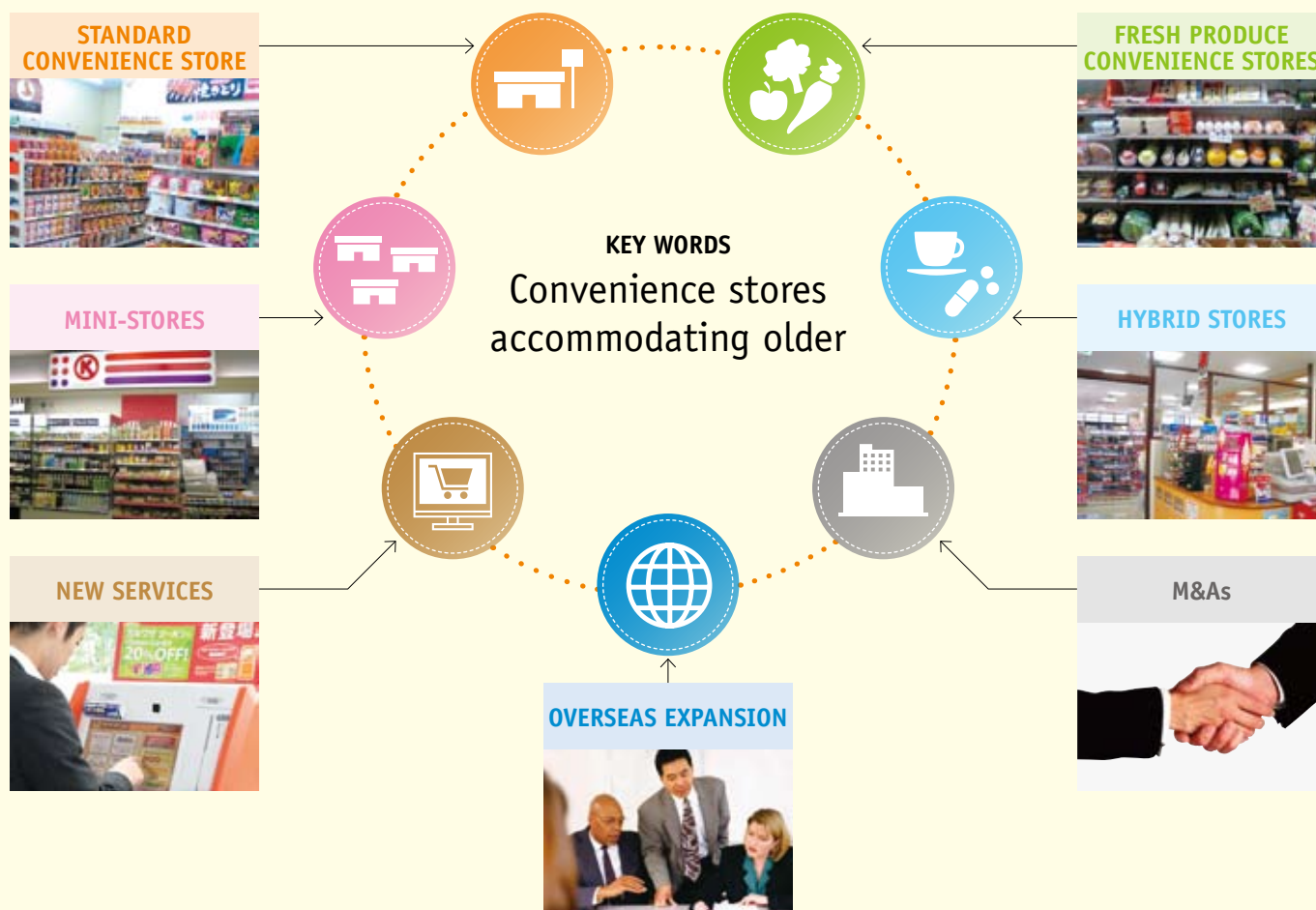
**Motohiko Nakamura**, President



## Convenience Store Market Awareness

We expect the convenience store market to become increasingly dominated by major convenience store chains, swiftly widening the gap between these players and small and mid-sized chains. Operators need to match new customer needs in light of a declining population and social structure changes stemming from aging and a lower birthrate. These trends are shifting core convenience store customers from young people to middle-aged and senior citizens. As growth will likely be limited with existing product lineups and store formats, we consider it an urgent challenge to overcome market saturation by reinventing convenience stores. We will therefore strive to develop entirely new convenience stores in order to generate growth. We will address Japan's rapidly aging society based on the concept of developing convenience stores friendly to middle-aged and senior citizens, while taking strides to review and reform various business systems in adapting to a new era.

## Circle K Sunkus' Direction





## Standard Convenience Stores

Uniformity characterized Circle K Sunkus when it was established 30 years ago. We basically provided identical products and sales floors to ensure the satisfaction of customers no matter which store they visit. But customers' store requirements have changed dramatically in recent years, making it essential to move away from developing the same stores everywhere to create unique stores unlike any other. Winning is increasingly about the individuality and ideas of each store.

In the fiscal year ending February 29, 2012 we will produce store layout plans based on product lineup proposals for each type of location. Based on these plans, we will create detailed product ranges and retail spaces for each individual store. We will improve investment efficiency in developing stores based upon new standards, while stepping up market and location assessments to boost store profitability.



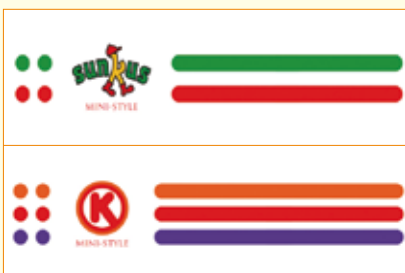
Standard Convenience Stores (Circle K and Sunkus)



## Mini-stores

We opened the Circle K Mini Nagoya Hisaya-Odori Store in May 2011. This was our first facility in the mini-store format, benefitting from the excellent access it provides to those traveling to work or school through the station in which it is located.

The newly developed mini-store format ranges in property size from small train station shops to around one-third the size of a standard convenience store. We created a new framework for this format, cutting the costs of fixtures, equipment, and labor, and simplifying operations to overhaul the cost



Circle K Mini Nagoya Hisaya-Odori Store

structure. The new format will empower us to open small stores serving limited-access markets within train stations, factories, office buildings, hospitals and other locations that we have avoided to date. We aim to launch 15 mini-stores in the year ending February 29, 2012, primarily through multiple store management agreements with several corporate franchisees, and increase their number to 100 over the next three years.

## Fresh Produce Convenience Stores

Senior citizens seek fresh, daily delivered foods from convenience stores, along with pharmaceuticals. Stores have traditionally accommodated such demand on an individual basis, however, reflecting a recognition that fresh foods are beyond the regular business framework. We therefore established a Daily Delivered Food Department, and are leveraging the know-how of the UNY Group and subsidiary 99 ICHIBA Co., Ltd. to review pricing, products, markups, suppliers, logistics and other factors. We believe that we can attract a strong following from single-person households and the middle-aged and senior citizens through convenience stores offering solid perishable food lineups that match local tastes.



Sunkus Port Pier Shibaura Store

## Hybrid Stores

In December 2009, Circle K Sunkus formed a business tie-up with cocokara fine Inc., which manages the SEGAMI and SEIJO drugstore chains.

A key characteristic of cocokara fine is that it derives around 63% of its net sales from health and beauty offerings, exceeding the drug store industry average of about 55%. Most of its customers are women aged 50 or older. In May 2010, we opened the Sunkus SEIJO Drugstore Tama Center Ochiai Store, a tie-up store combining a convenience store and a drugstore/dispensing pharmacy in Tama City, Tokyo. In the fiscal year ending February 29, 2012, we plan to set up Sunkus stores within existing SEIJO drugstores. Going forward, we will develop new store formats that are the fruit of collaboration with other different business sectors. These stores will be opened on the same business premises as our business partners.



Sunkus SEIJO Drugstore Tama Center Ochiai Store







KARUWAZA STATION and  
KARUWAZA CARD



Omise de Tsuhan  
catalogue



## New Services

As society rapidly becomes more information intensive, convenience store chains' proprietary online shopping services will become increasingly important to identify and reflect consumer behavior and preferences in product development.

On the service front, Circle K Sunkus launched its proprietary online shopping service, *KARUWAZA ONLINE*, in April. By linking the service with the incentive points of the *KARUWAZA CLUB*, the chain's in-house membership club, and providing storefront delivery of the merchandise, this new service will serve as the interface with stores on the ground for Circle K Sunkus to deliver a product and service lineup exceeding the space and category constraints of conventional convenience stores. In another new service, Circle K Sunkus began providing access to the nursing care product lineup of Toyota Tsusho Corporation via *Omise de Tsuhan*, a direct shopping service on the *KARUWAZA STATION* in-store multimedia terminals. In this way, Circle K Sunkus has expanded its product lineup for middle-aged and senior citizens. Looking ahead, we intend to enhance our product range with merchandise that was previously unavailable at convenience stores, with future plans to develop a meal delivery service based on an Internet environment.

## M&As

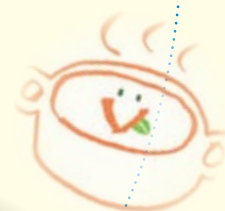
We plan to expand our chain store network by pushing ahead with capital and business tie-ups with companies in other industries while exploring new franchise businesses that can use sites at which we have closed convenience stores.

## Overseas Expansion

We have stepped up efforts to roll out convenience stores in Japan in the belief that the domestic convenience store industry has yet to mature. While retaining that stance, we will consider opening stores overseas by surveying and exploring potential locations for overseas expansion based on our extensive expertise.

## Main Business Strategies

- The Company plans to rethink and reform all aspects of its operations to position itself for the future, in recognition that the keystones to a franchise business are effective agreements, systems and education.
- The Company plans to invest significantly in bolstering sales capabilities and assisting franchisees while maintaining a sound financial position (offensive management).
- The Company plans to enhance profitability and capital efficiency through rigorous implementation of low-cost operations and the pursuit of greater cost benefits (defensive management).
- The Company plans to build a relationship of co-dependence and co-prosperity with franchisees. This is in recognition that the success of a Head Office in a franchise business depends on franchisees, and ultimately on customers. Circle K Sunkus will enhance the level of customer service and optimize product lineups of the franchise to become the consumer's convenience store of choice. At the same time, the Company will emphasize direct communication between franchisees and management, and promptly translate franchisee views into business reforms.
- The Company aims to improve the profitability of unprofitable stores and regions by stepping up relocations, while investing more in new stores in profitable regions, to raise the quality of the chain as a whole in terms of average daily sales.
- The Company plans to meet new market demands by developing new business models and store formats, including formats emphasizing perishable food or fast foods.
- The Company aims to develop private label products that tap into the UNY Group's collective product development and procurement capabilities. To which, in addition, it also aims to strengthen its lineup of original products and locally produced, locally consumed foods to help distinguish the Circle K Sunkus chain, and offer merchandise lineups on a store-by-store basis that cater to location and customer characteristics.
- Circle K Sunkus will conduct management focused on compliance by refining its internal control system and corporate governance structure.
- The Company plans to upgrade environmental and social contribution activities such as conserving energy, reducing plastic shopping bag usage and recycling food.





# Differentiating Our Products

Circle K Sunkus has created products and sales spaces that accommodate the diversifying lifestyles of its customers. We aggressively launched television commercials to boost sales of key products, namely the *Oishii Soup & Soup Gohan* (Rice in Soup) series of soup dishes, *rubetta* series of pasta dishes and the *Cherie Dolce* dessert selection. In the *Cherie Dolce* series in particular, *Tenshi no Cheesecake* (Angel's Cheesecake), which features a carefully developed cream ingredient, went on to sell around 3 million servings in the first three months after launch. This dessert won a Gold Quality Award in Monde Selection's international food contest. Circle K Sunkus strengthened the boxed lunch category by increasing dishes in the *Naruhodo Bento* series of boxed lunches in the intermediate price range of around ¥500, in addition to enhancing value-priced and premium-range lineups. These actions helped to improve both unit sales prices and gross profit margins.

In the year ending February 29, 2012, we will install more fryers and freshly brewed coffee dispensers in stores and maintain our *Yoruwari* nighttime discount sales program to differentiate ourselves from other chains. Looking ahead, we will develop strategic product categories that will set us apart, in tandem with cultivating our merchandise development activities and sales methods.



*Tenshi no Cheesecake* (Angel's Cheesecake)  
(Monde Selection winner)



A full variety of chilled desserts



Authentic pasta dishes, rich in variety



Soups with a variety of tasty ingredients

# Strengthening the Delicatessen Item Category



Countertop fast foods: Yakitori

(Illustrated image)



Reasonably priced,  
chilled delicatessen  
items

Demand for delicatessen items that help to reduce household chores like cooking is increasing on the back of a rising number of single-person households and middle-aged and senior citizens. We aim to develop convenience stores friendly to senior citizens. In August 2011, we will introduce appetizers and entrées in a new price range. Value priced at ¥130 to ¥198, our new lineup will be marketed as a new product angle as we see great-tasting food products that can only be offered in the chilled temperature range as a point of differentiation from the competition. We will thus be able to promote both these and the UNY Group's Style ONE private-label offerings of delicatessen items with longer shelf life in standable packages. This will make us more attractive as a convenient source with delicatessen items for senior citizens and single people, who would otherwise buy delicatessen items from supermarkets and other outlets. We will prepare for the summer peak by bolstering our range of countertop fast foods with single-item delicatessen items that are extremely popular dinner table entrées, such as large chicken *Karaage* (Japanese fried chicken), which we launched in June 2011, and *Yakitori* (grilled chicken skewers), which we brought out in July.

Style ONE private-label offerings of delicatessen items with longer shelf life





We have taken advantage of economies of scale to bring out an array of private-label products. They extend from unique, high-value-added offerings that Circle K Sunkus has developed to selected items from the Uny Group's reasonably priced Style ONE range. We established the Group Merchandise Planning Department under the Merchandising Division as part of a reorganization during the fiscal year ending February 29, 2012, to generate more Group synergies. The department is playing a pivotal role in private-label product development, centered on Style ONE, as part of efforts to create offerings that match specific convenience store needs so we can further increase sales.

## *Leveraging Group Synergies in Private Label Development*



Private label products with outstanding value, quality and safety



# Building Win-Win Relationships with Franchised Stores



Store supervisors hold a franchisee forum

Circle K Sunkus supports franchisees in various ways to instill pride in store management in keeping with the Company's commitment to building win-win relationships with franchisees.

In the fiscal year ended February 28, 2011, a new budget for supervisor-franchisee sales promotion expenses was established to bolster sales initiatives in line with actual conditions at each individual store. Circle K Sunkus held franchisee forums at 44 locations nationwide to promote direct dialogue between franchisees and management. The various views and requests the franchisees expressed in these forums were translated into speedy business reforms. On the store management front, we implemented the WAKU WAKU! 30th Store Image Improvement Drive based on the slogan of "Commemorating Our 30th Anniversary by Going Back to Basics." Head Office, franchisees and store staff all took part in this drive to help enhance customer satisfaction.

In the fiscal year ending February 29, 2012 we will continue to budget for supervisor-franchisee sales promotion expenses to actively conduct sales promotions linked to TV commercials to bolster key products. We will also hold more franchisee forums to provide opportunities for dialogue between franchisees and management as in the previous fiscal year. We will station employees in charge of training as operations trainers at Regional Strategy departments in each region. These employees will follow up on franchisee efforts to train their staff. Through these measures, we aim to raise the bar of operations at new and existing stores. Furthermore, we will reduce royalty payments by 0.5 of a percentage point for franchisees renewing their contracts. We thus aim to improve the ratio of agreement renewals by offering special incentive to franchisees who have operated stores for many years.



## Basic Approach to Corporate Governance

With a particular emphasis on relationships with shareholders, Circle K Sunkus views all people and organizations involved in its operations, including shareholders, franchised stores, customers, local communities, business partners and employees, as key stakeholders. While building strong relationships with every stakeholder by providing proactive disclosure, and ensuring compliance in all activities, Circle K Sunkus will implement measures to further improve corporate governance, such as by putting in place and cementing a highly transparent internal control system that encompasses risk and compliance management systems. These steps will underpin efforts to enhance corporate value.

### Corporate Governance Structure and Initiatives

#### Board of Directors (Meets monthly, in principle)

The Board of Directors is chaired by the President and determines important matters concerning management and other issues as required by law, while overseeing the execution of business operations. All directors and all corporate auditors attend meetings. In the fiscal year ended February 28, 2011, the Board of Directors held 17 meetings, including extraordinary meetings. Circle K Sunkus has set the terms of directors at one year to clarify their objectives and responsibilities.

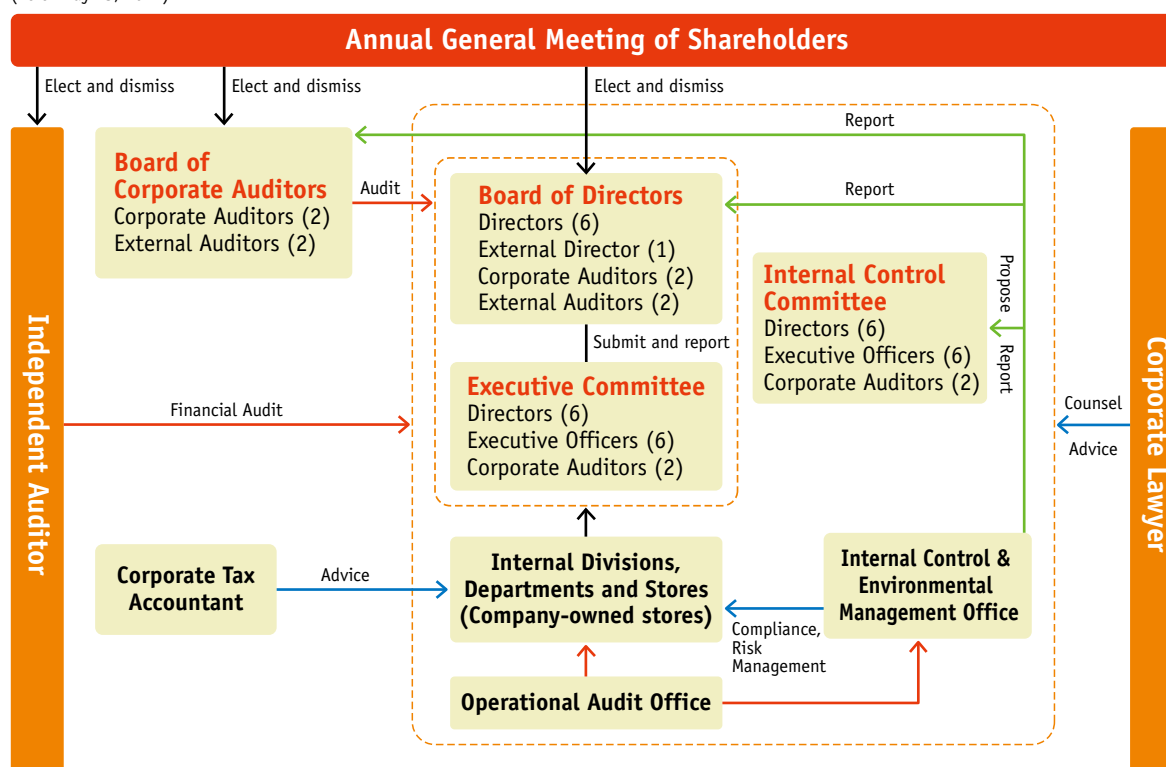
#### Executive Committee

#### (Meets twice a month, in principle)

The Executive Committee is chaired by the President and is made up of directors, corporate auditors and executive officers. It held 24 meetings in the fiscal year ended February 28, 2011. At these meetings, the Executive Committee extensively discusses management issues, supports management decision-making by the Board of Directors and oversees the execution of business operations.

### Corporate Governance Structure

(As of May 25, 2011)



### Board of Corporate Auditors (Meets monthly, in principle)

The Board of Corporate Auditors comprises four corporate auditors, including two external auditors. The corporate auditors attend important internal meetings, such as Board of Directors' meetings, to receive reports on the Company's management plans, the status of its overall compliance and risk management systems and other matters. Based on these reports, the corporate auditors offer their opinions from an impartial perspective, and rigorously audit the performance of directors and executive officers. In the fiscal year ended February 28, 2011, the Board of Corporate Auditors held 13 meetings, including extraordinary meetings.

### Internal Control Committee (Meets once every quarter, in principle)

The Internal Control Committee is chaired by the President and comprises directors, corporate auditors and executive officers. It held 4 meetings in the fiscal year ended February 28, 2011. The committee regularly receives reports on the establishment and operation of the internal control system from the Internal Control & Environmental Management Office to monitor Company-wide progress on putting in place this system and to conduct crisis management.

### Activities of External Director and External Corporate Auditors

Director Koji Sasaki attended all 12 regular meetings of the Board of Directors held during the fiscal year ended February 28, 2011, and expressed opinions mainly from a broad perspective as appropriate on matters such as retail industry trends and the Group's current status. Corporate Auditor Hideshige Haruki attended all 12 regular meetings of the Board of Directors, and all 13 meetings of the Board of Corporate Auditors held during the fiscal year ended February 28, 2011. Mr. Haruki expressed opinions as appropriate mainly based on his specialized expertise as a lawyer. In addition, Corporate Auditor Tatsumi Yoshida attended all 12 regular meetings of the Board of Directors and all 13 meetings of the Board of Corporate Auditors held during the fiscal year ended February 28, 2011. Mr. Yoshida expressed opinions as appropriate mainly based on his specialized expertise concerning corporate legal affairs and risk management.

### Executive Officer System

Circle K Sunkus has introduced an Executive Officer system to clarify responsibilities for management and business execution. Under this system, directors are mainly responsible for supervising business execution and deciding on important management issues for the entire Company, such as the formulation of management strategies. Meanwhile, significant authority has been vested in executive officers to expedite business execution.

### Internal Audits

The Company has assigned five individuals to the Operational Audit Office, which reports directly to the President. This office regularly audits the appropriateness, legality and efficacy of the business activities of internal divisions and offices, and Company-owned stores.

### Independent Auditor

The Company has entered into an audit agreement with KPMG AZSA & Co. This independent auditor performs financial audits of the Company while maintaining close cooperation with the corporate auditors and the Operational Audit Office. Furthermore, the corporate auditors confirm audit plans with the independent auditor, receive reports on the findings of financial audits, and exchange views with the independent auditor.

### Remuneration for Directors and Corporate Auditors, and the Independent Auditor

#### *Remuneration for Directors and Corporate Auditors*

Remuneration for directors consists of basic remuneration, which is a fixed component of remuneration determined by comprehensively taking into account performance, balance with employees' remuneration and other factors in each year according to each director's position, and bonuses, which are determined based on the Company's earnings and the contribution of each individual to

(Remuneration for the fiscal year ended February 28, 2011)

Officer category	Total remuneration and benefits (millions of yen)	Total amount by remuneration type (millions of yen)				Number of eligible directors and corporate auditors
		Basic remuneration	Stock options	Bonuses	Retirement and severance payments	
Directors	161	123	—	38	—	7
Corporate Auditors	41	35	—	6	—	2
Outside Directors	8	6	—	1	—	3

#### *Remuneration for the Independent Auditor*

(Millions of yen)

Remuneration for services stipulated by Article 2-1 of the Certified Public Accountants Law	78
Remuneration for duties unrelated to auditing	2



performance in each fiscal year. The remuneration for corporate auditors is determined through discussions by the Board of Corporate Auditors. In addition, the Company has not adopted a stock option plan. It abolished retirement and severance benefits for directors at the Annual General Meeting of Shareholders held in May 2005.

### Internal Control System Initiatives

Circle K Sunkus is working to enhance its internal control system for ensuring proper and efficient execution of business operations and the reliability of financial reporting, based on the implementation of its management philosophy and action guidelines. The Internal Control Committee monitors Company-wide progress on putting in place an internal control system and conducts crisis management. In addition, the Internal Control & Environmental Management Office coordinates internal control and compliance activities across the Company and implements concrete measures to reinforce the management structure.

### Risk Management

The Company is bolstering its risk management system in order to properly respond to all manner of risks associated with its business activities. Through this risk management system, the Company strives to understand risks that may impede efforts to realize its management philosophy or achieve the Group's objectives, as well as to continuously monitor risk at each relevant department. At the same time, the Company makes every effort to prevent risks from materializing, and to minimize any effects and implement remedial measures if they do. The Company has formulated Risk Management Guidelines to guide these activities. Based on these guidelines, the Company continuously reviews measures to raise the efficiency of and optimize management with respect to Group-wide risks and departmental operational risks. At the same time, the Company implements measures to improve business operations in order to achieve its business objectives.

### Compliance

The Company has formulated Compliance Rules and works to improve them in order to earn the trust of stakeholders and enhance corporate value. These rules call for compliance with not only laws and regulations, but also with internal rules, directives from related government agencies, corporate ethics and social norms. Efforts are also focused on awareness-building measures designed to boost employee awareness and understanding of compliance. For example, the Company holds e-learning-based

training courses for all employees.

In addition, the Company has set up and operates an internal reporting hotline called "ES Call" as a system for reporting violations of laws and corporate ethics, or breaches of social norms. In addition, we have established and monitor another reporting hotline called "CS Call" that links the Company with its suppliers' food preparation centers so that it can obtain information on food safety and reliability.

### Basic Approach to Eliminating Anti-Social Forces and Policy Development

Circle K Sunkus has established a special contact point within the Internal Control & Environmental Management Office for the purpose of eliminating any involvement with anti-social forces. This contact point works to educate directors and employees about conduct guidelines and raise awareness so as to shun anti-social forces, while striving to prevent any interference by anti-social forces in business activities, as well as illegitimate claims and other demands. The Company also seeks to address anti-social forces by strengthening coordination with law enforcement agencies, lawyers and other specialized external parties, along with making this issue known among personnel.

### Internal Controls over Financial Reporting

Effective from fiscal 2010, Circle K Sunkus has established the Committee for Internal Controls over Financial Reporting supervised by the president, to discuss and determine the evaluation and reporting of internal controls over financial reporting. The committee, chaired by the director in charge of the Finance & Accounting Division, will promptly address matters related to internal controls over financial reporting to ensure the reliability of financial reporting as required by the Financial Instruments and Exchange Act of Japan.

Circle K Sunkus' management philosophy is as follows: "We aim to be a company that achieves steady, sustainable growth, while earning the trust of society." Guided by this philosophy, the Circle K Sunkus Group regularly conducts environmental programs and socially beneficial activities at its nationwide network of more than 6,000 Circle K and Sunkus stores, leveraging its ties with local communities.

### Environmental Activities

#### Reducing CO<sub>2</sub> Emissions

Circle K Sunkus established targets for reducing its CO<sub>2</sub> emissions to help prevent global warming. By the year ending February 28, 2014, we aim to lower per-store CO<sub>2</sub> emissions by 8% from the year ended February 28, 2007. This equates to an overall decrease for all stores of about 25,000 metric tons. Most of our emissions come from store consumption of electricity, so we would reach our goal by reducing per-store power consumption by around 13,800 kWh.

On January 27, 2011, we opened the Sunkus Atsugi Okatsukoku Store in Atsugi, Kanagawa Prefecture. The store employs an array of energy-saving facilities and equipment. We installed the latest high-efficiency photovoltaic power generation system and full LED lighting for external and ceiling lights and refrigerated showcases. The store is projected to achieve power savings of about 35,300 kWh on a per-year, per-store basis compared with conventional new Circle K and Sunkus stores, and should cut CO<sub>2</sub> emissions by around 24.5 tons annually. We employed box unit construction to cut costs and CO<sub>2</sub> emissions and coated the asphalt around the store with a thermal barrier to alleviate the heat island effect.



Sunkus Atsugi Okatsukoku Store in Atsugi

#### Harnessing a Food Recycling Loop to Launch Deli Breads

We are promoting food recycling businesses in accordance with the Food Recycling Law of Japan. In March 2011, parent UNY Group, Prima Meat Packers, Ltd., Yamazaki Baking Co., Ltd., and four other companies jointly obtained authorization for a recycling business plan called the Food Recycling Loop. Under this plan, food residue, including boxed lunches, sandwiches and other food



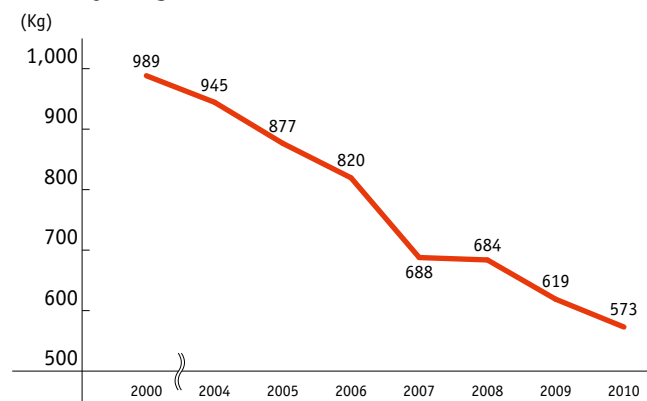
Ground Teriyaki Chicken deli roll

products that have reached their sales expiration dates at 56 Circle K and Sunkus stores in Tokyo, are recycled into animal feed. The animal feed is provided to pigs, with pork raised on this feed being used as food ingredients. In June 2011, we launched a deli roll that was our first offering from this food recycling business.

### Significantly Exceeded Target for Reducing Plastic Shopping Bag Usage

By the fiscal year ended February 28, 2011, Circle K Sunkus had aimed to reduce the total weight of shopping bags used per store by 35% compared with the level in the fiscal year ended February 28, 2001, in partnership with various members of the Japan Franchise Association. Specific initiatives have included trimming excess material from plastic shopping bags and making them thinner and lighter, and requesting the cooperation of customers at stores. We thereby exceeded our reduction target by cutting plastic shopping bag usage per store by 37.4% in the year ended February 28, 2010, thereby achieving our initial target. In the fiscal year ended February 28, 2011, we achieved an even larger reduction than in the previous fiscal year, with plastic shopping bag usage per store reduced to 42.1% of the level in the fiscal year ended February 28, 2001.

#### Plastic Shopping Bag Usage per Circle K and Sunkus Store by Weight



## Social Contribution Activities

Convenience stores are points of contact with large numbers of consumers. Leveraging this infrastructure, Circle K Sunkus collects donations through fundraising boxes placed in all Circle K and Sunkus stores, in addition to contributing a portion of earnings generated by its activities to supporting NPOs for the purpose of providing humanitarian assistance.

## Store Fundraising Activities

Circle K Sunkus conducts store fundraising activities for three organizations receiving donations. It divides the

fiscal year into three collection periods and raises funds for each organization in one of the three collection periods. From the fiscal year ended February 28, 2010, the Company has started accepting donations via exchanges of incentive points for *KARUWAZA CLUB*, Circle K Sunkus' in-house membership club. In addition to the usual organizations receiving donations, in the fiscal year ended February 28, 2011, Circle K Sunkus once again contributed to an emergency relief fund in an overseas region affected by an unforeseeable natural disaster, specifically an earthquake.

### Results of Fundraising Activities in the Fiscal Year Ended February 28, 2011

Collection period	Organization receiving donations	Donations
April to July 2010	The National Federation of All Japan Guide Dog Training Institutions "Nationwide Guide Dog Campaign"	¥25,598,100
August to November 2010	National Land Afforestation Promotion Organization	¥14,651,261
December 2010 to March 2011	Japan UNICEF	¥15,352,415
Total		¥55,601,776

\* Of the above donations, donations of ¥208,700 were received via the exchange of *KARU* Points.

### Emergency Relief Activities in Response to Major Disasters in the Fiscal Year Ended February 28, 2011

Collection period	Assistance	Contributions
May to June 2010	A foot-and-mouth-disease pandemic among cattle in Miyazaki Prefecture	¥25,034,310
October to November 2010	Heavy rain in the Amami region of Kagoshima Prefecture	¥14,257,839
February 2011	Major earthquake on the South Island of New Zealand	¥27,306,527

## NPO Support Activities

### NPO Family House

Family House provides lodging for families of children from all over Japan who are battling serious illnesses such as cancer. These facilities help ease the economic burden on families who come to Tokyo from other parts of Japan to seek treatment for their child.

### NPO Japan Team of Young Human Power (JHP)

The Japan Team of Young Human Power builds and renovates schools, mainly in Cambodia.

Following on from the fiscal year ended February 2010, Circle K Sunkus continued to support the construction of

schools in Cambodia in the fiscal year ended February 28, 2011, together with the top-ten franchisees who received a superior performance award during the year. In January 2011, the eighth "Everyone's Dream School" was built with the support of this program. On a cumulative basis, approximately 7,600 children are now studying at these schools.



Children in school in Cambodia



Everyone's Dream School in Cambodia



## Social Contribution Initiatives: The Great East Japan Earthquake

### Assistance in Disaster-Affected Areas

During one month from the day after the disaster, we delivered the equivalent of 333 four-ton truckloads of food and water supplies to the Tohoku region



### Support and Donations to Disaster-Affected Areas

Since immediately after the Great East Japan Earthquake, Circle K Sunkus has delivered 1.16 million items of drinking water, bread, cup noodles, and other emergency relief supplies to disaster-affected areas in keeping with disaster relief supplies agreements. Plants and centers that had escaped serious damage and were still operational supplied products to stores. With assistance from UNY Co., Ltd., we undertook a Company-wide effort to secure supplies from the Tokai and Hokuriku regions. During the month after the disaster, we delivered the equivalent of 333 four-ton truckloads to the Tohoku region.

Circle K Sunkus and UNY Group stores began an emergency disaster relief fundraising drive from the day after

the earthquake. As of the end of May, we had donated ¥604,354,046 to affected areas through the Japanese Red Cross Society.

### Conditions at Stores in Disaster-Affected Areas

The Company worked across the board to restart operations at stores in disaster-affected areas, with 86 employees from Head Office and around 55 people from affiliated companies spearheading these efforts. We had three plug-in hybrid vehicles deliver goods to areas suffering from serious fuel shortages.

About 200 of our stores temporarily suspended operations right after the disaster, mainly in the Tohoku region and Ibaraki Prefecture. Unfortunately, we had to close 10 of these stores because of disaster-related flooding or structural damage, but were able to reopen all other stores to serve customers.

### Initiatives by Stores in Operation

Nationwide, all of our stores cooperated in conserving electricity by turning off their storefront lighting. (At present, our policy depends on store conditions.) The Fukushima Daiichi Nuclear Power Station accident has made summer power shortages likely in the service areas of Tokyo Electric Power Co., Inc., and Tohoku Electric Power Co., Inc. So, 2,056 of our stores in those areas will help conserve electricity by cutting their consumption by at least 20% during that time. They aim to do this through such steps as dimming lighting or switching to LED fixtures, adjusting air conditioning, and turning off refrigerator and freezer lights. Our 1,796 stores in the service area of Chubu Electric Power Co., Inc. are dimming interior lighting and adopting LED fixtures in response to full operational suspension at the Hamaoka Nuclear Power Station.

### Conditions at Stores in Disaster-Affected Areas

Before



The Head Office dispatched roughly 80 employees as help

After



### Relief Donations for Disaster-Affected Areas



We raised approximately ¥338 million in relief donations as of May 31, 2011, from the day after the disaster

## Board of Directors, Corporate Auditors and Executive Officers

(As of May 25, 2011)



Motohiko Nakamura



Katsumi Yamada



Toshitaka Yamaguchi



Jun Takahashi



Yasutoshi Saito



Katsuji Sato



Koji Sasaki



Masaaki Yoshiki



Mikio Kanamori



Hideshige Haruki



Tatsumi Yoshida

### PRESIDENT

**Motohiko Nakamura**

### MANAGING DIRECTOR

**Katsumi Yamada**

### DIRECTORS

**Toshitaka Yamaguchi**

Head of Finance & Accounting Division

**Jun Takahashi**

Head of Store Development & Operations Division

**Yasutoshi Saito**

Head of Merchandising Division

**Katsuji Sato**

Head of Area Franchise & Affiliated Company Administration Division

### DIRECTOR (External Director)

**Koji Sasaki**

Chairman of UNY Co., Ltd.

### CORPORATE AUDITORS

**Masaaki Yoshiki**

**Mikio Kanamori**

### CORPORATE AUDITORS (External Auditors)

**Hideshige Haruki**

**Tatsumi Yoshida**

Corporate Auditor of UNY Co., Ltd.

### EXECUTIVE OFFICERS

**Naoyoshi Tsukamoto**

Head of Information System & Services Division

**Katsunori Hakamata**

Head of Strategic Planning Division

**Akira Kugaya**

Head of Regional Division No. 1 (Hokkaido & Tohoku)

**Kiyoshi Aida**

Head of Regional Division No. 2 (East Japan, North)

**Shuichi Takeuchi**

Head of Regional Division No. 5 (Central Japan, North and West)

**Kozo Matsuda**

Head of Regional Division No. 6 (Western Honshu)





# Financial Section

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This graphic indicates that further details are available in the Circle K Sunkus Investors' Guide (IG) 2011. Certain figures in this annual report differ from corresponding figures in the IG due to differences in rounding methods.





# Management's Discussion and Analysis of Operations and Financial Position

(As of February 28, 2011)


Note: Unless stated otherwise, figures for store results on pages 25 to 30 of the MD&A are shown on a non-consolidated basis.

## Business Environment

In the fiscal year ended February 28, 2011, the Japanese economy continued on a recovery track, supported by export growth mainly to emerging economies and robust corporate capital investment. Personal consumption also picked up slowly in response to improved employment and wage conditions accompanying a recovery in corporate output, even after government policies such as tax cuts for eco-friendly cars expired.

In the convenience store industry, the effects of an unusually hot summer in combination with a number of other factors, including a rise in cigarette sales accompanying a tax hike, contributed to a rebound in existing store sales. Consumers who grew weary of penny pinching showed less preference for lower priced products. Moreover, there were signs of recovery in sales of mainstay ready-made meals such as boxed lunches and delicatessen foods.

## Store Results

 P.1-3, 12, 16-17, 30-32

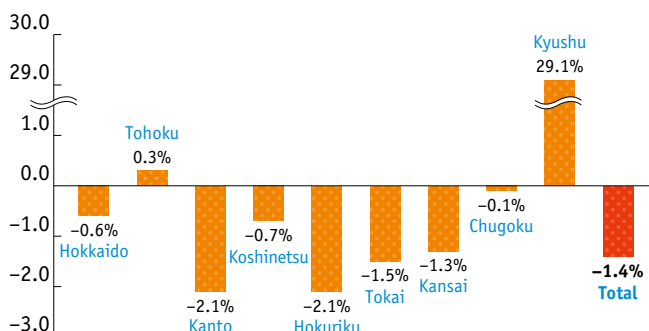
### Sales and Existing Store Sales (Y-o-Y Comparisons)

During the fiscal year ended February 28, 2011, Circle K Sunkus saw a continued recovery in sales of fast food, perishable food and certain other product categories. The fiscal year was also defined by strong summer sales due to lingering summer heat and thereafter a tax hike on cigarettes in October 2010 that prompted the surge of demand before it took effect.

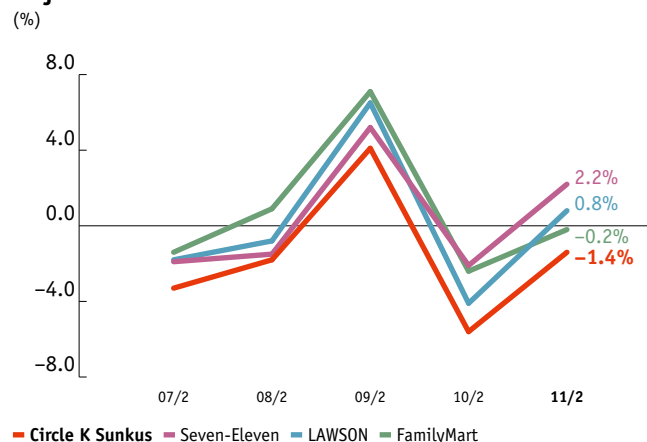
Existing store sales in the fiscal year ended February 28, 2011 finished higher than our target, increasing 1.4% year on year on a non-consolidated basis. As a result of these factors, total store sales, including franchised stores, increased 0.3% from a year earlier, to ¥855,010 million.

In the fiscal year ending February 29, 2012, Circle K Sunkus and franchised stores will strive to enhance revenues and earnings by further lowering Head Office costs and deploying strategies to support higher revenues and earnings at franchised stores. We will continue to cultivate key original products while tackling declining customer footfall. For example, we will run television commercials and deploy merchandising initiatives focusing on nighttime discounts on products and offering limited-period sales. We aim to improve the convenience of *Omise de Tsuhan*, a direct shopping service that uses our *KARUWAZA STATION*

**Year-on-Year Changes in Existing Stores Sales by Region (%)**



**Year-on-Year Changes in Existing Store Sales of Major Convenience Store Chains (%)**



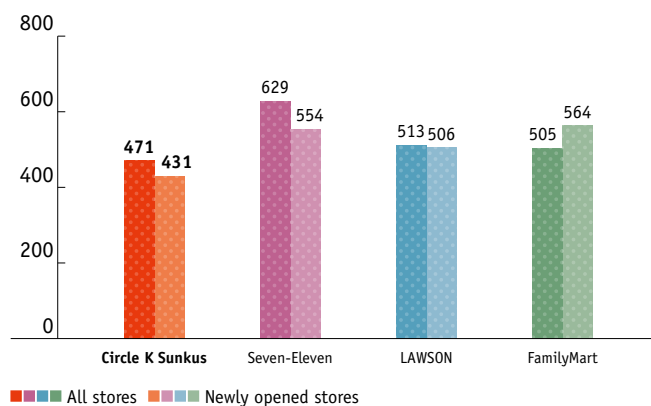
Source: Financial reports prepared by each company.

in-store multimedia terminals. We will further refine our *TOMEOKI* service offering store pickup of merchandise. In April 2011, subsidiary TOKI-MEKI.COM Co., Ltd. launched *KARUWAZA ONLINE*, its own online shopping portal. The goal is to boost franchise store earnings from commissions while offering limited product offerings and incentive points to the more than one million members of the *KARUWAZA CLUB*, thereby attracting more of these customers to stores and developing customer loyalty.

On May 13, 2011, we amended our forecasts for existing store sales in light of the impact of the Great East Japan Earthquake of March 11, 2011. We had initially planned a 0.5% rise in these sales, but ultimately projected that there would be no change. As a result, we now expect total store sales, including franchised stores, to increase 2.1% to ¥873,370 million.

#### Average Daily Sales at Major Convenience Store Chains

(thousands of yen)



Source: Financial reports prepared by each company and news reports.

Investors' Guide P.12, 32

#### Average Daily Sales and Daily Average Number of Customers per Store, and Average Purchase per Customer

During the period under review, buoyant sales in the summer owing to unusually hot weather were complemented by an increase in cigarette sales in response to a tax hike in October 2010. In the second half of the fiscal year, the average purchase per customer increased 1.1% owing to higher average prices on ready-made food products such as rice and delicatessen items. The average number of daily customers per store declined 2.5%, however, as the boost in customer footfall from the introduction of the taspo card since the second half of 2009 ran its course. Average daily sales at all stores thus decreased ¥1,000, while the decline at existing stores was ¥7,000. Average daily sales at newly opened stores rose ¥17,000, reflecting our regional strategy for opening stores with an emphasis on quality.

#### Average Daily Sales, Average Number of Customers and Average Purchase per Customer at Circle K Sunkus Stores

(yen, customers)

	2009/2		2010/2		2011/2	
		Change		Change		Change
<b>Existing stores</b>						
Average daily sales per store	498,000	4.1%	476,000	-5.6%	<b>474,000</b>	<b>-1.4%</b>
Average number of daily customers per store	849	4.0%	830	-3.1%	<b>817</b>	<b>-2.5%</b>
Average purchase per customer	587	0.0%	573	-2.5%	<b>580</b>	<b>1.1%</b>
Average daily sales at all stores	495,000	5.8%	472,000	-4.6%	<b>471,000</b>	<b>-0.4%</b>
Average daily sales at newly opened stores	455,000	11.2%	414,000	-9.0%	<b>431,000</b>	<b>4.1%</b>

Note: Year-on-year changes for existing stores represent comparisons of figures for existing stores in a given fiscal year with the same existing stores in the previous fiscal year, not comparisons with existing stores for the previous fiscal year.



P.2-3, 8-9, 14-17, 31-32

### Stores Opened/Closed and Number of Stores at Fiscal Year-end

On the store development front, Circle K Sunkus strove to improve the earnings power of its stores. This entailed reducing rents and construction expenses, as well as boosting the average daily sales of new stores. In certain regions, store operation divisions and store development divisions were integrated into a unified regional Store Development & Operations Division in order to upgrade coordination on store relocations, multi-store franchise agreements and so forth. Furthermore, Circle K Sunkus began opening tie-up stores with cocokara fine Inc., a drugstore chain operator, as part of a business partnership between the two companies. As a result, Circle K Sunkus had a total of 5,001 stores as of February 28, 2011, representing a net increase year on year of 43 stores. New stores numbered 301 while 258 stores were closed.

In terms of franchise agreement type, in the fiscal year ended February 28, 2011, Type A\* stores continued to decline in number, while Type C\* stores once again increased. Although Circle K Sunkus has been facing increasing difficulty year after year in securing locations suited to Type A stores, the Company has been stepping up the opening of Type A stores, opening 14 Type A stores in the fiscal year ended February 28, 2011. On the other

hand, more and more new Type C stores have been opened, primarily inside buildings. As a result, Type C stores once again accounted for more than 90% of all new stores in the fiscal year ended February 28, 2011. We have been working to reduce the number of Company-owned stores since the fiscal year ended February 29, 2008. There were 114 closures in the year under review. In addition, the Company utilized the "Venture Employee System" and the "Operations Management Employee System" to convert Company-owned stores into franchised stores, resulting in the reduction of 67 Company-owned stores from the previous fiscal year-end.

During the year, major convenience store chains posted a net increase in the number of stores, reflecting fewer stores closing than in the previous year.

In the year ending February 29, 2012, the Company will prioritize improving the efficiency of new store investments. The return on invested capital will be the prime benchmark in rigorously assessing the market and location of new stores to improve the average daily sales at newly opened stores. We will also strive to recoup investments by reducing leasing and construction costs to bolster store profitability. In particular, the Company plans to improve average daily sales at newly opened stores by opening more of them in the highly profitable Kanto and Chukyo regions.

\* Refer to the tables on page 28 for details

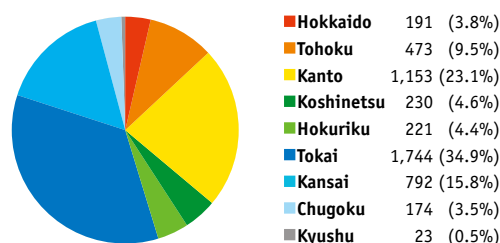
### Stores Opened/Closed

(stores)

	2009/2	2010/2	2011/2
Stores opened	265	285	301
Stores relocated	120	88	67
Stores closed	255	266	258
Net increase	10	19	43
<b>Fiscal year-end</b>	<b>4,939</b>	<b>4,958</b>	<b>5,001</b>

### Stores by Geographic Region

(stores)



We will launch mini convenience stores in small premises—a move that we had delayed—where capital investments and operating costs will be minimized. We plan to open 315 stores (including 15 mini convenience stores and 65 relocations). We look to close 265 stores, including an

additional 10 owing to the impact of the Great East Japan Earthquake, resulting in a net increase of 50 stores. Consequently, Circle K Sunkus expects to have a total of 5,051 stores as of February 29, 2012.

## Types of Franchise Agreements

	Type A	Type C
Franchise agreements	The owner of the facility, who has received franchise approval, sets up and runs the store with his/her own investment.	The Company rents the property and recruits the store manager separately to run the store.
Contract period	120 monthly accounting periods (approx. 10 years)	
Investments required by franchisees	¥37.2 million	¥7.2 million
Contracted cash segregated as deposits	¥2.5 million, borne by franchisees	
Commission for setting up store	¥0.5 million	
Education and training expenses	¥0.3 million	
Franchise membership fees	¥0.5 million	
Part of payments for purchased products	¥1.2 million	
Merchandise, equipment and consumables	¥4.7 million, borne by franchisees	
Land, buildings and internal remodeling	¥30.0 million, borne by franchisees	Borne by the Company
Rent	Borne by franchisees	Borne by the Company
Royalty percentage (Relative to monthly gross profit)	14%–30%; 30% on average	37%–62%; 47% on average
Minimum revenue guarantee	Annual net sales of franchised stores ¥23.0 million (¥19.0 million + annual sales × 6%) ≤ ¥27.0 million	Annual net sales of franchised stores ¥20.0 million (¥14.0 million + annual sales × 6%) ≤ ¥22.0 million
Change in type of agreement	None	Upgrade to Type A if satisfactory performance achieved over two years following the opening of the store

Notes 1. The average royalty percentage was calculated assuming average daily store sales of ¥471,000 and an average product markup of 27.69% for the year ended February 28, 2011.  
2. The monetary figures given for “Merchandise, equipment and consumables” and “Land, buildings and internal remodeling” are amounts for an average store; the actual amount will differ for each store.

## Number of Stores by Franchise Agreement Type

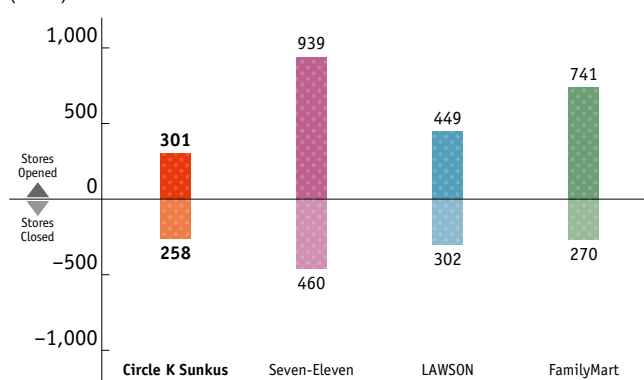
(stores)

	2009/2	2010/2	2011/2
<b>Type A</b>	1,244	1,196	<b>1,104</b>
Share	25.2%	24.1%	<b>22.1%</b>
<b>Type E</b>	436	399	<b>368</b>
Share	8.8%	8.1%	<b>7.4%</b>
<b>Type C</b>	2,751	2,945	<b>3,178</b>
Share	55.7%	59.4%	<b>63.5%</b>
<b>Company-owned stores</b>	508	418	<b>351</b>
Share	10.3%	8.4%	<b>7.0%</b>

Note: Type E agreement: This agreement lies between Type A and Type C agreements. The average royalty percentage for Type E agreements is approximately 44%. Type E agreements specific to Sunkus were abolished in September 2004 with some exceptions such as relocations.

## Stores Opened/Closed of Major Convenience Store Chains

(stores)



Note: Figures for each convenience store chain represent stores in Japan only, excluding those of consolidated subsidiaries. Including 329 am/pm stores that were converted to FamilyMart stores.  
Source: Financial reports prepared by each company and news reports.



### Product Details and Markup Rates

On the product development front, Circle K Sunkus sought to develop products and retailing spaces that match customers' increasingly diverse lifestyles. The Company aggressively launched television commercials to boost sales of key products; namely the *Oishii Soup & Soup Gohan* (Rice in Soup) series of soup dishes, *rubetta* series of pasta dishes and the *Cherie Dolce* dessert selection. In October 2010, a massive campaign commemorating the 30th anniversary of the first Circle K and Sunkus stores in Japan was launched. In the *Cherie Dolce* series in particular, *Tenshi no Cheesecake* (Angel's Cheesecake) went on to sell around 3 million servings in the first month after launch, making it the biggest hit in the history of the Company's dessert offerings.

Circle K Sunkus strengthened the rice dish category by increasing dishes in the intermediate price range of around ¥500, in addition to enhancing value-priced and premium-range lineups. These actions led to improvements in both unit sales prices and gross profit margins.

On the service development front, Circle K Sunkus strove to increase customer convenience by broadening the array of payment methods centered on electronic money formats that various transportation companies offer; including Suica Cards offered by East Japan Railway Company

(JR East). In addition, in order to encourage electronic money users to join the in-house *KARUWAZA CLUB*, Circle K Sunkus developed deeper ties with membership organizations of partner companies through improved incentive-point exchange programs and other means. Those efforts helped raise membership in *KARUWAZA CLUB* to more than a million customers by February 28, 2011. In February 2011, the Company launched *Omise de Tsuhan*, a new type of online shopping service that enables users to perform all transaction steps, from ordering, payment and receipt of merchandise, on in-store *KARUWAZA STATION* multimedia terminals.

#### Fast foods:

Rice dishes, sandwiches, noodles, delicatessen snacks and countertop fast foods

#### Perishable foods:

Milk, chilled beverages, pastries, sandwiches, desserts and fresh food items

#### Processed foods:

Alcoholic beverages, soft drinks, snacks, instant noodles, ice cream and dried foods

#### Non-food items:

Magazines, newspapers, tobacco, cosmetics and general merchandise

#### Services:

Tickets, stamps and parcel delivery


### Sales by Product and Product Markups

	2009/2				2010/2				2011/2			
	Sales Growth	Share	Markup	Change	Sales Growth	Share	Markup	Change	Sales Growth	Share	Markup	Change
Fast foods	-3.2%	18.2%	36.2%	0.2%	-10.5%	17.0%	36.3%	0.1%	-0.5%	16.9%	37.0%	0.7%
Perishable foods	0.0%	12.8%	34.4%	0.2%	-4.9%	12.8%	34.4%	0.1%	-1.3%	12.6%	34.9%	0.4%
Processed foods	-2.0%	29.6%	36.5%	0.5%	-5.5%	29.2%	36.8%	0.2%	-1.9%	28.6%	37.4%	0.6%
Non-food items	16.8%	34.0%	16.6%	-1.6%	-1.3%	35.1%	16.2%	-0.5%	1.3%	35.4%	15.8%	-0.4%
Services	-3.9%	5.4%	6.4%	-0.3%	5.0%	5.9%	5.9%	-0.5%	11.3%	6.5%	5.4%	-0.5%
Total	3.6%	100.0%	28.11%	-0.88%	-4.3%	100.0%	27.64%	-0.47%	0.3%	100.0%	27.69%	0.05%

The average product markup for Circle K Sunkus in the February 2011 fiscal year was 27.69% on a non-consolidated basis, up 0.05 of a percentage point from the previous fiscal year. Although low-margin cigarettes and service merchandise recorded higher sales and accounted for a greater share of overall sales, there were major improvements in margins in fast foods, perishable foods, processed foods and certain other categories, and healthy sales growth.

For the fiscal year ending February 29, 2012, Circle K Sunkus expects the average product markup to improve 0.05 of a percentage point to 27.74%. This forecast is based on the positive impact of logistics reforms and efforts to improve average product markups at the single-product and product-category levels, despite ongoing growth in sales of lower margin tobacco products.

## Consolidated Operating Results for the Fiscal Year Ended February 28, 2011

 P.1-3, 18-19

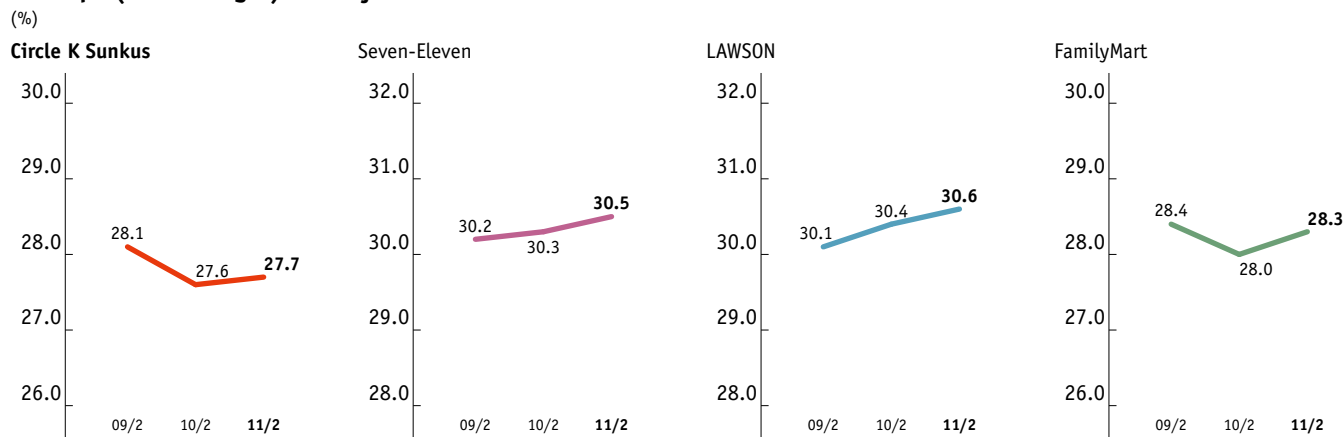
Total operating revenue for the year under review decreased 0.9% to ¥192,305 million. The Company's operating revenue is drawn from franchise commissions from franchised stores, license fees from area franchisers, net sales of

Company-owned stores and other operating revenue. In the fiscal year ended February 28, 2011, management continued to reduce the number of Company-owned stores as a policy objective, leading net sales from these stores to decline 6.9% to ¥77,379 million. At the same time, franchise commissions from franchised stores increased 3.9% to ¥102,766 million, key factors being a net increase in the number of stores and an increase in the number of Company-owned stores converted into franchises.

Operating gross profit rose 2.6% to ¥133,120 million, reflecting improved product markups, greater contributions from consolidated subsidiaries, and higher franchise commissions from franchised stores.

Operating income climbed 22.2% to ¥18,572 million. Circle K Sunkus had planned to boost selling, general and administrative (SG&A) expenses in line with the addition of consolidated subsidiaries. These expenses were almost unchanged, however, at ¥114,548 million, due to the pursuit of cost effectiveness and rigorous efforts to reduce inefficiencies. The main factors behind the change in SG&A expenses were as follows. The reduction in the number of Company-owned stores caused management consignment fees to decline 29%, while equipment leasing expenses dropped 12.4%. The adoption of new lease accounting

## Markups (Gross Margin) for Major Convenience Store Chains over the Past Five Years



Source: Financial reports prepared by each company and news reports.

standards led to a 12.6% rise in depreciation. Rental and lease expenses were up 0.8%, owing largely to an increase in the number of Type C franchise agreement stores and store relocations. Payroll and remuneration expenses rose 0.6%, while advertising and sales promotion expenses climbed 1.3%, mainly because of higher spending on television commercials.

Net income increased 29% to ¥7,165 million. Net income per share was ¥85.55.

On May 13, 2011, Circle K Sunkus announced revisions to its forecasts for the year ending February 29, 2012, in light of the impact of the Great East Japan Earthquake. Management now expects operating revenue to decrease 2.1% year on year to ¥188,210 million. The Company will continue spending on measures to help franchisees boost their sales and earnings while maintaining sales promotions through television commercials. Nonetheless, it plans to increase SG&A expenses by 0.9% by streamlining Head Office and undertaking rigorous efforts to reduce inefficiencies. Operating income is thus projected to fall 3.1% year on year to ¥18,000 million, with net income dropping 48% to ¥3,750 million.

## Consolidated Subsidiaries



P.27

In the fiscal year ended February 28, 2011, area franchiser Sunkus Hokuria Co., Ltd., became a consolidated subsidiary, bringing the number of such consolidated area franchisers to five. We now have eight consolidated subsidiaries. The other three are ZERO NETWORKS Co., Ltd., which is contracted to conduct ATM operations, 99 ICHIBA Co., Ltd., which operates small fresh food supermarkets, and Retail Staff Co., Ltd., which offers staffing services.

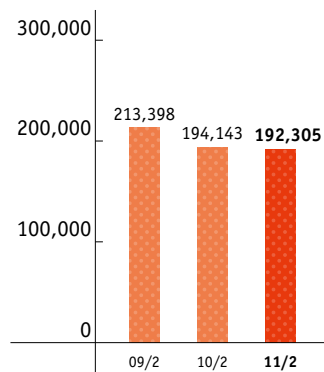
Our five area franchisers, including one newly consolidated during the term, boosted their net sales 46% year on year. Their SG&A expenses rose ¥2,462 million, however, resulting in an operating loss of ¥178 million. ZERO NETWORKS set up new ATMs in five new prefectures during the year. As of February 28, 2011, that company had installed a total of 4,196 ATMs, up 241 from a year earlier. With steady increases in ATM transactions, ZERO NETWORKS generated operating income of ¥617 million, up 65%. 99 ICHIBA posted an operating loss of ¥155 million, ¥273 million less than a year earlier, reflecting efforts to enhance its earnings structure by opening stores at a slower pace.

Area franchiser Sunkus Higashi-Saitama Co., Ltd. will become a newly consolidated subsidiary from the fiscal year

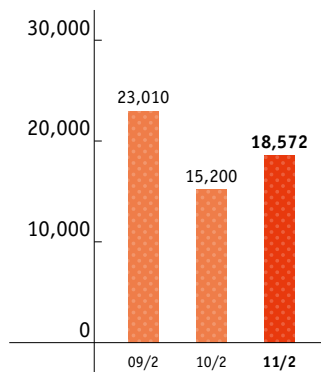
### Consolidated Operating Results

(millions of yen)

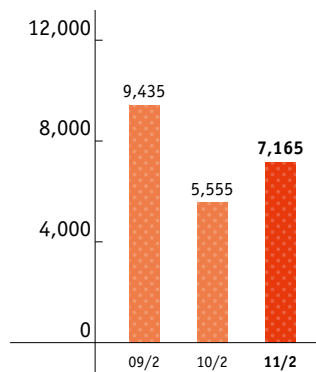
#### Total operating revenues



#### Operating income

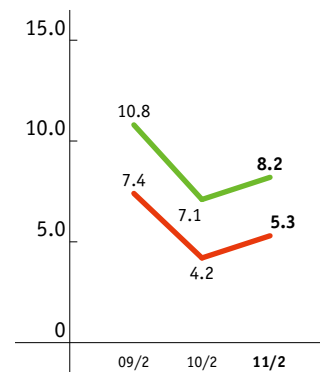


#### Net income



### Return on Equity (ROE) and Return on Assets (ROA)

(%)




— ROE — ROA

- Notes: 1.  $ROA = \frac{(\text{Operating income} + \text{Interest and dividend income})}{\text{Total assets (Yearly average)}} \times 100$   
 2.  $ROE = \frac{\text{Net income}}{\text{Shareholders' equity (Yearly average)}} \times 100$

ending February 29, 2012, bringing the number of consolidated area franchisers to six. Sunkus Higashi-Saitama projects an operating loss of ¥47 million, reflecting additional SG&A expenses from newly consolidated subsidiaries. ZERO NETWORKS expects operating income to decline 32% to ¥422 million. 99 ICHIBA aims to reduce its operating loss by continuing to improve its earnings structure.

## Consolidated Financial Position

 P.1-3, 19

Total current assets increased ¥15,652 million from the previous fiscal year-end to ¥105,572 million. This was due mainly to increases of ¥12,439 million in cash and cash equivalents and ¥3,266 million in other accounts receivable.

Net property and equipment increased ¥8,064 million to ¥68,133 million. This mainly reflected an increase of ¥9,645 million in lease assets, as Type C franchise agreements, where Circle K Sunkus supplies new stores for franchisees, account for more than 90% of all new stores.

Investments and other assets decreased ¥8,533 million to ¥66,322 million. Long-term leasehold deposits declined ¥5,922 million.


Total current liabilities increased ¥9,576 million to

¥81,533 million. This mainly reflected a ¥928 million rise in trade accounts payable in line with higher total store sales. Another factor was a ¥3,501 million increase in income taxes payable because of a rise in taxable income from the previous year.

Long-term liabilities increased ¥1,767 million to ¥21,822 million. This was largely because of a ¥2,970 million rise in lease obligations.

As a result of these factors, total equity increased ¥3,840 million to ¥136,672 million. This change reflected a ¥3,815 million rise in retained earnings from a year earlier, which reflected net income of ¥7,165 million, despite payments of ¥3,350 million for dividends. Consequently, the equity ratio was 56.9%, and total equity per share was ¥1,631.86.

## Consolidated Cash Flows

 P.2-3, 18

In the year ended February 28, 2011, operating activities provided net cash of ¥27,303 million, 71.5% more than in the previous fiscal year. The main contributors were income before income taxes and minority interests of ¥13,254 million, 22.9% more than in the previous year; and an

## Business Performance of Consolidated Subsidiaries

(stores, millions of yen)

	2011/2				2012/2 (Forecast)			
	Five area franchisers total	99 ICHIBA	ZERO NETWORKS	Retail Staff	Six area franchisers total	99 ICHIBA	ZERO NETWORKS	Retail Staff
Stores opened	22	2	–	–	37	5	–	–
Stores closed	15	9	–	–	20	2	–	–
Fiscal year-end	383	61	–	–	470	64	–	–
Total store sales	57,600	10,574	–	–	69,574	10,826	–	–
Total operating revenues	12,176	10,578	5,844	1,964	13,702	10,826	5,906	1,956
Operating income (loss)	–178	–155	617	65	–24	–78	422	44

Reference : Circle K Sunkus' consolidated subsidiaries are listed below.

- Sunkus Aomori Co., Ltd. (Area franchisers)
- Sunkus Nishi-Saitama Co., Ltd. (Area franchisers)
- SUNKUS KITAKANTO Co., Ltd. (Area franchisers)
- Sunkus Nishi-Shikoku Co., Ltd. (Area franchisers)
- Sunkus Hokuria Co., Ltd. (Area franchisers)

- Sunkus Higashi-Saitama Co., Ltd. (Area franchisers)\*
- 99 ICHIBA Co., Ltd. (Mini supermarkets that specialize in fresh foods)
- ZERO NETWORKS Co., Ltd. (Outsourced ATM operations)
- Retail Staff Co., Ltd. (Staffing services)

\*Became a consolidated subsidiary on March 1, 2011



increase in money held as agent to ¥1,494 million, up 32.3%, for payment of utility and other bills and the acceptance of electronic money formats offered by various transportation companies.

Net cash used in investing activities was ¥8,323 million, down 23.6% in comparison to the previous fiscal year. Cash was used mainly for payments of ¥12,765 million, 6.4% less year on year, for acquisition of property and equipment, chiefly to open new stores and improve the functions of existing ones. Among others, cash was used ¥604 million for acquisition of long-term investments and other assets expenses, 11.3% less year on year, mainly for software development for a settlement system for electronic money offered by various transportation companies; and ¥2,123 million for the payment for long-term leasehold deposits, down 14.5%.

Net cash used in financing activities was ¥6,541 million, up 41.2% year on year. This reflected dividends paid of ¥3,350 million, unchanged from the previous year, and the repayment of ¥1,852 million in long-term lease obligations, up 107.2% year on year.

As of February 28, 2011, cash and cash equivalents were ¥75,938 million, up ¥12,439 million, or 19.6%, from the end of the previous fiscal year.

## Returning Profits to Shareholders



P.1-3, 20

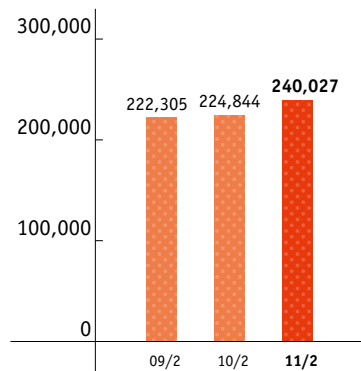
Circle K Sunkus regards dividends as the most important means of returning earnings to shareholders. The Company's basic policy is to return profits to shareholders based on earnings growth, while building up retained earnings to bolster the operating base as necessary to sustain business growth into the future. More specifically, Circle K Sunkus considers the maintenance of stable dividends its first priority as it returns earnings to shareholders while carefully monitoring its medium-term earnings outlook, capital expenditure plans and financial position, with the aim of paying out at least 30% of consolidated net income as dividends.

In the fiscal year ended February 28, 2011, Circle K Sunkus declared interim and year-end dividends of ¥20 per share. As a result, the annual dividend for the fiscal year ended February 28, 2011 was ¥40 per share, representing a payout ratio of 46.8% and a ratio of dividends to total equity of 2.5%.

Retained earnings will be earmarked for investments related to store information systems and for investments in developing new stores, revitalizing existing ones, and procuring product displays and other equipment for new products.

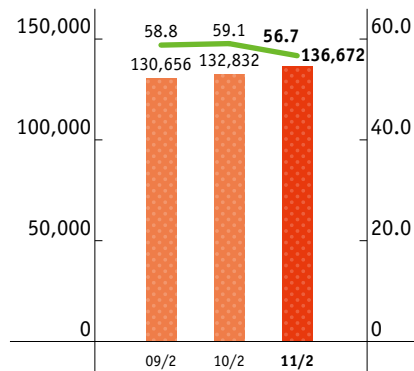
### Total Liabilities and Equity

(millions of yen)



### Total Equity/Equity Ratio

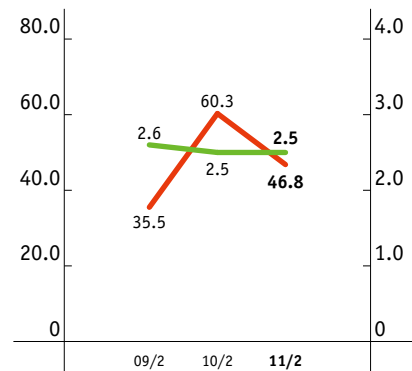
(millions of yen, %)



■ Total Equity (left scale)  
■ Shareholders' Equity Ratio (right scale)

### Payout Ratio/ Ratio of Dividends to Total Equity

(%)



■ Payout Ratio (left scale)  
■ Ratio of Dividends to Total Equity (right scale)

## Outlook

In the fiscal year ending February 29, 2012, consumer sentiment is expected to initially be dampened by the Great East Japan Earthquake, but will show signs of gradual improvement. There are key concerns about the Japanese economy's prospects, however, notably the power shortages anticipated in summer 2011, constrained corporate activities to conserve electricity and possible supply-chain disruptions. While management anticipates demand improving as Japan recovers from the earthquake, there are concerns about Japan's unstable political situation, trends in foreign exchange rates and crude oil prices, food prices and upward trends in consumer prices. Personal consumption is expected to strengthen in step with improvements in employment and wage conditions.

The convenience store industry is expected to see an upturn in the ready-made meal sector, which includes rice dishes and delicatessen items, as well as a rise in cigarette sales stemming from a possible tax hike. However, intense competition will continue to cloud prospects for generating higher earnings.

In this context, Circle K Sunkus' management policy for the year ending February 29, 2012 will be "Rethink and Review Everything and Put Innovation Into Action." The new fiscal year will mark the beginning of a drive to create new convenience stores. It will be a year the Company takes strides to reviewing and reforming various business systems, including the past system of franchise contracts, in adapting to a new era.

On the store operations front, initiatives for increasing customer footfall will be highest on the agenda of Circle K Sunkus. To improve customer satisfaction, no effort will be spared creating product lineups and sales floors

corresponding with customer needs. The Company will also aim to upgrade the basic sales skills of the franchise. To this end, efforts to educate franchisee staff will be stepped up to ensure their complete understanding of basic operating procedures, and to nurture personnel in charge of placing orders with the Head Office from among them. In addition, the Company will continue to allocate funds for supervisor-franchisee sales promotion aimed at bolstering sales initiatives in line with actual conditions at each individual store. Franchisee support will extend to sales promotion activities linked with commercials aired nationwide. In order to cope with an increase in the number of franchisee contract expirations and to raise the ratio of contract renewals, franchisees finishing their contracts will be offered a 0.5 percentage point reduction in royalty payments as a special incentive. At the same time, the number of Company-owned stores will be reduced to cut related costs.

On the store development front, the Company will prioritize improving the efficiency of new store investments. The Company will rigorously assess the market and location of new stores to eliminate unprofitable stores and improve the average daily sales at newly opened stores. We will also strive to bolster store profitability by reducing leasing and construction costs. In addition, we will launch mini convenience stores in small premises—a move that we had delayed—where capital investments and operating costs will be minimized. We plan to open such mini convenience stores primarily in access-restricted locations such as hospitals and train station premises. The mini convenience store format will focus on a limited range of products with an emphasis on fast food or other specific categories.

On the product development front, Circle K Sunkus will

strengthen its delicatessen lineup as part of a merchandizing effort designed to accommodate older customers. More affordably priced delicatessen items in high demand among older customers will be offered as appetizers and main dishes. The lineup will also be extended to include the UNY Group's Style ONE private-label offerings of delicatessen items with longer shelf life. Furthermore, the Company will continue to open stores giving top priority to store profitability, while maintaining the net increase in stores.

In service development, Circle K Sunkus will seek to further enhance the convenience of its *Omise de Tsuhan* online shopping service run on the *KARUWAZA STATION* in-house multimedia terminals. In this way, the Company will upgrade its service whereby it handles courier deliveries for customers. In addition, Circle K Sunkus launched its own online shopping portal, *KARUWAZA ONLINE*, through subsidiary TOKI-MEKI.COM Co., Ltd. in April 2011. All of these measures should increase fee and commission income for franchisees. Furthermore, by offering exclusive merchandise and incentive points to the more than 1 million *KARUWAZA CLUB* members, the Company hopes to induce members to visit stores and shop more with Circle K Sunkus.

## Area Franchisers



P.28-29

Circle K Sunkus and its area franchisers each develop store networks. The Company establishes area franchisers as joint venture companies with prominent local firms to operate franchised stores in specific regions. Area franchisers receive expertise and guidance from the Company on their respective convenience store chains. The Company provides guidance to area franchisers on topics such as store development, operations and accounting, while at the same time supplying them with products, information systems and other items. Fees from area franchisers are paid to the Company in return. The Circle K Sunkus Group maximizes scale merits across the Group, including at area franchisers, with regard to product policies and developing its store network.

Circle K Sunkus respects the autonomy of management at area franchisers. While carefully considering returns on investments from a Group-wide perspective, the Company provides personnel and funding support for area franchisers as necessary. Going forward, the Circle K Sunkus Group will work to capture group-wide synergies by deepening col-

### Area Franchisers

(As of February 28, 2011)

Company	Equity interest	Date of agreement	2011/2		2011/2		Area license fees (¥ million)
			Number of stores	Change	Sales (¥ million)	Change	
Sunkus Aomori Co., Ltd.*	100.0%	1994. 3. 1	70	3	¥ 9,941	5.7%	
Sunkus Nishi-Saitama Co., Ltd.*	100.0%	1987. 2.28	88	4	13,176	4.8%	
SUNKUS KITAKANTO Co., Ltd.*	100.0%	1997. 3.12	44	4	6,126	-15.1%	
Sunkus Nishi-Shikoku Co., Ltd.*	100.0%	1992. 8.27	81	-4	11,924	-2.1%	
Sunkus Hokuria Co., Ltd.	100.0%	1995. 1.24	100	±0	16,432	-0.2%	
Circle K Shikoku Co., Ltd.	35.0%	1996. 5.14	168	4	26,608	5.1%	
Sunkus Higashi-Saitama Co., Ltd.	19.0%	1988. 7.19	70	2	10,536	4.2%	
Sunkus Tokai Co., Ltd.	19.0%	1989. 9. 6	118	9	17,160	-6.5%	
Sunkus Keihanna Co., Ltd.	19.0%	1989.10.26	102	-1	17,564	-2.0%	
Sunkus and Associates Higashi-Shikoku Co., Ltd.	19.0%	1995. 1.12	122	-5	18,542	-5.2%	
Minami-Kyushu Sunkus Co., Ltd.	19.0%	1998. 8.21	108	2	15,689	-2.3%	
CVS Bay Area Inc.	2.4%	1997. 1.14	127	-3	25,013	-6.2%	
<b>Total</b>			<b>1,273</b>	<b>12</b>	<b>¥201,116</b>	<b>1.1%</b>	<b>¥2,938</b>

\* Consolidated subsidiaries

Note: Total amounts for the year ended February 28, 2011 for the number of stores, sales, and area license fees at the end of the term include results for Sunkus and Associates Toyama Co., Ltd., whose area franchise agreement was terminated on July 1, 2011.

laboration with area franchisers, while further strengthening management guidance.

As of February 28, 2011, the Circle K Sunkus Group had 13 area franchisers who operated 1,273 stores in 21 prefectures. In the fiscal year ended February 28, 2011, area franchisers posted sales of ¥201,116 million, 1.1% year on year.

In the fiscal year ending February 28, 2012, Sunkus Higashi-Saitama Co., Ltd. will become a newly consolidated subsidiary, bringing the total number of consolidated subsidiaries among area franchisers to six.

## Business Risks

The Circle K Sunkus Group's Risk Management Guidelines set forth Company-wide risks that, if they materialize, may impede efforts to achieve Group-wide objectives. Three major risk areas have been identified: (1) reliability of financial reporting; (2) compliance with laws and regulations concerning business activities; and (3) business activities. As of February 28, 2011, the Group recognizes the following five areas as major risks associated with the aforementioned "(3) business activities." Circle K Sunkus will make every effort to prevent these kinds of events from occurring and to respond promptly if they occur. However, an unforeseen event could have an impact on the Circle K Sunkus Group's operating results and financial position.

### [1] Food Product Safety

The Circle K Sunkus Group gives the highest priority to food safety. The Group has already eliminated the use of preservatives and artificial coloring from mainstay products such as rice balls and boxed lunches. Circle K Sunkus also develops new products to consistently offer items that help to build trust among customers. Food safety is also ensured through an inspection and control system and other inspections at stores. However, the food industry has faced a range of issues in recent years, including bird flu and

genetically modified food products. Although Circle K Sunkus takes steps to identify and take preventive measures to deal with these and other risks, an unforeseen event could impact the Group's operating results and financial position.

### [2] Personal Information and Information Systems

The Group holds franchise store information through its franchise business, and personal information on customers and other individuals gained from sales promotion campaigns and purchases made with Edy electronic money enabled *KARUWAZA CLUB* cards. To prevent the leak or corruption of customers' information, Circle K Sunkus takes appropriate security measures in information management, including computer systems. However, there is a risk that unforeseen events such as disasters, unauthorized access, or infection by computer viruses could result in the leak of internal information, which could prevent the Group from carrying out its operations and other activities.

### [3] Laws and Regulations, and Litigation

The Group's business operations are subject to food safety, fair trading, environmental protection and other laws and regulations, as well as licenses granted by government agencies. In the course of its business activities, the Circle K Sunkus Group works to ensure compliance with all relevant laws and regulations while encouraging all directors and employees to understand and practice compliance. To this end, the Group has established an Internal Control & Environmental Management Office to strengthen internal control systems. However, the Group may incur additional expenses as a result of unforeseen changes in laws and regulations or government policies, and is open to the risk of litigation in the course of its operations. These changes or legal action taken against Circle K Sunkus, or the result of such action, could impact the operating results and financial position of the Group.



#### [4] Area Franchisers

The Group grants permission to third parties to operate stores through area franchises. In area franchiser operations, the characteristics of each region are respected, and importance is given to profitability through synergies with other parts of the Group and results-driven business development in each area. Nonetheless, deteriorating operating performance in some areas amid changes in consumption patterns, intensifying competition, and growing disparity in income and regional economic performance is a cause for concern. In dealing with this situation, the Group's policy is to provide the necessary personnel and financial support to area franchisers. However, an unforeseen situation could impact the Group's operating results and financial position.

#### [5] Disasters and Other Factors

The Group's businesses in Japan could be affected by disasters or unforeseen accidents or other similar events, which could halt its logistics system or impede store operations, which could impact the Group's operating results and financial position.

## Consolidated Balance Sheets

Circle K Sunkus Co., Ltd. and Consolidated Subsidiaries  
For the Years Ended February 28, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars
ASSETS	2011	2010	2011
<b>Current assets:</b>			
Cash and cash equivalents (Note 16)	¥ 75,938	¥ 63,499	\$ 926,073
Short-term investments (Note 3)	22	3,000	268
Accounts receivable:			
Due from franchised stores (Note 4)	3,037	3,496	37,037
Other	11,346	8,080	138,366
	14,383	11,576	175,403
Inventories	1,844	1,990	22,488
Deferred tax assets (Note 14)	1,327	646	16,183
Prepaid expenses and other current assets (Note 16)	12,249	9,436	149,378
Allowance for doubtful accounts	(191)	(227)	(2,329)
Total current assets	105,572	89,920	1,287,464
<b>Property and equipment (Notes 5 and 6):</b>			
Property and equipment, at cost	117,662	102,797	1,434,902
Less accumulated depreciation	(49,529)	(42,728)	(604,012)
Net property and equipment	68,133	60,069	830,890
<b>Investments and other assets:</b>			
Investment securities (Notes 3 and 16)	2,089	3,037	25,476
Investments in and long-term loans to unconsolidated subsidiaries and affiliates (Note 7)	486	977	5,927
Long-term leasehold deposits (Note 16)	44,219	50,141	539,256
Software	6,643	8,237	81,012
Goodwill	769	–	9,378
Deferred tax assets (Note 14)	3,149	3,398	38,402
Other (Notes 6 and 9)	9,906	10,316	120,805
Allowance for doubtful accounts (Note 16)	(939)	(1,251)	(11,451)
Total investments and other assets	66,322	74,855	808,805
Total assets	¥240,027	¥224,844	\$2,927,159

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES AND EQUITY	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
<b>Current liabilities:</b>			
Lease obligations	¥ 2,258	¥ 1,287	\$ 27,537
Accounts payable:			
Trade (Note 16)	33,707	32,779	411,061
Due to franchised stores (Note 8)	2,244	1,901	27,366
Other	6,465	6,296	78,841
	42,416	40,976	517,268
Income taxes payable	4,342	841	52,951
Money held as agent (Note 16)	27,562	25,877	336,122
Other current liabilities (Note 16)	4,955	2,976	60,427
Total current liabilities	81,533	71,957	994,305
<b>Long-term liabilities:</b>			
Lease obligations	9,031	6,061	110,134
Guarantee deposits received (Note 16)	10,160	10,823	123,902
Employee retirement benefit liability (Note 9)	71	308	866
Other long-term liabilities	2,560	2,863	31,220
Total long-term liabilities	21,822	20,055	266,122
<b>Commitments and contingent liabilities</b> (Notes 11, 12 and 13):			
<b>Equity</b> (Note 10):			
Common stock:			
Authorized: 180,000,000 shares in 2011 and 2010			
Issued: 86,183,226 shares in 2011 and 2010	8,380	8,380	102,195
Capital surplus	36,093	36,093	440,159
Retained earnings	96,738	92,923	1,179,732
Less treasury stock, at cost:			
2,430,976 shares in 2011 and 2,429,263 shares in 2010	(5,032)	(5,030)	(61,366)
Total shareholders' equity	136,179	132,366	1,660,720
Other components of equity	493	466	6,012
Total equity	136,672	132,832	1,666,732
Total liabilities and equity	¥240,027	¥224,844	\$2,927,159

## Consolidated Statements of Income

Circle K Sunkus Co., Ltd. and Consolidated Subsidiaries  
For the Years Ended February 28, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
<b>Total operating revenue:</b>			
Franchise commissions from franchised stores	¥102,766	¥ 98,933	\$1,253,244
Net sales of Company-owned stores	77,379	83,106	943,646
Other operating revenue	12,160	12,104	148,293
	192,305	194,143	2,345,183
<b>Operating costs and expenses (Note 15):</b>			
Cost of goods sold	59,185	64,360	721,768
Selling, general and administrative expenses	114,548	114,583	1,396,927
	173,733	178,943	2,118,695
Operating income	18,572	15,200	226,488
<b>Other income (expenses):</b>			
Interest and dividend income	547	640	6,671
Interest expenses	(271)	(186)	(3,305)
Loss on sale or disposal of property and equipment	(208)	(223)	(2,537)
Loss on cancellation of lease contracts	(1,534)	(1,503)	(18,707)
Loss on valuation of investments in unconsolidated subsidiaries and affiliates (Note 3)	(427)	–	(5,207)
Impairment loss on fixed assets (Note 6)	(3,519)	(3,529)	(42,915)
Miscellaneous, net (Note 3)	94	382	1,146
	(5,318)	(4,419)	(64,854)
Income before income taxes and minority interests	13,254	10,781	161,634
<b>Income taxes (Note 14)</b>	6,089	5,226	74,256
Net income	¥ 7,165	¥ 5,555	\$ 87,378

	Yen		U.S. dollars
<b>Per share:</b>			
Net income	<b>¥85.55</b>	¥66.32	<b>\$1.04</b>
Cash dividends	<b>40.00</b>	40.00	<b>0.49</b>

See accompanying Notes to Consolidated Financial Statements.



## Consolidated Statements of Changes in Equity

Circle K Sunkus Co., Ltd. and Consolidated Subsidiaries  
For the Years Ended February 28, 2011 and 2010

	Number of shares of common stock issued	Millions of yen							Total equity
		Shareholders' equity					Other components of equity		
		Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gain on available-for- sale securities	Total other components of equity	
Balance at February 28, 2009	86,183,226	¥ 8,380	¥ 36,093	¥ 90,721	¥ (5,028)	¥ 130,166	¥ 490	¥ 490	¥ 130,656
Net income	-	-	-	5,555	-	5,555	-	-	5,555
Cash dividends	-	-	-	(3,350)	-	(3,350)	-	-	(3,350)
Net change in treasury stock	-	-	(0)	-	(2)	(2)	-	-	(2)
Decrease in retained earnings through inclusion of additional subsidiaries on consolidation	-	-	-	(3)	-	(3)	-	-	(3)
Changes other than shareholders' equity for the year	-	-	-	-	-	-	(24)	(24)	(24)
Balance at February 28, 2010	86,183,226	8,380	36,093	92,923	(5,030)	132,366	466	466	132,832
Net income	-	-	-	7,165	-	7,165	-	-	7,165
Cash dividends	-	-	-	(3,350)	-	(3,350)	-	-	(3,350)
Net change in treasury stock	-	-	(0)	-	(2)	(2)	-	-	(2)
Changes other than shareholders' equity for the year	-	-	-	-	-	-	27	27	27
Balance at February 28, 2011	86,183,226	¥8,380	¥36,093	¥96,738	¥(5,032)	¥136,179	¥493	¥493	¥136,672

	Thousands of U.S. dollars							
<b>Balance at February 28, 2010</b>	\$ 102,195	\$ 440,159	\$ 1,133,207	\$ (61,342)	\$ 1,614,219	\$ 5,683	\$ 5,683	\$ 1,619,902
Net income	-	-	87,378	-	87,378	-	-	87,378
Cash dividends	-	-	(40,853)	-	(40,853)	-	-	(40,853)
Net change in treasury stock	-	(0)	-	(24)	(24)	-	-	(24)
Changes other than shareholders' equity for the year	-	-	-	-	-	329	329	329
<b>Balance at February 28, 2011</b>	<b>\$102,195</b>	<b>\$440,159</b>	<b>\$1,179,732</b>	<b>\$(61,366)</b>	<b>\$1,660,720</b>	<b>\$6,012</b>	<b>\$6,012</b>	<b>\$1,666,732</b>

See accompanying Notes to Consolidated Financial Statements.

## Consolidated Statements of Cash Flows

Circle K Sunkus Co., Ltd. and Consolidated Subsidiaries  
For the Years Ended February 28, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests	¥ 13,254	¥ 10,781	\$ 161,634
Adjustments for:			
Depreciation and amortization	12,375	11,051	150,915
Impairment loss on fixed assets	3,519	3,529	42,915
Loss on sales or disposal of property and equipment	208	223	2,537
Loss on cancellation of lease contracts	780	729	9,512
Loss on valuation investments in unconsolidated subsidiaries and affiliates	427	–	5,207
Increase in trade receivables	(2,862)	(331)	(34,902)
Decrease in inventories	246	505	3,000
Increase (decrease) in trade payables	414	(1,640)	5,049
Decrease (increase) in other accounts payable and accrued expenses	820	(877)	10,000
Increase in money held as agent	1,494	1,129	18,219
Decrease in employee retirement benefit liabilities	(264)	(66)	(3,220)
Other, net	(170)	(942)	(2,073)
Subtotal	30,241	24,091	368,793
Interest and dividends received	302	359	3,683
Interest paid	(243)	(148)	(2,964)
Income taxes paid	(2,997)	(8,381)	(36,549)
Net cash provided by operating activities	27,303	15,921	332,963
<b>Cash flows from investing activities:</b>			
Acquisition of property and equipment	(12,765)	(13,635)	(155,671)
Acquisition of long-term investments and other assets	(4,748)	(5,352)	(57,902)
Proceeds from sales of property, long-term investments and other assets	3,273	2,738	39,915
Payments for long-term leasehold deposits	(2,123)	(2,484)	(25,890)
Proceeds from redemption of long-term leasehold deposits	4,783	4,732	58,329
Increase in cash through acquisition of subsidiary (Note 17)	29	–	354
Net decrease in short-term investments	3,016	3,100	36,780
Other	212	5	2,585
Net cash used in investing activities	(8,323)	(10,896)	(101,500)
<b>Cash flows from financing activities:</b>			
Payments for long-term debt	(660)	–	(8,049)
Payments for long-term lease obligations	(1,852)	(894)	(22,585)
Proceeds from guarantee deposits received	382	735	4,659
Repayments for guarantee deposits received	(1,058)	(1,120)	(12,902)
Dividends paid	(3,350)	(3,350)	(40,854)
Purchase of treasury stock	(3)	(3)	(37)
Other	0	1	0
Net cash used in financing activities	(6,541)	(4,631)	(79,768)
Net increase in cash and cash equivalents	12,439	394	151,695
Cash and cash equivalents at beginning of year	63,499	62,917	774,378
Increase in cash and cash equivalents upon inclusion of additional subsidiaries on consolidation	–	188	–
Cash and cash equivalents at end of year	¥ 75,938	¥ 63,499	\$ 926,073

See accompanying Notes to Consolidated Financial Statements.

# Notes to Consolidated Financial Statements

Circle K Sunkus Co., Ltd. and Consolidated Subsidiaries  
For the Years Ended February 28, 2011 and 2010

## 1. Basis of Consolidated Financial Statements

### (a) Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of Circle K Sunkus Co., Ltd. (the "Company") and its consolidated subsidiaries (together with the Company, the "Circle K Sunkus Group") have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

### (b) Principal shareholder

UNY CO., LTD. ("UNY") directly owned 40,746 thousand shares of the common stock of the Company at February 28, 2011, an amount which represented 48.7% of the total voting interests in the Company at the balance sheet date. UNY also had, and continues to have, significant influence over the Company. Accordingly, the Company is a subsidiary of UNY.

### (c) U.S. dollar amounts

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing approximate exchange rate at February 28, 2011, which was ¥82 to U.S.\$1.00. The translation should not be construed as a representation that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

## 2. Summary of Significant Accounting Policies

### (a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. Under the control or influence concept, the Company fully consolidates those companies in which it is able to exercise control over operations either directly or indirectly, and the Company applies the equity method to those companies over which the Circle K Sunkus Group has the ability to exercise significant influence. Investments in unconsolidated subsidiaries that have a significant effect on the consolidated results of operations are accounted for by the equity method. Investments in the remaining unconsolidated subsidiaries and affiliates are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not have been material. The goodwill, measured by the excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition, is being amortized over 10 years for the year ended February 28, 2011. All significant intercompany accounts and transactions have been eliminated in consolidation. The fiscal year-end date of the consolidated subsidiaries is the same as the consolidated fiscal year-end date of the Company.

The number of consolidated subsidiaries, unconsolidated subsidiaries and affiliates for the years ended February 28, 2011 and 2010 was as follows:

	2011	2010
Consolidated subsidiaries	8	7
Unconsolidated subsidiaries accounted for by the equity method	—	1
Unconsolidated subsidiaries stated at cost	5	5
Affiliates stated at cost	8	9

#### (b) Franchise agreements and basis of recognizing franchise commissions

The Company is the exclusive franchiser in Japan of Circle K stores and Sunkus stores for retail sale of daily necessities to consumers. The Company enters into franchise agreements to allow independent franchisees to operate the relatively small-sized convenience stores using specific designs and the name “Circle K” or “Sunkus” and provides them with related managerial or technical know-how. Under the agreements, all franchised stores are provided with a variety of services and advice on the operation of the convenience stores from the Company as the franchiser. In return, the franchised stores are required to pay continuing franchise commissions to the Company based on certain percentages of the respective franchised store’s gross margin (net sales less cost of goods sold) on a monthly basis. As the franchiser, the Company accounts for such franchise commissions on an accrual basis by reference to the gross margin earned by each franchised store and the applicable commission percentage.

For the years ended February 28, 2011 and 2010, net sales, which were reported by franchised stores as the basis for calculating franchise commissions, were ¥853,110 million (\$10,403,780 thousand) and ¥824,442 million, respectively.

The term of a franchise agreement is typically ten years from the commencement date of a franchised store and may be renewed upon expiration subject to renegotiation of contract terms between the Company and the franchisee.

In the normal course of franchise operations, the Company generally acquires furniture, fixtures and equipment designed for Circle K stores and Sunkus stores or leases them as lessee under long-term noncancelable lease agreements (see Note 11). The Company also leases land and/or buildings for its own Company-owned stores or the franchised stores as lessee principally under long-term cancelable lease agreements with a few months’ advance notice. The Company pays the landlords leasehold deposits, equivalent to approximately several months rent. The deposits are non-interest bearing and principally refundable on an installment basis and recorded as “Long-term leasehold deposits” in the accompanying consolidated balance sheets.

The Company also enters into lease agreements as lessor with each franchisee to lease land and/or buildings for the store spaces. These leases are normally for the same term as the franchise agreement, and the guarantee deposits received from the franchised stores are refundable (the major portion) on an installment basis, are non-interest bearing and are included in “Guarantee deposits received” in the accompanying consolidated balance sheets.

#### (c) Area franchise agreements

The Company has entered into area franchise agreements with thirteen companies (area franchisers) located throughout Japan. The agreements provide each area franchiser with a right to operate its own “Circle K” or “Sunkus” convenience stores and to be franchisers in limited areas determined by the respective agreement. Each area franchiser is required to pay a license fee to the Company based on a certain percentage of revenue from its franchising business. The license fees are included in “Franchise commissions from franchised stores” in the accompanying consolidated statements of income.

#### (d) Cash equivalents

The Circle K Sunkus Group considers highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

#### (e) Inventories

In July 2006, the Accounting Standards Board of Japan (ASBJ) issued ASBJ Statement No. 9, “Accounting Standard for Measurement of Inventories.” As permitted under the superseded accounting standard, the Circle K Sunkus Group stated merchandise inventories at cost, determined by the retail method, until the fiscal year ended February 28, 2009.

The new accounting standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net realizable value. As a result of the adoption of ASBJ Statement No. 9, operating income and income before income taxes and minority interests were ¥80 million less for the year ended February 28, 2010, than the amounts that would have been recorded under the previous accounting method. Supplies are stated at cost, determined by the last purchase price.



#### (f) Investments and marketable securities

The Circle K Sunkus Group classifies certain investments in debt and equity securities as “held-to-maturity,” “trading” or “available-for-sale.” The classification determines the applicable accounting method as stipulated by the accounting standard for financial instruments. Marketable securities with market quotations for available-for-sale securities are stated at fair value, and the net unrealized gain or loss on these securities is reported as a component of equity, net of applicable income taxes. Gains and losses on the disposition of investment securities are computed by the moving average method. Nonmarketable securities without available market quotations for available-for-sale securities are carried at cost determined by the moving average method. Adjustments in carrying values of individual investment securities are charged to income through write-downs when a decline in value is deemed other than temporary.

#### (g) Allowance for doubtful accounts

An allowance for doubtful accounts is provided for at the aggregate amount of estimated credit loss based on an individual financial review of doubtful or troubled receivables and a general reserve for other receivables based on the historical loss experience of a certain past period.

#### (h) Property and equipment and depreciation

Property and equipment, including significant renewals and additions, are stated at cost and are depreciated by the declining balance method at rates based on the estimated useful life of the asset, except as mentioned below.

Buildings acquired on and after April 1, 1998 are depreciated by the straight-line method. The Circle K Sunkus Group capitalizes property with a cost of ¥100,000 or more and depreciates property with a cost of ¥100,000 or more but less than ¥200,000 over three years on a straight-line basis.

For property and equipment acquired before April 1, 2007, the Circle K Sunkus Group previously depreciated the property to the depreciable limit of 95% of the acquisition cost in accordance with the former Corporation Tax Law of Japan. Effective from the year ended February 29, 2008, the remaining 5% residual value is depreciated over five years using the straight-line method from the fiscal year in which the depreciable limit of 95% of the acquisition cost is reached, pursuant to the amended Corporation Tax Law of Japan.

#### (i) Leases

On March 30, 2007, the Accounting Standards Board of Japan (ASBJ) issued ASBJ Statement No. 13, “Accounting Standard for Lease Transactions,” which revised the previous accounting standard for lease transactions issued on June 17, 1993. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008, with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Under the previous accounting standard, finance leases which were deemed to transfer ownership of the leased property to the lessee were to be capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain “as if capitalized” information was disclosed in the notes to the lessee’s financial statements.

The revised accounting standard requires that all finance lease transactions be capitalized to recognize lease assets and lease obligations in the balance sheet. In addition, the revised accounting standard permits leases which existed at the transition date and did not transfer ownership of the leased property to the lessee to be accounted for as operating lease transactions.

The Circle K Sunkus Group applied the revised accounting standard effective March 1, 2009. The effect of this change was to increase operating income by ¥81 million and decrease income before income taxes and minority interests by ¥65 million for the year ended February 28, 2010, from the amounts that would have been recorded without the application of the revised standard.

For finance leases which did not transfer ownership of the leased property to the lessee, lease assets were amortized by the straight-line method over the lease period. In addition, the Circle K Sunkus Group accounted for leases which existed at the transition date and did not transfer ownership of the leased property to the lessee as operating lease transactions.

#### (j) Software

Software is amortized by the straight-line method over the estimated useful life of five years.

#### (k) Impairment of fixed assets

The Circle K Sunkus Group reviews fixed assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of the impaired asset or group of assets to the recoverable amount, which is to be measured as the higher of the asset's net selling price or value in use. Fixed assets include land, buildings and structures and equipment and fixtures, as well as intangible assets, and are to be grouped at the lowest levels for which there are identifiable cash flows from other groups of assets.

#### (l) Employee retirement benefit liability

Employees who terminate their service with the Circle K Sunkus Group are entitled to retirement and severance benefits determined by the basic rate of pay at the time of termination, length of service and conditions under which the termination occurs. Such retirement and severance benefits for employees are covered by a noncontributory pension plan organized by UNY, its subsidiaries and affiliates (together, the "UNY" Group), including the Company. Consolidated subsidiaries have lump-sum retirement benefit plans.

The Circle K Sunkus Group principally recognizes retirement benefits, including pension cost and related liability, based on the actuarial present value of projected benefit obligation using an actuarial appraisal approach and the value of pension plan assets available for benefits at the fiscal year-end. Unrecognized actuarial differences arising from the actual benefit obligation or value of pension plan assets being different from that projected or from changes in the underlying assumptions are amortized on a straight-line basis over eight to ten years, a period within the remaining service years of the employees, from the year following the year in which they arise. Unrecognized past service costs are amortized on a straight-line basis over ten years, a period within the remaining service years of the employees.

Effective from the fiscal year ended February 28, 2011, the Company and its consolidated subsidiaries adopted a new accounting standard, "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (Accounting Standards Board of Japan ("ASBJ") Statement No. 19 issued on July 31, 2008). The new accounting standard requires companies to use the rate of return on long-term government or gilt-edged bonds as of the end of the fiscal year for calculating the projected benefit obligation of a defined-benefit plan. Previously, companies were allowed to use a discount rate determined by taking into consideration fluctuations in the yield of long-term government or gilt-edged bonds over a certain period. This change had no material impact on the consolidated financial statements for the year ended February 28, 2011.

#### (m) Directors' bonuses

Directors' bonuses, including those for corporate auditors, are accrued at the year end for the year to which such bonuses are attributable.

#### (n) Allowance for incentive points

The allowance for incentive points granted to members of *KARUWAZA CLUB*, which is the Company's original club for customers, is provided in the amount estimated for the future use of incentive points, as a reasonable estimation has become available.

#### (o) Income taxes

Income taxes are accounted for by the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

#### (p) Enterprise taxes

With the implementation of the "Revision of the Local Tax Law" issued on March 31, 2003, a local corporate enterprise tax base such as "added value amount" and "capital amount" has been adopted. Enterprise taxes based on "added value amount" and "capital amount" are included in selling, general and administrative expenses pursuant to "Practical Treatment for Presentation of Sized-Based Corporate Enterprise Taxes in the Statement of Income" (ASBJ Report of Practical Issues No. 12).

#### (q) Consumption tax

The consumption tax imposed on the Circle K Sunkus Group's customer revenues is withheld at the time the revenue is received and is subsequently paid to the national and local governments. The consumption tax withheld upon the receipt of revenue and the consumption tax paid by the Circle K Sunkus Group on the purchases of products, merchandise and services from vendors are not included in either operating revenue or operating costs and expenses in the accompanying consolidated statements of income.

#### (r) Appropriation of retained earnings

Cash dividends are recorded in the fiscal year when a proposed appropriation of retained earnings is approved by the Board of Directors and/or the shareholders.

#### (s) Per share data

Net income per share is computed by dividing income available to common shareholders by the weighted average number of shares of common stock outstanding during the respective years. Diluted net income per share is not disclosed because the Circle K Sunkus Group had no diluted common shares for the years ended February 28, 2011 and 2010. Cash dividends per share shown for each fiscal year in the accompanying consolidated statements of income represent dividends declared as applicable to the respective year.

### 3. Investments

At February 28, 2011, short-term investments consisted of a time deposit with an original maturity of more than three months.

At February 28, 2010, short-term investments consisted of a joint money trust.

At February 28, 2011 and 2010, investment securities consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Marketable securities:			
Equity securities	¥1,682	¥1,634	\$20,512
Bonds	199	1,195	2,427
Total marketable securities	1,881	2,829	22,939
Other nonmarketable securities	208	208	2,537
	¥2,089	¥3,037	\$25,476

During the years ended February 28, 2011 and 2010, the Circle K Sunkus Group recorded a loss on the write-down of available-for-sale securities and investments in unconsolidated subsidiaries and affiliates due to a permanent diminution in value in the amount of ¥427 million (\$5,207 thousand) and ¥4 million, respectively. This loss is reflected in the accompanying consolidated statements of income.

Marketable securities are classified as available-for-sale and are stated at fair value, with unrealized gains and losses excluded from current earnings and reported as a net amount in an equity account until realized. At February 28, 2011 and 2010, gross unrealized gains and losses for marketable securities were summarized as follows:

	Millions of yen			Fair and carrying value
	Cost	Gross unrealized gains	Gross unrealized losses	
At February 28, 2011:				
Marketable securities:				
Equity securities	¥ 849	¥844	¥(11)	¥1,682
Bonds	200	—	(1)	199
	¥1,049	¥844	¥(12)	¥1,881

At February 28, 2010:				
Marketable securities:				
Equity securities	¥ 843	¥800	¥ (9)	¥1,634
Bonds	1,200	1	(6)	1,195
	¥2,043	¥801	¥(15)	¥2,829

	Thousands of U.S. dollars			Fair and carrying value
	Cost	Gross unrealized gains	Gross unrealized losses	
At February 28, 2011:				
Marketable securities:				
Equity securities	\$10,353	\$10,293	\$(134)	\$20,512
Bonds	2,439	—	(12)	2,427
	\$12,792	\$10,293	\$(146)	\$22,939

#### 4. Accounts Receivable: Due from Franchised Stores

Under franchise agreements, the Company as franchiser and the consolidated subsidiaries as area franchisers are responsible for providing architectural and design services with respect to the respective franchised store facilities, for training of franchisee personnel, and for the centralized processing of invoices from suggested vendors of merchandise and the subsequent payment of amounts payable to such vendors.

The EDP system of the Circle K Sunkus Group generates a record of merchandise purchased by each franchised store and accumulates the amounts payable to respective vendors. Under the agreement, the Circle K Sunkus Group, as a representative of all franchised stores, pays the amounts payable to the vendors on behalf of the franchised stores. When the merchandise is received by each franchised store, the Circle K Sunkus Group records the cost of the merchandise in "Accounts receivable: Due from franchised stores," since the costs will be subsequently recovered from the respective franchise stores.

The "Accounts receivable: Due from franchised stores" account in the accompanying consolidated balance sheets represents the net amounts recoverable from the franchised stores.



## 5. Property and Equipment

At February 28, 2011 and 2010, property and equipment consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Land	¥ 8,296	¥ 8,399	\$ 101,171
Buildings and structures	69,893	64,569	852,353
Machinery, equipment and vehicles	137	136	1,671
Furniture and fixtures	16,939	16,933	206,573
Leased assets	22,278	12,633	271,683
Construction in progress	119	127	1,451
	117,662	102,797	1,434,902
Less accumulated depreciation	(49,529)	(42,728)	(604,012)
	¥ 68,133	¥ 60,069	\$ 830,890

## 6. Impairment of Fixed Assets

For the purpose of recognition and measurement of an impairment loss, fixed assets of the Circle K Sunkus Group are grouped principally into cash generating units such as stores. The Circle K Sunkus Group determines whether assets are impaired based on an analysis of significant decreases in the fair value of land, the schedules of closing stores and ongoing operating losses of stores. An impairment loss is recognized if undiscounted expected cash flows are less than the carrying amount of an asset. The recoverable amounts of assets were measured based on net selling prices primarily from appraisal valuations or amounts of operating cash flows discounted by interest rates of 2.3% and 2.7% for the years ended February 28, 2011 and 2010, respectively.

For the years ended February 28, 2011 and 2010, the Circle K Sunkus Group recognized impairment loss on fixed assets of ¥3,519 million (\$42,915 thousand) and ¥3,529 million, respectively, as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Convenience stores:			
Land	¥ 247	¥ 208	\$ 3,012
Buildings and structures	1,809	2,004	22,061
Furniture, fixtures and equipment	256	415	3,122
Leased property and equipment	923	618	11,256
Other	284	284	3,464
Total	¥3,519	¥3,529	\$42,915

## 7. Investments in and Long-term Loans to Unconsolidated Subsidiaries and Affiliates

At February 28, 2011 and 2010, investments in and long-term loans to unconsolidated subsidiaries and affiliates consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Investments in:			
Unconsolidated subsidiaries and affiliates stated at cost	¥436	¥974	\$5,317
Interest-bearing long-term loans	50	3	610
	¥486	¥977	\$5,927

## 8. Accounts Payable: Due to Franchised Stores

The cost of merchandise supplied to franchised stores is debited as "Accounts receivable: Due from franchised stores" as described in Note 4. All franchised stores make remittances of cash proceeds from daily sales to the Circle K Sunkus Group. In certain instances, the remittance from a franchised store exceeds the balance of the "Accounts receivable: Due from franchised stores" account. In the accompanying consolidated balance sheet, such negative balances are shown as "Accounts payable: Due to franchised stores."

## 9. Employee Retirement Benefits

The following table reconciles the benefit obligation and net periodic retirement benefit expense as of and for the years ended February 28, 2011 and 2010:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Projected benefit obligation	¥10,255	¥ 9,774	\$ 125,061
Fair value of pension plan assets at end of year	(9,015)	(7,926)	(109,939)
Projected benefit obligation in excess of pension plan assets	1,240	1,848	15,122
Less unrecognized actuarial differences (loss)	(2,238)	(2,625)	(27,293)
Unrecognized past service costs	910	1,085	11,098
	(88)	308	(1,073)
Prepaid pension cost	159	–	1,939
Net amount of employee retirement benefit liability recognized on the consolidated balance sheets	¥ 71	¥ 308	\$ 866

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Components of net periodic retirement benefit expense:			
Service cost	¥ 629	¥ 603	\$ 7,671
Interest cost	193	186	2,353
Expected return on pension plan assets	(298)	(263)	(3,634)
Amortization of actuarial differences	517	612	6,305
Amortization of past service costs	(175)	(175)	(2,134)
Net periodic retirement benefit expense	¥ 866	¥ 963	\$10,561

Major assumptions used in the calculation of the above information for the years ended February 28, 2011 and 2010 were as follows:

	2011	2010
Method attributing the projected benefits to periods of services	<b>Straight-line method</b>	Straight-line method
Discount rate	<b>2.0%</b>	2.0%
Expected rate of return on pension plan assets	<b>3.8%</b>	4.0%
Amortization period of actuarial differences	<b>8 to 10 years</b>	8 to 10 years
Amortization period of past service costs	<b>10 years</b>	10 years

## 10. Equity

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the former Japanese Commercial Code. The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Law, legal earnings reserve and additional paid-in capital can be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting. Additional paid-in capital and legal earnings reserve may not be distributed as dividends. All additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

At February 28, 2011 and 2010, capital surplus consisted principally of additional paid-in capital. In addition, retained earnings included legal reserve of the Company in the amount of ¥688 million (\$8,390 thousand) and ¥688 million at February 28, 2011 and 2010, respectively.

The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the annual shareholders' meeting held on May 25, 2011, the shareholders approved cash dividends amounting to ¥1,675 million (\$20,427 thousand). The appropriations had not been accrued in the consolidated financial statements as of February 28, 2011, but are recognized in the period in which they are approved by the shareholders.

## 11. Lease Commitments

The Circle K Sunkus Group leases store and office spaces principally under long-term cancelable lease agreements. The Circle K Sunkus Group also leases computer equipment, store fixtures and equipment principally under five-year noncancelable lease agreements. (See also Note 2 (b))

As discussed in Note 2 (i), the Circle K Sunkus Group accounts for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions. If such leased property of the Circle K Sunkus Group had been capitalized, amounts in the related accounts would have been increased (decreased) at February 28, 2011 and 2010 as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Property and equipment, net of accumulated depreciation <sup>*1</sup>	<b>¥14,292</b>	¥20,531	<b>\$174,293</b>
Lease obligations as liabilities <sup>*2</sup>	<b>16,025</b>	22,031	<b>195,427</b>
Allowance for impairment loss on leased property	<b>(995)</b>	(775)	<b>(12,134)</b>
Net effect on retained earnings at year-end	<b>¥ (738)</b>	¥ (725)	<b>\$ (9,000)</b>

Additionally, for the years ended February 28, 2011 and 2010, income before income taxes and minority interests would have been ¥13 million (\$159 thousand) and ¥175 million less, respectively.

Notes. <sup>\*1</sup>. Pro forma depreciation of leased property is computed by the straight-line method over the term of the lease, assuming the leased property had been capitalized.

<sup>\*2</sup>. Pro forma interest on lease obligations under financing leases is computed by the interest method over the term of the lease.

Future minimum payments for noncancelable finance leases, excluding imputed interest, and operating leases at February 28, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Finance leases:			
Due within one year	<b>¥ 5,475</b>	¥ 6,319	<b>\$ 66,768</b>
Due after one year	<b>10,550</b>	15,712	<b>128,659</b>
	<b>¥16,025</b>	¥22,031	<b>\$195,427</b>
Operating leases:			
Due within one year	<b>¥ 757</b>	¥ 767	<b>\$ 9,232</b>
Due after one year	<b>604</b>	413	<b>7,366</b>
	<b>¥ 1,361</b>	¥ 1,180	<b>\$ 16,598</b>

## 12. Contingent Liabilities

At February 28, 2011 and 2010, contingent liabilities in respect to guarantees of indebtedness of unconsolidated subsidiaries and affiliates, franchisees and others amounted to ¥3,938 million (\$48,024 thousand) and ¥4,051 million, respectively.

## 13. Derivative Instruments

The Circle K Sunkus Group does not hold and has not issued any derivative instruments.

## 14. Income Taxes

Income taxes for the years ended February 28, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Income taxes:			
Current	¥6,539	¥4,696	\$79,744
Deferred	(450)	530	(5,488)
	¥6,089	¥5,226	\$74,256

The tax effects of temporary differences that give rise to a significant portion of deferred tax assets at February 28, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Deferred tax assets:			
Enterprise tax accruals	¥ 387	¥ 126	\$ 4,719
Allowance for doubtful accounts	340	488	4,146
Accrued bonuses	589	328	7,183
Depreciation	111	48	1,354
Employee retirement benefit liability	29	125	354
Impairment loss on fixed assets	3,452	3,058	42,098
Long-term deferred income	527	740	6,427
Write-down of investment securities	486	452	5,927
Long-term deferred credit	452	465	5,512
Other	2,256	1,570	27,512
Less valuation allowance	(3,750)	(3,036)	(45,732)
	4,879	4,364	59,500
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(339)	(320)	(4,134)
Others	(64)	–	(781)
	(403)	(320)	(4,915)
Net deferred tax assets	¥ 4,476	¥ 4,044	\$ 54,585



In assessing the realizability of deferred tax assets, management of the Circle K Sunkus Group considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which these temporary differences become deductible. At February 28, 2011 and 2010, a valuation allowance was established to reduce the deferred tax assets to the amount management believed could be realized.

The reconciliation of the difference between the Japanese statutory tax rate and the income tax rate on pre-tax income reflected in the accompanying consolidated statements of income for the years ended February 28, 2011 and 2010 was as follows:

	Percentage of pre-tax income	
	2011	2010
Japanese statutory tax rate	40.69%	40.69%
Increase (decrease) due to:		
Permanently nondeductible expenses	1.11	1.09
Tax exempt income	(0.75)	(0.23)
Local minimum taxes per capita levy	1.04	1.26
Change in valuation allowance	3.49	5.60
Other	0.36	0.07
Effective income tax rate	45.94%	48.48%

## 15. Additional Income Statement Information

Additional income statement information for the years ended February 28, 2011 and 2010 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Payroll and remuneration expenses	¥22,600	¥22,464	\$275,610
Advertising expenses	7,243	7,151	88,329
Depreciation	11,679	10,372	142,427
Utility expenses	1,761	2,011	21,476
Rental and lease expenses	50,678	50,301	618,024
Amortization of goodwill	85	—	1,037

## 16. Financial Instruments

Effective from the fiscal year ended February 28, 2011, the Circle K Sunkus Group adopted the revised Accounting Standard, "Accounting Standard for Financial Instruments" (Accounting Standards Board of Japan ("ASBJ") Statement No. 10 revised on March 10, 2008) and the "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19 revised on March 10, 2008). Information on financial instruments for the year ended February 28, 2011, required pursuant to the revised accounting standards, is set forth on the following page.

## (1) Qualitative information on financial instruments

### (a) Policy for financial instruments

The Circle K Sunkus Group has not done the funding, and has a policy to invest its cash surplus, if any, in low risk and highly liquid financial instruments. The Circle K Sunkus Group does not enter into derivative transactions.

### (b) Financial instruments and risk management

Surplus cash is generally invested in low risk financial instruments.

The Circle K Sunkus Group holds the securities of certain entities with which it does business, and this exposes it to the risk of market price fluctuation. The Circle K Sunkus Group regularly monitors the financial status of the issuer and the fair value of the instruments in order to mitigate the risk.

The leases to which the Circle K Sunkus Group is lessee generally require deposits that are exposed to loss if the lessor defaults. Payment dates and deposit balances are strictly managed and the financial condition of the lessor is monitored in order to reduce the risk of default.

Payables such as accounts payable are generally due within one year. Payables such as money held as agent, which is mainly the money deposited and paid for public utility rate for each store, are generally due within one year.

Guarantee deposits from tenants are mainly related to store lease agreements with tenants and are paid back in installments or in a one-time payment for the store lease agreements period.

### (c) Supplemental information on fair value

The fair value of financial instruments includes values based on market prices as well as reasonable estimates when market prices are not available. Since certain assumptions are used in making estimates, the result may be different if alternative assumptions are used.

## (2) Fair values of financial instruments

Carrying amounts of financial instruments included in the consolidated balance sheets, their fair values and any differences at February 28, 2011 were as follows:

Financial instruments without reasonably determinable fair value were not included: (see Note (b) Financial instruments as the fair values are not available at February 28, 2011)

	Millions of yen		
	Carrying amount	Fair value	Difference
<b>Assets:</b>			
Cash and cash equivalents	¥ 75,938	¥ 75,938	¥ –
Investment securities			
Available-for-sale	1,881	1,881	–
Leasehold deposits	49,785		
Allowance for doubtful accounts <sup>*1</sup>	(148)		
	49,637	46,377	3,260
<b>Total assets</b>	<b>¥127,456</b>	<b>¥124,196</b>	<b>¥3,260</b>
<b>Liabilities:</b>			
Accounts payable — trade	¥ 33,707	¥ 33,707	¥ –
Money held as agent	27,562	27,562	–
Guarantee deposits received	5,644	5,289	355
<b>Total liabilities</b>	<b>¥ 66,913</b>	<b>¥ 66,558</b>	<b>¥ 355</b>

	Thousands of U.S. dollars		
	Carrying amount	Fair value	Difference
<b>Assets:</b>			
Cash and cash equivalents	\$ 926,073	\$ 926,073	\$ –
Investment securities			
Available-for-sale	22,939	22,939	–
Leasehold deposits	607,134		
Allowance for doubtful accounts <sup>*1</sup>	(1,805)		
	605,329	565,573	39,756
<b>Total assets</b>	<b>\$1,554,341</b>	<b>\$1,514,585</b>	<b>\$39,756</b>
<b>Liabilities:</b>			
Accounts payable — payable	\$ 411,061	\$ 411,061	\$ –
Money held as agent	336,122	336,122	–
Guarantee deposits received	68,829	64,500	4,329
<b>Total liabilities</b>	<b>\$ 816,012</b>	<b>\$ 811,683</b>	<b>\$ 4,329</b>

<sup>\*1</sup> Allowances for doubtful accounts provided for at the aggregate amount of estimated credit loss based on an individual financial review are deducted from the carrying amount.

## Notes

### (a) Method of calculation for fair value of financial instruments, securities and derivative transactions

#### Assets:

#### Cash and cash equivalents

The book value of cash and deposits is deemed to approximate the fair value since such instruments are scheduled to be settled in a short period of time. The fair value of cash equivalents, except for deposits, is measured at the quoted price obtained from the financial institution.

#### Investment securities

The fair value of stocks and bonds is based on the price on stock exchanges or the price presented by the counterparty financial institutions.

#### Lease deposits (including current portion)

The fair value of lease deposits is the present value calculated by discounting the future collectable cash flows using the risk-free rate.

#### Liabilities:

#### Accounts payable — trade and money held as agent

The book value is deemed to approximate the fair value since such instruments are scheduled to be settled in a short period of time.

#### Guarantee deposits from tenants (including current portion)

The fair value is calculated by discounting the sum of principal and interest by the risk-free rate.

### (b) Financial instruments as the fair values are not available at February 28, 2011.

	Millions of yen	Thousands of U.S. dollars
Unlisted securities and other investments <sup>*1</sup>	¥ 208	\$ 2,537
Leasehold deposits <sup>*2</sup>	1,033	12,598
Guarantee deposits received <sup>*3</sup>	5,484	66,878

<sup>\*1</sup> These items are not included in "Assets—Investment securities" because it is impractical to determine the fair value as they have no quoted market price and future cash flow cannot be estimated.

<sup>\*2</sup> These items are not included in "Assets—Leasehold deposits" because it is impractical to determine the fair value as they have no quoted market price and future cash flow cannot be estimated.

<sup>\*3</sup> These items are not included in "Liabilities—Guarantee deposits" from tenants because it is impractical to determine the fair value as they have no quoted market price and future cash flow cannot be estimated.

(c) The redemption schedule for financial assets and held-to-maturity debt securities at February 28, 2011

	Millions of yen			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and cash equivalents:				
Cash and deposits	¥68,910	¥ –	¥ –	¥ –
Investment securities:				
Held to maturity debt securities	–	199	–	–
Leasehold deposits	6,599	22,549	12,898	7,739
	¥75,509	¥22,748	¥12,898	¥7,739

	Thousands of U.S. dollars			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and cash equivalents:				
Cash and deposits	\$840,366	\$ –	\$ –	\$ –
Investment securities:				
Held to maturity debt securities	–	2,427	–	–
Leasehold deposits	80,475	274,988	157,293	94,378
	\$920,841	\$277,415	\$157,293	\$94,378

## 17. Acquisition

In the year ended February 28, 2011, the Company made an additional acquisition of the issued and outstanding shares of common stock of Sunkus Hokuria Co., Ltd., and the company was newly consolidated. A summary of the assets and liabilities of Sunkus Hokuria at the date of acquisition is as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥ 1,077	\$ 13,134
Non-current assets	2,541	30,988
Goodwill	854	10,415
Current liabilities	(2,780)	(33,903)
Non-current liabilities	(953)	(11,622)
Common stock owned by the Company	(9)	(110)
Acquisition cost	730	8,902
Cash and cash equivalents held by Sunkus Hokuria	(759)	(9,256)
Increase in cash presented on the accompanying consolidated statements of cash flows	¥ (29)	\$ (354)



## 18. Related Party Transactions

During the years ended February 28, 2011 and 2010, the Circle K Sunkus Group had operational transactions with unconsolidated subsidiaries, affiliates and the UNY Group companies. A summary of the significant transactions with these related parties for the years ended February 28, 2011 and 2010 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Acceptance of commercial paper	¥23,998	¥24,496	\$292,659

## 19. Segment Information

The primary business of the Circle K Sunkus Group is the management of stores and franchise operations in respect to the Circle K and Sunkus convenience store chains. Segment information is not shown because the Circle K Sunkus Group operated predominantly in a single industry during the years ended February 28, 2011 and 2010.

## 20. Subsequent Events

### Damage Resulting from the Great East Japan Earthquake

The earthquake and tsunami that occurred on March 11, 2011 resulted in damage to stores and other property in the Tohoku and Kanto regions.

#### 1) Damage Status

Of the stores affected by the disaster, 10 stores were scheduled to be closed by the end of May and the operation of one store was suspended as of May 25, 2011. It is anticipated that this suspended store will reopen by the end of July 2011. Assets damaged in the disaster included buildings and structures, tools, furniture and fixtures, leased assets and others.

#### 2) Damage amount

Loss on the disaster, including the damage and loss of buildings and structures, the cost of restoration work, disaster relief expenses and others, has thus far been approximately ¥1,300 million (\$15,854 thousand).

#### 3) Impact of the disaster on sales and other business activities

The disaster has the potential of impacting operating revenues and other business performance of the Circle K Sunkus Group during the consolidated fiscal year ending February 29, 2012, due to power outages and other expected impacts in addition to the closure of stores and suspension of operations described above.



### Independent Auditors' Report

To the Shareholders and Board of Directors of  
Circle K Sunkus Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Circle K Sunkus Co., Ltd. (the "Company") and its consolidated subsidiaries as of February 28, 2011 and 2010, and the related consolidated statements of income, changes in equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Circle K Sunkus Co., Ltd. and its consolidated subsidiaries as of February 28, 2011 and 2010, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following:

- (1) As discussed in Note 2, the Company and its consolidated subsidiaries have adopted the "Accounting Standard for Lease Transactions" and the "Guidance on the Accounting Standard for Lease Transaction" from the fiscal year ended February 28, 2010.
- (2) The effects of the Great East Japan Earthquake is described in Note 20 of the Notes to the Consolidated Financial Statements.

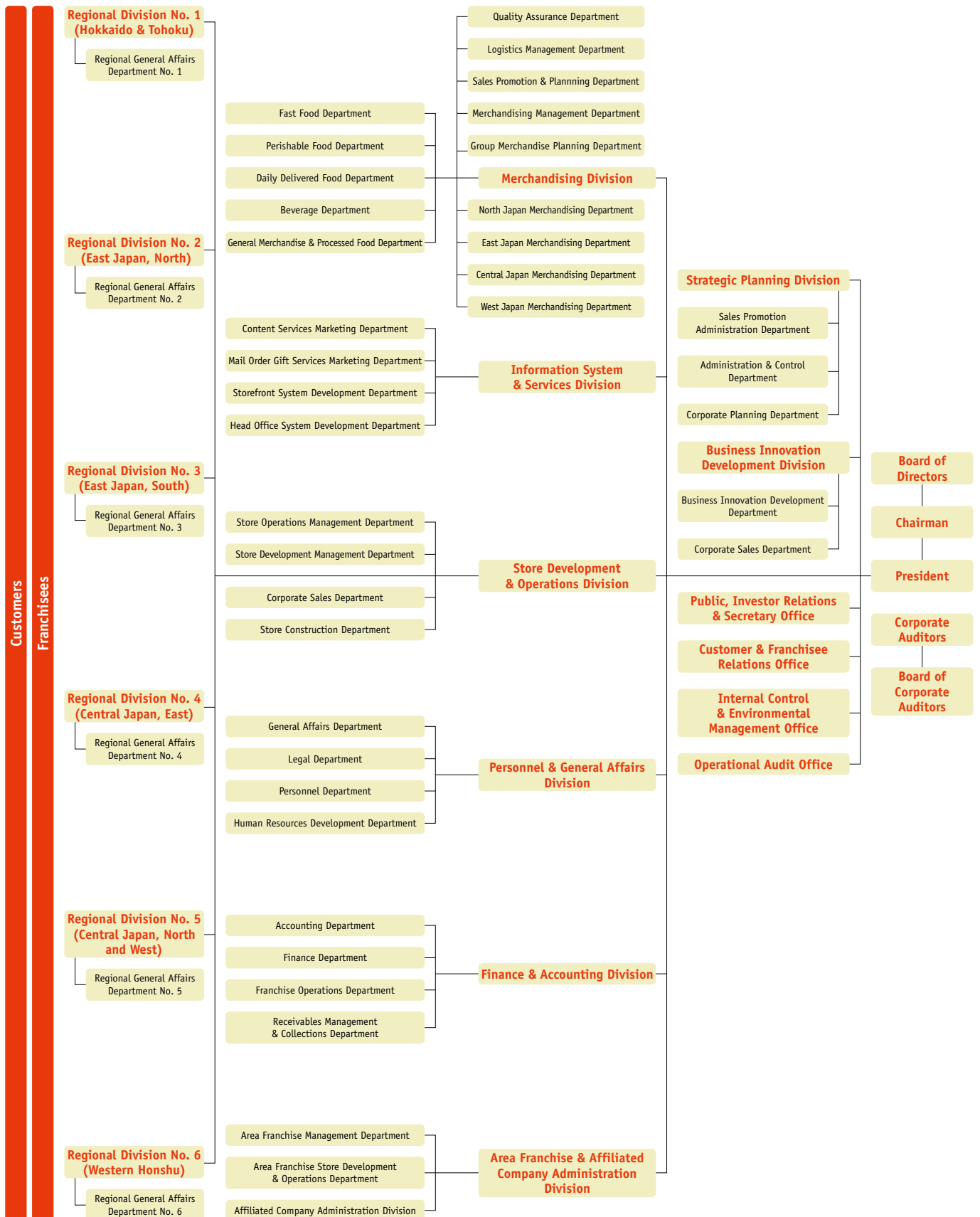
The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended February 28, 2011 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

*KPMG AZSA LLC*

KPMG AZSA LLC  
Nagoya, Japan  
May 25, 2011

# Organization

(As of May 25, 2011)



## Investor Information

(As of February 28, 2011)

### Number of shares

Authorized: 180,000,000

Issued: 86,183,226

### Securities code number

3337

### Securities traded (Common stock)

First Section, Tokyo and Nagoya stock exchanges

### Transfer agent

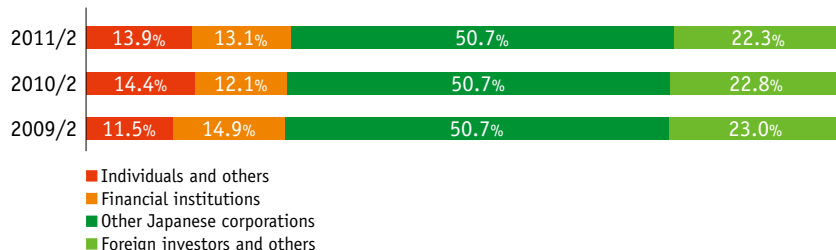
The Sumitomo Trust and Banking Co., Ltd.

5-33, Kitahama 4-chome, Chuo-ku, Osaka 540-8639, Japan

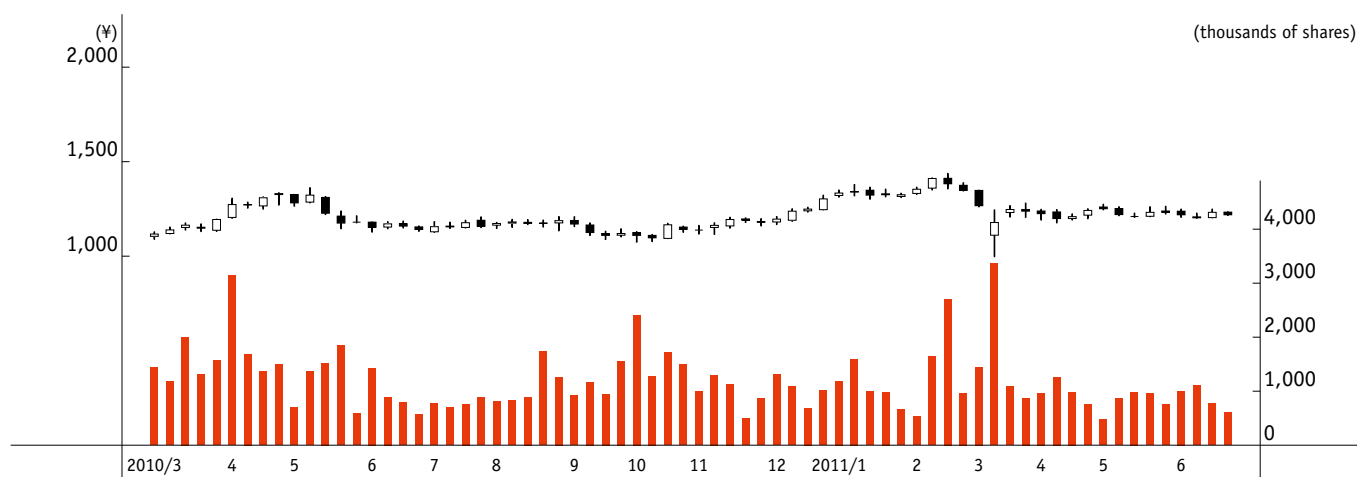
### Number of shareholders



### Breakdown by type of investors



### Stock price/Turnover



## Corporate Data

(As of February 28, 2011)

### Corporate name

Circle K Sunkus Co., Ltd.

### Commencement of operations

September 1, 2004

### Capital

¥8,380 million

### Fiscal year-end

End of February

### Number of employees

1,750 (non-consolidated)

### Registered head office

1 Gotanda-cho, Amaike, Inazawa-shi, Aichi, Japan

### Headquarters

Harumi Center Bldg., 2-5-24 Harumi,  
Chuo-ku, Tokyo 104-8538, Japan

### Telephone

+81-3-6220-9000 (main)

### Business activities

Management of stores and franchise business in respect to the Circle K and Sunkus convenience store chains

### Total store sales

¥1,056,126 million (Figure includes area franchisers)

### Number of stores

6,274 (Figure includes area franchisers)

### Consolidated subsidiaries

Sunkus Aomori Co., Ltd.  
Sunkus Nishi-Saitama Co., Ltd.  
SUNKUS KITAKANTO Co., Ltd.  
Sunkus Nishi-Shikoku Co., Ltd.  
Sunkus Hokuria Co., Ltd.  
Sunkus Higashi-Saitama Co., Ltd.  
ZERO NETWORKS Co., Ltd.  
99 ICHIBA Co., Ltd.  
Retail Staff Co., Ltd.

### URL

<http://www.circleksunkus.jp/english/>

### Date of establishment

July 2, 2001

\* Date on which an operating company was formed through the business separation method following the establishment of CIRCLE K JAPAN Co., Ltd. on January 26, 1984, and the subsequent change in its name to C&S Co., Ltd. on July 1, 2001 upon its conversion to a pure holding company.

## The UNY Group

(As of February 20, 2011)

The UNY Group, of which Circle K Sunkus is a member, is a retailing group with total annual sales of approximately ¥2 trillion. The consolidated subsidiaries of UNY, excluding Circle K Sunkus, are as follows:

### Consolidated Subsidiaries

Sagami Co., Ltd. (kimono retailing)  
Molie Co., Ltd. (high-quality women's wear)  
Palemo Co., Ltd. (young women's apparel and accessories)  
Suzutan Co., Ltd. (young women's apparel and accessories)  
Uny (HK) Co., Ltd. (superstores)  
U-LIFE Co., Ltd. (real-estate rental business)  
UCS CO., LTD (credit card service and insurance service)  
Sun Sogo Maintenance Co., Ltd. (facility management)  
Sun Reform Co., Ltd. (reform and repair)



An APITA general merchandise store operated by the UNY Group

Notes: In addition to the above list, the UNY Group includes three Sagami subsidiaries and two Suzutan subsidiaries.



## Circle K Sunkus Co., Ltd.

Harumi Center Bldg., 2-5-24 Harumi, Chuo-ku,  
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