



# ANNUAL REPORT 2007

UNY CO., LTD.



## PROFILE

The Uny Group is a conglomeration of retailers that derives its revenues primarily from superstores and convenience stores, which serve as the Group's foundation. The Group's activities span a wide spectrum of retail service domains that also include such other retail formats as specialty stores and other types of stores as well as such businesses as real estate development and credit card businesses.

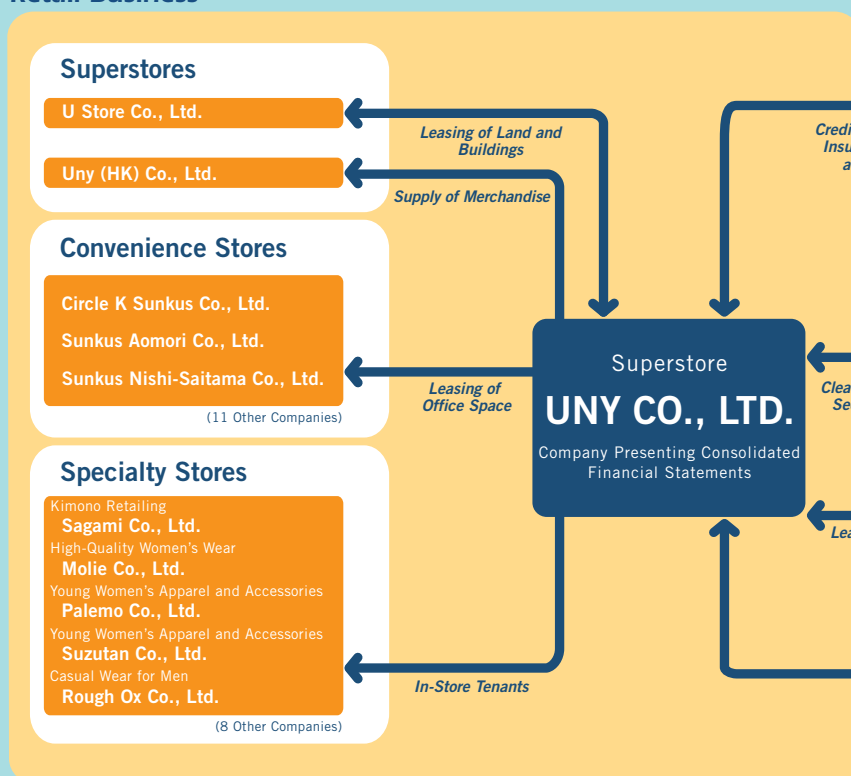
- \* Superstores handle general merchandise, including food products, and operate in the Chukyo, Kanto, Shizuoka and Hokuriku regions.
- \* Convenience stores handle fast foods and other high-turnover daily-use items. Offering convenient shopping through 24-hour operations, this business is being carried out through a nationwide chain of convenience stores.
- \* Specialty stores better meet customer needs by targeting specific market segments for such apparel as kimonos, women's wear and young casual wear.

The Group's publicly listed companies comprise Uny Co., Ltd., Sagami Co., Ltd., U Store Co., Ltd., Circle K Sunkus Co., Ltd., Palemo Co., Ltd., Suzutan Co., Ltd., Kanemi Co., Ltd. and UCS Co., Ltd.

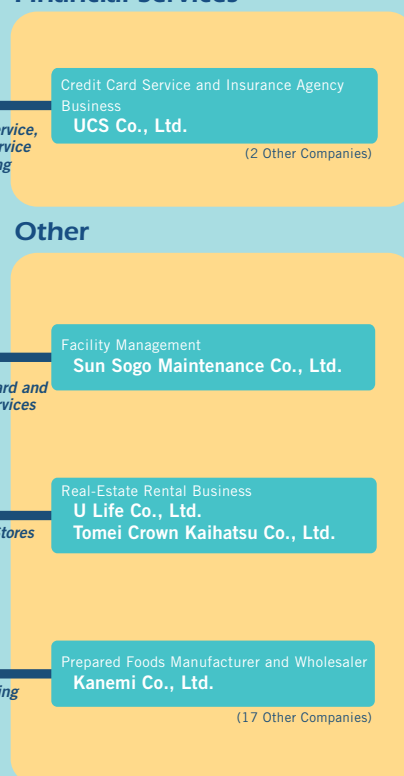
## CONTENTS

Message from the Management.....	1
Review of Operations .....	2
Management Policies .....	5
Financial Section.....	6
Corporate Data .....	25

### Retail Business



### Financial Services



NOTE: In addition to the services outlined in the above chart, UCS Co., Ltd. provides insurance services, leasing and credit card services to Group companies, and Sun Sogo Maintenance Co., Ltd. provides facility maintenance services to Group companies. Kanemi Co., Ltd. leases stores from U Store Co., Ltd., and supplies products to Circle K Sunkus Co., Ltd.

## THE UNY GROUP

		Revenues***		Net Sales		Operating Income (Loss)		Net Income (Loss)	
Company		2007	2006	2007	2006	2007	2006	2007	2006
<b>Superstores</b>	Uny Co., Ltd.	¥726,792	¥719,543	¥694,815	¥688,775	¥15,404	¥9,562	¥7,195	¥7,007
	U Store	148,705	148,461	142,001	142,113	2,094	2,041	(220)	(851)
	Uny (HK)*	13,431	12,419	13,394	12,383	712	593	730	573
<b>Convenience Stores</b>	Circle K Sunkus**	¥190,560	¥184,191	¥79,246	¥67,368	¥23,113	¥25,785	¥10,237	¥11,498
<b>Specialty Stores</b>	Sagami**	¥66,923	¥63,476	¥66,527	¥63,083	¥(722)	¥341	¥(5,165)	¥477
	Molie	8,481	8,505	8,251	8,293	168	83	160	332
	Palemo	34,095	31,326	33,730	30,993	2,010	1,609	794	837
	Suzutan**	21,801	22,505	21,801	22,505	722	645	441	247
	Rough Ox	2,302	2,256	2,324	2,229	26	2	(12)	111
<b>Financial Services</b>	UCS	¥17,818	¥15,165	¥149	¥168	¥3,997	¥3,446	¥1,810	¥2,412

\* Data for Uny (HK) is calculated at the average exchange rate during the period under review.

\*\* Figures for Circle K Sunkus, Sagami and Suzutan are on a consolidated basis.

\*\*\* Revenues in the table include intra-segment revenues.

# MESSAGE FROM THE MANAGEMENT



Uny will strive to enhance corporate value by maximizing customer interests while establishing retail stores that are the most reliable and appreciated in local communities.

It is my pleasure to report on the Uny Group's operating performance in fiscal 2007, ended February 20, 2007.

Operating revenues rose 2.2% compared with the previous fiscal year to ¥1,228,946 million, while operating income climbed 8.2% to ¥47,142 million. Although results are below figures forecast at the beginning of fiscal 2007, we realized increases in both revenues and earnings. Net income, however, fell 42.2% to ¥9,302 million. The key factors underlying this decline are as follows.

1. During fiscal 2007, Uny recorded net other expenses, while it had enjoyed net other income in the previous fiscal year due to a non-recurring gain on the return of the substituted portion of the employee welfare pension fund.
2. One of the Group's subsidiaries, Sagami Co., Ltd., a specialty store chain providing Japanese kimonos, recorded loss of over ¥5,000 million due to losses from changes in subsidiaries' accounting policies and a reversal of deferred tax assets.

Net income per share fell from ¥84.64 in fiscal 2006 to ¥49.27. For detailed information of operating performance by segment, I direct readers to the Consolidated Financial Review section of this report.

I became the president on February 21, 2007. In pursuit of maximizing customer interests, I will keep the following objectives in mind to establish retail stores that are the most reliable and appreciated in local communities. By doing so, we will strive to enhance corporate value. I would like to ask for continuing support from shareholders.

1. Provide convenient answers to people's lifestyle concerns

In order to bring customers a more convenient, satisfying and comfortable lifestyle, our stores and headquarters will provide optimum solutions to the needs of customers and stores, respectively.

2. Suggest new lifestyles to customers

We will continue to present new value and information to realize a more prosperous and cheerful lifestyle.

3. Reduce the cost of living

We will make the prices of commodities as reasonable as possible.

## SUPERSTORES

In fiscal 2008, ending February 20, 2008, we will open large-scale, mall-type shopping centers with a large trading area that forms a core in city planning. For a start, we will open three stores, in Maebashi, Nagaoka and Ogaki Cities in fiscal 2008, and three more stores in fiscal 2009, ending February 20, 2009. On the products front, we will further strengthen the Product Headquarters' functions, while making effective use of local offices at our three bases in China to proceed with independent product development. In addition, we will leverage cooperative relationships with suppliers, particularly from a global perspective, to develop superior products both in quality and price. Simultaneously, we will utilize our sub-district headquarters network to discover new, community-based products.

## CONVENIENCE STORES

Market conditions surrounding convenience stores are becoming more severe. On the back of this, Uny established the following three policies:

1. Placing higher priority on improvement of the operating income ratio than on the sales expansion of the entire store chains
2. Placing higher priority on quality improvements of each store (improved daily sales) than on an increase in store numbers
3. Placing higher priority on the enhancement of market share in each prefecture that Uny is currently conducting business operations in with the aim of expanding the number of prefectures where we have the highest market share

In order to achieve these goals, we will carry out a variety of restructuring and improvement activities.

## SPECIALTY STORES

During the fiscal year under review, the Japanese kimono industry came under public scrutiny due to certain somewhat inappropriate sales methods, and its installment purchasing system was required to set more strict credit limits, which led to a sales drop. Against this backdrop, Uny will strive to stabilize its management foundations by expanding the sundry goods and apparel businesses while continuing its aggressive scrap-and-build store network policy in the kimono business.

Amid the development of shopping centers, Palemo Co., Ltd. and Suzutan Co., Ltd. regard this situation as an opportunity for business expansion and aim to increase the number of their stores.

## FINANCIAL SERVICES

In fiscal 2007, the credit industry was ordered to lower its cashing interest rates in accordance with the revision of the Money-Lending Business Control and Regulation Law. We will endeavor to increase membership and promote the use of our credit card, while establishing a system infrastructure and strengthening our credit control system.

As a result of the aforementioned policies, operating revenues in fiscal 2008 are expected to edge up 0.2% year on year to ¥1,232,000 million, while operating income is expected to rise 3.3% to ¥48,700 million and net income will climb 26.9% to ¥11,800 million.

A handwritten signature in black ink that reads "T. Maemura." The signature is written in a cursive, slightly slanted style.

Tetsuro Maemura  
President

# REVIEW OF OPERATIONS

## SUPERSTORES

Superstores are operated by Uny Co., Ltd., U Store Co., Ltd. and Uny (HK) Co., Ltd. The supermarket and general merchandise stores are run directly and, along with tenant businesses that provide such services as specialty shops, restaurants, travel agencies and banks, offer a pleasant and convenient shopping experience for a wide cross section of customers.

### ■ UNY

Uny superstores include conventional superstores operated under the Uny brand, and the more fashionable Apita stores, which have been developed over the last 20 years to address the needs of more individualistic and diversified consumers. Along with the changing times, Uny's base has shifted toward Apita stores in suburban locations, with large parking facilities alongside a broad assortment of tenant businesses. In addition, Uny opened two mall-type Apita stores in March and April 2007.

At the end of fiscal 2007, ended February 20, 2007, there were Uny stores in 54 locations, with an average of 5,963 square meters of directly operated sales floor space per store. In comparison, there were Apita stores in 83 locations, with an average of 10,889 square meters, reflecting their larger scale and more extensive retail catchment areas.

In addition to its 137 superstores, Uny also operates nine U Home home-center stores and ten supermarkets.

### ■ U STORE

U Stores are superstores on a smaller scale than Uny or Apita stores, and provide foodstuffs, quality casual and everyday clothing, and household goods. One-stop shopping is made possible by tenant businesses that offer services and goods supplementing the U Store product lines. These are dominant businesses in their immediate commercial areas.



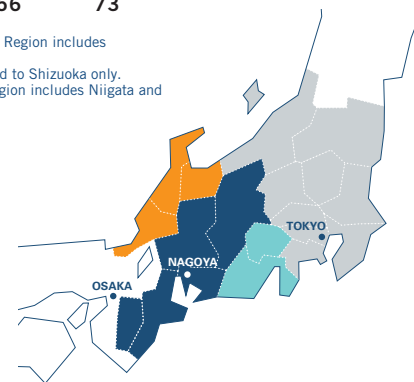
### ■ UNY (HK)

Uny (HK), our only overseas store, is located in Hong Kong's popular Taikoo Shing shopping district. An Apita-style store, it sells a large variety of merchandise and has gained popularity as an upscale store.

## REGIONAL BREAKDOWN OF SUPERSTORES

	Uny	U Store
	No. of Stores	No. of Stores
■ Chukyo Region	90	57
Aichi Pref.	61	43
Gifu Pref.	13	6
Mie Pref.	8	8
Nagano Pref.	5	–
Nara Pref.	2	–
■ Hokuriku Region	18	–
■ Shizuoka Region*	15	10
■ Kanto Region**	34	–
Other	–	6
<b>Total</b>	<b>156</b>	<b>73</b>

\* In Uny Co., Ltd. operations, Shizuoka Region includes Shizuoka and Yamanashi Prefectures.  
Those of U Store Co., Ltd. are confined to Shizuoka only.  
\*\* In Uny Co., Ltd. operations, Kanto Region includes Niigata and Fukushima Prefectures.



(Million ¥)

Years ended February 20	2007	2006	2005
Revenues*	¥884,733	¥876,225	¥874,757
Operating Costs and Expenses	869,957	867,464	865,400
Operating Income	18,213	12,200	12,725
Identifiable Assets	573,441	574,392	616,405
Depreciation	17,390	19,005	19,341
Impairment Loss on Fixed Assets	6,764	33,282	–
Capital Expenditures	36,574	35,730	45,157

\* Revenues refer to sales to external customers.



## KEY SUPERSTORES

Years ended February 20	Uny			U Store		
	2007	2006	2005	2007	2006	2005
Revenues (Million ¥)	¥726,792	719,543	713,826	¥148,705	148,461	153,797
Net Sales (Million ¥)	694,815	688,775	684,688	142,001	142,113	147,515
Sales Floor Space (m <sup>2</sup> )*	1,289,661	1,327,307	1,276,308	307,010	302,413	294,844
Newly Opened Floor Space (m <sup>2</sup> )	21,920	86,532	82,953	5,379	15,237	6,631
Sales per Sq. Meter (Thousand ¥)	539	519	536	463	471	500
Full-Time Employees	5,475	5,517	5,520	1,063	1,065	1,043
Sales per Employee (Million ¥)	127	125	124	134	133	141

\* Sales Floor Space (m<sup>2</sup>) refers to directly operated space only.

## CONVENIENCE STORES

(Million ¥)

Years ended February 20	2007	2006	2005
Revenues*	¥190,557	¥184,188	¥176,842
Operating Costs and Expenses	169,134	159,961	153,640
Operating Income	21,426	24,230	23,203
Identifiable Assets	226,882	228,906	219,911
Depreciation	6,687	7,426	8,332
Impairment Loss on Fixed Assets	3,170	4,985	–
Capital Expenditures	12,822	9,756	19,541

\* Revenues refer to sales to external customers.



Years ended February 20	Circle K			Sunkus		
	2007	2006	2005	2007	2006	2005
Number of Stores	2,898	2,891	2,855	2,205	2,263	2,273
Franchises	2,490	2,536	2,551	2,016	2,089	2,132
Own Operation	408	355	304	189	174	141
Area Franchise Stores	159	144	126	1,073	1,074	1,085

In the convenience store business, the Uny Group develops stores through Circle K Sunkus Co., Ltd., under the two brands of Circle K and Sunkus. In fiscal 2007, the convenience store market environment was characterized by even greater competition, amid the extremely difficult conditions prevailing across other competing industries. Against this backdrop, Circle K Sunkus placed increased emphasis on opening highly competitive stores, focusing on quality rather than quantity.

As part of its store development, Circle K Sunkus opened new stores in its three primary major metropolitan areas of Tokyo, Nagoya and Osaka, while restructuring its localization scheme in the Group's dominant area. Furthermore, Circle K Sunkus implemented new store development in Gunma Prefecture.

In the management of stores, Circle K Sunkus took initiatives to strengthen store operations with its set of unique guidelines, the "Six Stages of Store Operations."

On the product side, Circle K Sunkus commenced concentrated vendor and distribution services for fast foods and perishables, aiming to reduce raw material costs and improve product quality through scale merits. In addition, Circle K Sunkus launched its "THINK BODY" project to support healthy body development and attract health- and beauty-conscious women and health-conscious middle-aged men.

In the service category, Circle K Sunkus further developed its sales promotion activities, including purchasing point service and discount service with KARUWAZA CLUB, an in-house card service equipped with the Edy prepaid electronic money function. With these efforts, Circle K Sunkus attempted to differentiate itself from competitors. In addition, Circle K Sunkus completed the installation of its Zero Bank ATM machines in all stores in Aichi, Gifu and Mie prefectures and began to install them in stores in the Kanto region.

In terms of new business, Circle K Sunkus opened "Fork Talk" in September 2006, mainly targeting working women. As an experimental attempt, the store provides pastas and soup cooked in-store, along with an eat-in area. Circle K Sunkus also operates "99 Ichiba," a small-scale supermarket specializing in an extensive lineup of perishable foods priced mainly at ¥99. With 18 stores as of the end of February 2007, 99 Ichiba is developing as Circle K Sunkus' second main business after convenience stores.

In its fiscal year ending February 29, 2008, Circle K Sunkus is planning to open 320 stores and close 450 stores for a net decrease of 130.

### ■ CIRCLE K STORES

Circle K stores are primarily concentrated in the Chubu region of Japan, with a strong network in Aichi, Gifu and Mie prefectures making up their dominant area. Circle K has placed greater emphasis on securing prime locations and on profitability in the development of stores.

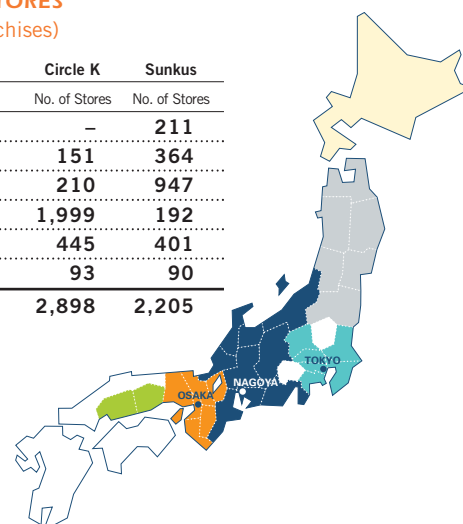
In line with initial plans and excluding area-franchise stores, Circle K opened 187 stores, and closed 180 as part of its efforts to lower the number of underperforming stores. The number of Circle K stores as of the fiscal year-end totaled 2,898, for a net increase of seven. The Circle K Group totaled 3,057 stores, which included area-franchise stores.

### ■ SUNKUS STORES

Sunkus has a strong network of stores covering the Kanto, Tohoku and Kansai regions. During the fiscal year under review, Sunkus placed considerable emphasis on store profitability. Focusing on stores that would generate guaranteed returns, Sunkus opened 119 stores. In addition, 12 area-franchise companies opened a total of 67 stores. In unprofitable stores, Sunkus closed 177 stores, and area franchisers closed 68. As of the fiscal year-end, Sunkus stores totaled 2,205, for a net decrease of 58. Including area-franchise stores, the Sunkus network stood at 3,278 stores.

### REGIONAL BREAKDOWN OF CONVENIENCE STORES (excluding area franchises)

	Circle K	Sunkus
	No. of Stores	No. of Stores
■ Hokkaido Pref.	–	211
■ Tohoku Region	151	364
■ Kanto Region	210	947
■ Chubu Region	1,999	192
■ Kansai Region	445	401
■ Chugoku Region	93	90
<b>Total</b>	<b>2,898</b>	<b>2,205</b>





## SPECIALTY STORES

(Million ¥)

Years ended February 20	2007	2006	2005
Revenues*	¥133,600	¥128,068	¥127,600
Operating Costs and Expenses	131,572	125,526	125,578
Operating Income	2,028	2,542	2,022
Identifiable Assets	75,651	79,725	87,825
Depreciation	1,932	2,152	2,203
Impairment Loss on Fixed Assets	982	2,937	–
Capital Expenditures	2,613	2,996	2,665

\* Revenues refer to sales to external customers.

## KEY SPECIALTY STORES

Years ended February 20	Sagami*			Molie			Palemo			Suzutan			Rough Ox		
	2007	2006	2005	2007	2006	2005	2007	2006	2005	2007	2006	2005	2007	2006	2005
Revenues (Million ¥)	66,923	63,476	64,527	8,481	8,505	8,826	34,095	31,326	30,322	21,801	22,505	21,878	2,302	2,256	2,047
Net Sales (Million ¥)	66,527	63,083	64,127	8,251	8,293	8,599	33,730	30,993	29,977	21,801	22,505	21,878	2,324	2,229	2,020
Number of Stores	557	556	522	156	147	158	529	492	443	289	283	281	19	19	18
Newly Opened Stores	58	36	66	13	7	11	64	66	51	19	32	19	2	2	2
Sales Floor Space (m <sup>2</sup> )	77,325	60,825	61,459	19,490	18,461	19,899	94,029	82,839	74,407	42,950	41,603	41,711	9,854	10,317	10,316
Newly Opened Floor Space (m <sup>2</sup> )	7,727	4,433	7,738	1,642	889	1,218	12,813	13,365	8,695	2,964	4,055	2,757	500	1,109	855
Sales per Sq. Meter (Thousand ¥)	860	1,037	1,043	423	449	432	359	374	403	508	541	525	236	216	196
Full-Time Employees	1,646	1,750	1,213	27	26	29	153	149	152	240	264	303	27	27	29
Sales per Employee (Million ¥)	40	36	53	306	319	297	220	208	197	91	85	72	86	83	70

\* Sagami's financial data, such as Net Sales, is shown on a consolidated basis.

Uny has diversified into specialty and low-cost chain store operations over the years to respond to changing consumer demands and to develop advances in store concepts. These operations are structured as subsidiaries within the Uny Group.

### ■ SAGAMI

Sagami Co., Ltd. is the largest national chain specializing in Japanese kimonos. Sagami also operates the following boutique chains: CATIART, which offers original and imported designer jewelry and furs; Kirat, which specializes in high-end jewelry and casual accessories; Karako, which offers sundry goods for everyday living; WarakuyaOkame, devoted to Japanese cutlery and miscellaneous items; LIVEONCE, which offers miscellaneous interior goods; and ORANGE HOUSE, providing miscellaneous kitchen items.

There were 557 stores being operated by Sagami at the end of fiscal 2007.

### ■ MOLIE

Molie Co., Ltd.'s selection of sensible and fashionable apparel is tailored to the needs of middle-aged and elderly women. Three main business categories are managed: Molie, representing the prestige of the married woman; Juan, offering contemporary coordinates; and Avant:midi, sophisticated urban casual wear. At the end of fiscal 2007, 156 stores were in operation, nine more than at the end of the previous fiscal year.

### ■ PALEMO

Palemo Co., Ltd. offers women's fashions that range from the teen and junior markets to young working women in their twenties. It has a full range of boutique formats under the key store names Galfit, Fanner, Limestone, Bispage and Siebelet.

At the end of fiscal 2007, 529 stores were in operation, 37 more than at the end of the previous fiscal year.

### ■ SUZUTAN

Suzutan Co., Ltd. offers casual wear for the young woman. Suzutan opened 19 new stores and closed 13 unprofitable stores in the fiscal year under review, for a total of 289 stores by the fiscal year-end. In the current fiscal year, we aim to increase sales and profits by further opening 35 new stores and closing 15 unprofitable ones, while refurbishing 30 stores.

### ■ ROUGH OX

Rough Ox Co., Ltd. was established in 1985 to market menswear. Despite its accumulated deficit from a slump in the past, Rough Ox is showing signs of a business recovery. It reported increased revenue and has successfully generated profits. Historically, stores have been located mainly at roadsides. Looking ahead, Rough Ox is adopting an in-store format with stores gradually shifted to shopping centers.

At the end of fiscal 2007, there were 19 stores in operation, mainly at roadside locations.

## FINANCIAL SERVICES

As a direct result of an aggressive sign-up campaign, UCS Co., Ltd. increased the number of Uny Card holders during the period under review by 340,000, to a total of 2.8 million. We would like to continue winning new cardholders in fiscal 2007, because this would lead to expanded business opportunities. Operating revenues surged to ¥15,022 million, up 17.4% against the previous fiscal year. Operating income climbed 17.3% to ¥4,535 million. UCS will take steps to further increase membership in fiscal 2008, in an effort to improve profitability in its finance activities.

(Million ¥)

Years ended February 20	UCS		
	2007	2006	2005
Revenues*	¥15,022	¥12,798	–
Operating Costs and Expenses	13,283	11,300	–
Operating Income	4,535	3,865	–
Identifiable Assets	94,931	78,751	–
Depreciation	385	371	–
Impairment Loss on Fixed Assets	7	–	–
Capital Expenditures	1,270	1,915	–

\* Revenues refer to sales to external customers.

# MANAGEMENT POLICIES

## 1. BASIC MANAGEMENT POLICIES

The Uny Group of general merchandisers, convenience and specialty stores offers the customers in its communities an enjoyable shopping experience, as well as products and services of high quality and value. With the support of customers as its base, Uny will deliver medium- and long-term earnings growth and continue to meet the expectations of shareholders.

To accomplish this, Uny constantly reviews the products, locations and features of its stores, following the creed of “putting yourself in the customer’s shoes.” While increasing the service level to its customers, Uny aggressively scraps and builds stores, strives for effective utilization of management resources, and makes every effort to secure profits.

## 2. BASIC EARNINGS DISTRIBUTION POLICY

Uny’s basic policy is to continue stable payment of cash dividends, giving due consideration to retained earnings to maintain and strengthen its financial soundness, thereby providing for the future expansion of its business.

For the fiscal year under review, Uny declared a year-end cash dividend of ¥9.0 per common share. Including the ¥9.0 per share interim, total cash dividends for the year are ¥18.0 per share, on par with the previous fiscal year. The Company plans to utilize retained earnings for capital investment including the establishment of new stores and other facility enhancements. Uny will continue to work for efficient fund distribution, the strengthening of financial soundness and improved performance.

## 3. GROUP MANAGEMENT POLICIES

Publicly listed companies within the Uny Group meet once a month to discuss each Group company’s challenges and strategies, and to better grasp operating conditions and performance. All other Group companies meet once every two months, with Uny Co., Ltd. providing the strategic framework and overall support as required.

With the intention of benefiting shareholders by maximizing returns, each Group company adheres to the following management guidelines:

- i) In order to make quick decisions grounded in practicality and based on experience, an open and flat management structure will be employed.
- ii) In order to maintain and enhance price competitiveness, low-cost management will be employed.
- iii) Management that is transparent to customers, shareholders, and employees will be pursued.

## 4. CORPORATE GOVERNANCE

Uny’s basic approach to corporate governance is founded upon serving its communities by offering customers products and services of high quality and value, achieving medium- and long-term earnings growth, and continuing to meet the expectations of shareholders. The Company is putting in place structures to ensure management transparency and thorough compliance in operations. Furthermore, the Company implements various measures to promote increased in-house awareness and understanding of ethical corporate behavior.

### 1) Corporate Organization and Internal Control System Development

#### Overview of Corporate Organization

Uny strives to ensure corporate governance in accordance with the Director and Corporate Auditor Systems. The Board of Directors is the ultimate decision-making body. In principle, directors meet once a month to deliberate and determine matters of importance and to supervise the executive function.

The Company has also adopted a management meeting system. Management meetings are convened once a month and attended by directors. The primary function of each meeting is to discuss and determine matters relating to the daily execution of the Company’s overall business activities.

#### Internal Control System Development

As its company-wide internal control organization, Uny established the Risk Management Committee with the president and representative director as chair to uncover and control risks as well as to examine countermeasures against exposed risks. In addition, the Company set up its Compliance Committee under the Risk Management Committee for the purpose of administering compliance activities.

Uny’s Help Line Committee was established as part of the Compliance Committee for accepting information from both inside and outside of the Company. When responding to a report, the Help Line Committee convokes the Investigation and Rogatory Committee when necessary to investigate the details surrounding reported issues and to propose countermeasures.

Finally, the Company distributes its “Corporate Ethics Standards” to all employees every year, and promotes bimonthly compliance themes to instill thorough adherence to ethical regulations and legal compliance.

#### Internal Audit and Audits by Corporate Auditors

Uny has appointed four corporate auditors, including two external corporate auditors. The corporate auditors attend the Board of Directors’ meetings, management meetings and other meetings of importance. Corporate auditors receive reports on Company operations from directors, review important decisions, and provide management supervision in collaboration with the Internal Auditors’ Office. With expert knowledge, each member of the Internal Auditors’ Office implements business audits at the Company’s stores, headquarters, regional headquarters and subsidiaries.

#### Relationship with External Corporate Auditors

Uny’s external corporate auditors, Kazuyoshi Kouketsu and Ikuo Tange, are outside specialists who provide astute advice concerning the Company’s decision-making processes from an impartial perspective. Messrs. Kazuyoshi Kouketsu and Ikuo Tange have no specific personal relationships or interests in the Company.

### 2) Development of a Risk Management System

Uny’s in-house compliance and risk management promotion organizations include the aforementioned Risk Management Committee, which is chaired by the president and representative director at the Company’s headquarters, and Regional Headquarters Safety Control Committees located at the Company’s regional headquarters, with each regional general manager appointed as a chair. In addition, Store Safety Control Committees have been established at every store and are chaired by respective store managers. The Risk Management Committee reviews and provides measures to deal with all issues related to corporate ethics and risk management. The Regional Headquarters Safety Control Committees and Store Safety Control Committees function together as a unit to implement corporate ethics programs and risk management activities.

**OPERATING RESULTS****Revenues by Segment**

	Millions of Yen		% Change	
	2007	2006/2005	2007/2006	2006/2005
Superstores	¥ 884,733	72.0%	1.0%	0.2%
Convenience Stores	190,557	15.5	3.5	4.2
Specialty Stores	133,600	10.9	4.3	0.4
Financial Services	18,854	1.5	47.3	—
Other	1,202	0.1	(11.7)	—
Total	¥1,228,946	100.0%	2.2%	1.0%

**Revenues**

In fiscal 2007, ended February 20, 2007, consolidated operating revenue rose 2.2% from the previous fiscal year to ¥1,228,946 million. Within this figure, net sales amounted to ¥1,061,711 million, up 2.3% year on year, and other operating revenue gained 1.4% to ¥167,235 million.

By segment, operating revenue in the superstore segment climbed 1.0% to ¥884,733 million. During the fiscal year under review, Uny opened two Apita stores and closed seven stores, including one Apita store, three Uny stores and three U Home stores. Despite harsh market competition with the opening of large-scale stores and supermarkets by other companies, net sales, including newly constructed stores, edged up 0.9%, while same-store sales declined 1.3% year on year. Owing to a 3.9% increase in other operating revenue, the overall operating revenue rose 1.0%. During fiscal 2007, net sales at U Store outlets edged down 0.1%, despite the opening of one new store, and same-store sales were down 1.3%.

In the convenience store segment, operating revenue increased 3.5% to ¥190,557 million from the previous fiscal year. Same-store sales started on a recovery trend, owing to warm winter weather, with a temperate climate continuing since October. Same-store sales, however, decreased 3.3%, with a 3.0% decline at Circle K stores and a 3.8% decline at Sunkus stores. This was attributable to stagnant sales caused by low demand during holiday periods due to low temperatures in the spring and a prolonged rainy season.

On the store development front, we placed the highest priority in the three major metropolitan areas of Tokyo, Nagoya and Osaka on store openings. In addition, we implemented new store development in Gunma Prefecture. Furthermore, we accelerated store relocation, as well as a scrap-and-build policy in areas with stagnant sales, for the purpose of improving profitability. During fiscal 2007, we opened 187 Circle K stores and 119 Sunkus stores, while closing 180 Circle K stores and 177 Sunkus stores. The total number of Circle K stores and Sunkus stores at the end of the fiscal year under review was 2,898 and 2,205, respectively. This resulted in a net increase of 7 Circle K stores and net decrease of 58 Sunkus stores. Operating revenue in this segment climbed 3.5% due mainly to an increase in the number of consolidated subsidiaries.

In the specialty stores segment, operating revenue gained 4.3% year on year to ¥133,600 million. Sagami's consolidated same-store sales were down 9.0% from the previous fiscal year. However, the operating revenue of newly consolidated Suzunoki Co., Ltd. contributed to this result. Though Palemo's same-store sales declined 2.2%, it recorded revenue growth due to an increase in the number of its stores. Suzutan's same-store sales fell 3.8% year on year while net sales declined 3.1%. As a result, overall operating revenue in this segment increased 4.3%.

In the financial services segment, which was separated from the other segment from the fiscal year under review, operating revenue surged 47.3% to ¥18,854 million. This was attributable to the expansion of UCS's operational base, with an increase in the number of cardholders by 340,000 to approximately 2.8 million at the end of fiscal 2007.

By merchandise category, sales rose 0.8% for clothing, 1.9% for household goods and 2.7% for foods.

**Earnings**

Gross operating profit for the fiscal year under review rose 2.2% to ¥459,394 million. This was the result of net sales increasing 2.3%, the gross profit margin improving 0.1 of a percentage point to 27.5%, and gross profit climbing 2.7% to ¥292,159 million. Furthermore, other operating revenue, namely, income from real estate leasing and other

income, improved 3.0% and 1.0%, respectively, which contributed to a 1.4% gain to ¥167,235 million. Selling, general and administrative expenses (SG&A) rose 1.6% to ¥412,252 million. As a result, operating income grew 8.2% year on year to ¥47,142 million.

By segment, operating income in the superstore segment jumped 49.3% to ¥18,213 million, reflecting a 0.3% increase in operating costs offset by a 1.0% increase in operating revenue. In the convenience store segment, operating revenue improved 3.5% due to an increase in the number of consolidated subsidiaries. However, operating costs increased 5.7% from the previous fiscal year, causing an 11.6% decrease in operating income to ¥21,426 million. In the specialty store segment, operating income in Palemo, Suzutan and Molie grew, while Sagami recorded operating losses. As a result, the operating income in this segment fell 20.2% to ¥2,028 million. In the financial services segment, operating income gained 21.0% to ¥4,676 million supported by a 17.3% increase in UCS's operating income.

In the other income (expenses) category, net financial expenses (interest expenses less interest and dividend income) totaled ¥2,053 million, down from ¥2,226 million from the previous fiscal year. Major factors behind this result were the increase in interest and dividend income compared with the previous fiscal year, due to a rise in interest rates and an improvement in business performance. Other expenses included a ¥11,057 million impairment loss, a ¥2,996 million loss on sales or disposal of property and equipment, a ¥2,045 million loss on cancellation of lease contracts and ¥1,257 million from the cumulative effect of accounting changes of subsidiaries. The ¥53,720 million gain on the return of the substituted portion of the employee welfare pension fund that was recorded in the previous fiscal year was absent in fiscal 2007.

As a result, income before income taxes and minority interests decreased 37.0% from the previous fiscal year to ¥29,266 million. Net income fell 42.2% to ¥9,302 million after deducting ¥16,371 million in income tax expenses and ¥3,593 million in minority interests in earnings of consolidated subsidiaries. Net income per share for the fiscal year under review was down from ¥84.64 to ¥49.27. Cash dividends stood at ¥18.00, which was on par with the previous fiscal year.

**Financial Position and Liquidity**

As of February 20, 2007, the Uny Group's assets totaled ¥966,226 million, an increase of ¥15,075 million from the end of the previous fiscal year. Current assets rose ¥4,897 million to ¥295,943 million, with notes and accounts receivable up ¥1,302 million to ¥58,370 million.

Property and equipment, at cost, less accumulated depreciation, increased ¥18,828 million year on year to ¥410,194 million. Investments and other assets declined ¥8,650 million to ¥260,089 million.

In terms of liabilities, interest-bearing debt (long-term debt, including current portion, short-term borrowings and commercial paper) grew ¥9,117 million to ¥310,515 million. The interest-coverage ratio declined from 15.7 times to 9.6 times.

At the fiscal year-end, the equity ratio (total equity less minority interests to total assets) improved 0.2 of a percentage point to 25.3%.

**Cash Flows**

Net cash provided by operating activities amounted to ¥69,635 million, up ¥37,194 million from a year earlier. This reflected income before income taxes and minority interests, which was down ¥17,188 million to ¥29,266 million, and an impairment loss on fixed assets, which decreased ¥37,906 million compared with the previous fiscal year. The results were also due to a decrease in trade payables of ¥458 million, an improvement from the decrease in the previous fiscal year of ¥25,140 million and the decrease in employee retirement benefit liability of ¥2,765 million, down from the decrease in the previous fiscal year of ¥52,755 million. Income tax paid increased ¥2,397 million from the previous fiscal year to ¥15,781 million.

Net cash used in investing activities increased ¥12,875 million to ¥72,542 million. Principal components were the absence of the payment for transfer of a golf club operation business of ¥3,148 million, which was recorded in the previous fiscal year, acquisition costs of



## Sales by Merchandise Category

Years ended February 20	Millions of Yen						Change 2007/2006
	2007		2006		2005		
<b>Clothing</b>	¥ 288,611	23.5%	¥ 286,282	23.8%	¥ 284,472	23.9%	0.8%
Women's clothing	103,288	35.8	101,277	35.4	101,094	35.5	2.0
Children's clothing	26,357	9.1	26,835	9.4	26,936	9.5	(1.8)
Men's clothing	32,100	11.1	32,810	11.5	31,833	11.2	(2.2)
Accessories and shoes	48,826	16.9	48,936	17.1	47,247	16.6	(0.2)
Lingerie	38,071	13.2	38,914	13.6	38,073	13.4	(2.2)
Kimonos and related accessories	39,969	13.8	37,510	13.1	39,289	13.8	6.6
	100.0		100.0		100.0		
<b>Household Goods</b>	183,068	14.9	179,638	14.9	176,627	14.8	1.9
Sundry and leisure goods	137,199	74.9	131,494	73.2	126,991	71.9	4.3
Furniture, electrical appliances and others	45,869	25.1	48,144	26.8	49,636	28.1	(4.7)
	100.0		100.0		100.0		
<b>Foods</b>	562,833	45.8	548,167	45.6	545,670	45.8	2.7
Fresh foods	298,052	53.0	292,999	53.5	293,646	53.8	1.7
Processed foods	264,781	47.0	255,168	46.5	252,024	46.2	3.8
	100.0		100.0		100.0		
<b>Other Merchandise</b>	27,199	2.2	23,678	2.0	22,025	1.8	14.9
<b>Net Sales</b>	1,061,711	86.4	1,037,765	86.3	1,028,794	86.4	2.3
<b>Other Operating Revenue</b>	167,235	13.6	164,876	13.7	162,505	13.6	1.4
<b>Total</b>	¥1,228,946	100.0%	¥1,202,641	100.0%	¥1,191,299	100.0%	2.2%

¥57,572 million for property and equipment, lease deposits of ¥9,703 million and a ¥2,969 million increase in short-term investments.

Net cash used in financing activities amounted to ¥4,576 million, a turnaround from net cash provided by financing activities of ¥24,454 million in the previous fiscal year. The net increase in interest-bearing debt (short-term borrowings, long-term debt, commercial paper and bonds) was down from ¥24,375 million in fiscal 2006 to ¥8,799 million in the fiscal year under review. Net decrease in guarantee deposits from tenants totaled ¥2,532 million in fiscal 2007, while Uny recorded a net increase in guarantee deposits from tenants of ¥3,348 million in the previous fiscal year. In addition, a ¥5,172 million repurchase of a subsidiary's stock from minority shareholders was recorded in the fiscal year under review.

In fiscal 2008, ending February 20, 2008, plans call for capital investment of ¥77,100 million on a contract basis, compared with approximately ¥67,000 million in fiscal 2007.

### OUTLOOK FOR FISCAL 2008

In the fiscal year ending February 20, 2008, overall corporate performance is expected to improve along with the continuous upswing in the Japanese economy and the accompanying recovery in personal consumption. However, we anticipate that retailers will experience an ongoing harsh business environment amid conditions that include an aging society with a declining birthrate and a further intensification of market competition with other companies both in and outside of the industry.

In the superstore segment, Uny plans to open four stores, including three mall-type Apita stores, and it will construct one U Store. Operating revenue in this segment, however, is expected to fall below the previous fiscal year due to the lower operating revenue forecast for Uny Co., Ltd. and Uny (HK) Co., Ltd. in fiscal 2008. Under these circumstances, we will continue to make efforts to improve the gross profit margin, while reducing operating costs, to achieve increased profit.

In the convenience store segment, we set up a management policy for fiscal 2008 calling for a "thorough shift to quality-oriented business" by proactively responding to potential risks such as unprofitable stores and by implementing reinforced marketing through store operations, as well as reinvigorating store and product development. By doing so, we will shift to store chains with a lean management structure. In fiscal 2008, Circle K Sunkus Co., Ltd. plans to open 320 stores and close 450 stores, which will result in a net decrease in the number of stores by 130 at the end of fiscal 2008.

In the specialty store segment, we will further increase the profitability of each store by continuing our aggressive scrap and build policy and reinvigorating sales capabilities at our existing stores. We will also work to develop a new store format.

UCS Co., Ltd. will strive to increase the number of cardholders by introducing a speedy issuance system and strengthening in-store promotion activities. Together with this, we will consider the installation of a non-contact IC payment system. In addition, we will proceed with the restructuring of finance products and earnings structure for the purpose of responding to the enforcement of the revised Money-Lending Business Control and Regulation Law.

Consolidated operating revenue for fiscal 2008 is projected to grow 0.2% to ¥1,232,000 million, operating income to rise 3.3% to ¥48,700 million and net income to increase 26.9% to ¥11,800 million.

Management's discussion of the outlook for fiscal 2008, its plans for store openings and its forecasts of operating revenue and net income are forward-looking statements. Principal factors that may cause actual results to differ materially from those expressed in the forward-looking statements made by the management of Uny include a downturn in the domestic economy, the inability to open new stores as planned and a worse-than-expected deterioration in the competitive environment of the retail industry in Japan.

SELECTED FINANCIAL DATA

UNY CO., LTD. and Consolidated Subsidiaries	Millions of Yen					Thousands of U.S. Dollars*
Years ended February 20	2007	2006	2005	2004	2003	2007
<b>For the Year</b>						
Operating revenue	<b>¥1,228,946</b>	¥1,202,641	¥1,191,299	¥1,167,568	¥1,179,913	<b>\$10,327,277</b>
Net sales	<b>1,061,711</b>	1,037,765	1,028,794	1,010,810	1,027,140	<b>8,921,941</b>
Cost of goods sold	<b>769,552</b>	753,152	751,388	745,719	761,084	<b>6,466,824</b>
Selling, general and administrative expenses	<b>412,252</b>	405,908	398,116	378,183	369,169	<b>3,464,302</b>
Interest expenses	<b>3,396</b>	3,166	3,284	3,253	3,546	<b>28,538</b>
Income before income taxes and minority interests	<b>29,266</b>	46,454	34,853	29,972	38,427	<b>245,933</b>
Net income	<b>9,302</b>	16,102	10,878	9,828	12,544	<b>78,168</b>
Purchases of property and equipment	<b>57,572</b>	48,002	48,547	34,251	32,938	<b>483,798</b>
Lease deposits made	<b>9,703</b>	12,555	14,068	10,052	9,858	<b>81,538</b>
Per share data (in Yen and U.S. Dollars):						
Net income	<b>49.27</b>	84.64	56.84	51.13	65.29	<b>0.41</b>
Cash dividends	<b>18.00</b>	18.00	18.00	18.00	18.00	<b>0.15</b>
Average shares issued (in Thousands)	<b>189,295</b>	189,295	189,295	189,295	189,295	<b>—</b>
<b>At Year-End</b>						
Merchandise inventories	<b>62,404</b>	64,715	64,871	61,948	59,161	<b>524,403</b>
Property and equipment (book value)	<b>410,194</b>	391,366	416,131	389,350	384,132	<b>3,447,008</b>
Total assets	<b>966,226</b>	951,151	982,309	922,262	892,853	<b>8,119,546</b>
Long-term debt, less current portion	<b>173,824</b>	184,131	162,022	168,041	166,918	<b>1,460,706</b>
Total equity**	<b>364,291</b>	—	—	—	—	<b>3,061,269</b>
Shareholders' equity**	<b>—</b>	239,145	222,612	214,178	206,577	<b>—</b>
<b>Profitability</b>						
(Net sales – cost of goods sold)/Net sales (%)	<b>27.5</b>	27.4	27.0	26.2	25.9	<b>—</b>
Income before income taxes/Operating revenues (%)	<b>2.4</b>	3.9	2.9	2.6	3.3	<b>—</b>
Net income/Operating revenues (%)	<b>0.8</b>	1.3	0.9	0.8	1.1	<b>—</b>
Net income/Total assets (%)	<b>1.0</b>	1.7	1.1	1.1	1.4	<b>—</b>
Net income/Shareholders' equity [Total equity-minority interests] (%)	<b>3.8</b>	6.7	4.9	4.6	6.1	<b>—</b>
<b>Financial Structure Analysis</b>						
Shareholders' equity						
[Total equity-minority interests]/Total assets (%)	<b>25.3</b>	25.1	22.7	23.2	23.1	<b>—</b>
Long-term debt/Shareholders' equity						
[Total equity-minority interests] (Times)	<b>0.7</b>	0.8	0.7	0.8	0.8	<b>—</b>
Income before income taxes and interest expenses/Interest expenses (Times)						
	<b>9.6</b>	15.7	11.6	10.2	11.8	<b>—</b>
<b>Turnover Analysis</b>						
Net sales/Merchandise inventories (Times)	<b>17.0</b>	16.0	15.9	16.3	17.4	<b>—</b>
Operating revenues/Total assets (Times)	<b>1.3</b>	1.3	1.2	1.3	1.3	<b>—</b>

\*See Note 1(b) of Notes to Consolidated Financial Statements.

\*\*See Note 2(b) of Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

UNY CO., LTD. and Consolidated Subsidiaries For the Years Ended February 20, 2007, 2006 and 2005	Millions of Yen			Thousands of U.S. Dollars
	2007	2006	2005	2007
<b>Operating Revenue (Note 12):</b>				
Net sales	¥1,061,711	¥1,037,765	¥1,028,794	\$ 8,921,941
Other	167,235	164,876	162,505	1,405,336
	<b>1,228,946</b>	<b>1,202,641</b>	<b>1,191,299</b>	<b>10,327,277</b>
<b>Operating Costs and Expenses (Notes 6, 8 and 12):</b>				
Cost of goods sold	769,552	753,152	751,388	6,466,824
Selling, general and administrative expenses	412,252	405,908	398,116	3,464,302
	<b>1,181,804</b>	<b>1,159,060</b>	<b>1,149,504</b>	<b>9,931,126</b>
Operating income	47,142	43,581	41,795	396,151
<b>Other Income (Expenses):</b>				
Interest and dividend income	1,343	940	836	11,286
Interest expenses	(3,396)	(3,166)	(3,284)	(28,538)
Equity in net earnings of affiliate	253	317	725	2,126
Loss on sales or disposal of property and equipment	(2,996)	(2,315)	(4,715)	(25,176)
Loss on cancellation of lease contracts	(2,045)	(1,675)	(1,396)	(17,185)
Loss on close-down of stores	(969)	(752)	(236)	(8,143)
Loss on write-down of securities	(277)	(199)	(408)	(2,328)
Impairment loss on fixed assets (Note 2(j))	(11,057)	(48,963)	—	(92,916)
Cumulative effect on accounting changes of subsidiaries (Notes 2(q) and 2(g))	(1,257)	(2,371)	—	(10,563)
Gain on return of substituted portion of employee welfare pension fund (Note 2(l))	—	53,720	—	—
Repayment forgiveness of deposits from golf club members	—	5,111	—	—
Miscellaneous, net	2,525	2,226	1,536	21,219
	<b>(17,876)</b>	<b>2,873</b>	<b>(6,942)</b>	<b>(150,218)</b>
Income before income taxes and minority interests	29,266	46,454	34,853	245,933
<b>Income Taxes (Note 11)</b>	<b>16,371</b>	<b>23,897</b>	<b>16,125</b>	<b>137,572</b>
Income before minority interests	12,895	22,557	18,728	108,361
<b>Less, Minority Interests in Earnings of Consolidated Subsidiaries</b>	<b>(3,593)</b>	<b>(6,455)</b>	<b>(7,850)</b>	<b>(30,193)</b>
Net income	¥ 9,302	¥ 16,102	¥ 10,878	\$ 78,168
		Yen		U.S. Dollars
<b>Per Share (in Yen and U.S. Dollars):</b>				
Net income	¥49.27	¥84.64	¥56.84	\$0.41
Cash dividends	18.00	18.00	18.00	0.15

See accompanying Notes to Consolidated Financial Statements.

## CONSOLIDATED BALANCE SHEETS

UNY CO., LTD. and Consolidated Subsidiaries	Millions of Yen		Thousands of U.S. Dollars
February 20, 2007 and 2006	2007	2006	2007
<b>Current Assets:</b>			
Cash and cash equivalents	¥ 102,121	¥ 108,104	\$ 858,160
Short-term investments (Notes 4 and 5)	1,472	1,202	12,370
Notes and accounts receivable:			
Trade notes	36	135	302
Trade accounts	44,994	40,051	378,101
Other	16,398	19,401	137,798
Allowance for doubtful accounts	(3,058)	(2,519)	(25,697)
	<b>58,370</b>	<b>57,068</b>	<b>490,504</b>
Merchandise inventories	62,404	64,715	524,403
Deferred tax assets (Note 11)	6,207	5,206	52,160
Other current assets	65,369	54,751	549,319
Total current assets	<b>295,943</b>	<b>291,046</b>	<b>2,486,916</b>
<b>Property and Equipment, at Cost (Note 5):</b>			
Land	181,130	162,772	1,522,101
Buildings and structures	418,017	413,184	3,512,748
Equipment and fixtures	67,191	67,847	564,630
Construction in progress	13,018	6,791	109,395
	<b>679,356</b>	<b>650,594</b>	<b>5,708,874</b>
Accumulated depreciation	(269,162)	(259,228)	(2,261,866)
	<b>410,194</b>	<b>391,366</b>	<b>3,447,008</b>
<b>Investments and Other Assets:</b>			
Lease deposits (Notes 5 and 8)	156,891	162,957	1,318,412
Investments in and long-term loans to unconsolidated subsidiaries and affiliates (Note 4)	8,372	9,362	70,353
Investment securities (Note 4)	26,173	27,474	219,941
Deferred tax assets (Note 11)	11,639	12,609	97,807
Goodwill	19,792	21,724	166,319
Other	40,368	37,997	339,227
Allowance for doubtful accounts	(3,146)	(3,384)	(26,437)
	<b>260,089</b>	<b>268,739</b>	<b>2,185,622</b>
Total assets	<b>¥ 966,226</b>	<b>¥ 951,151</b>	<b>\$ 8,119,546</b>

See accompanying Notes to Consolidated Financial Statements.

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
<b>Current Liabilities:</b>			
Short-term borrowings (Note 5)	¥ 84,216	¥ 87,112	\$ 707,697
Current portion of long-term debt (Note 5)	52,475	30,155	440,966
Notes and accounts payable:			
Trade notes	12,052	13,313	101,277
Trade accounts	99,518	97,946	836,286
Other	32,109	32,735	269,824
	<u>143,679</u>	<u>143,994</u>	<u>1,207,387</u>
Accrued expenses	17,743	16,721	149,101
Income taxes payable	10,095	8,853	84,832
Other current liabilities	47,239	42,357	396,966
Total current liabilities	<u>355,447</u>	<u>329,192</u>	<u>2,986,949</u>
<b>Long-Term Liabilities:</b>			
Long-term debt, less current portion (Note 5)	173,824	184,131	1,460,706
Guarantee deposits from tenants	55,588	57,792	467,126
Employee retirement benefit liability (Note 6)	11,246	14,012	94,504
Other long-term liabilities (Note 11)	5,830	3,715	48,992
	<u>246,488</u>	<u>259,650</u>	<u>2,071,328</u>
<b>Equity (Note 7):</b>			
Common stock	10,129	—	85,118
Capital surplus	49,487	—	415,857
Retained earnings	177,165	—	1,488,781
Less, treasury stock, at cost	(715)	—	(6,008)
Total shareholders' equity	<u>236,066</u>	<u>—</u>	<u>1,983,748</u>
Other components of equity	8,372	—	70,353
Minority interests	119,853	—	1,007,168
Total equity	<u>364,291</u>	<u>—</u>	<u>3,061,269</u>
Total liabilities and equity	<u>¥966,226</u>	<u>—</u>	<u>\$8,119,546</u>
<b>Minority Interests</b>	—	123,164	—
<b>Shareholders' Equity:</b>			
Common stock	—	10,129	—
Capital surplus	—	49,486	—
Retained earnings	—	171,908	—
Land revaluation decrement	—	(1,343)	—
Net unrealized gains on available-for-sale securities	—	9,869	—
Foreign currency translation adjustment	—	(303)	—
Treasury stock, at cost	—	(601)	—
Total shareholders' equity	<u>—</u>	<u>239,145</u>	<u>—</u>
Total liabilities, minority interests and shareholders' equity	<u>—</u>	<u>¥951,151</u>	<u>—</u>



CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

UNY CO., LTD. and Consolidated Subsidiaries

Millions of Yen

For the Years Ended February 20, 2006 and 2005	Number of Common Shares Issued	Common Stock	Capital Surplus	Retained Earnings
<b>Balance at February 20, 2004</b>	189,295,483	¥10,129	¥49,486	¥152,261
Net income	—	—	—	10,878
Cash dividends	—	—	—	(3,403)
Bonuses to directors and corporate auditors	—	—	—	(161)
Reversal of land revaluation decrement	—	—	—	(28)
Increase in retained earnings through merger of consolidated subsidiary	—	—	—	158
Net change in unrealized gains on available-for-sale securities, net of applicable income taxes	—	—	—	—
Translation adjustment	—	—	—	—
Fractional shares acquired, net	—	—	—	—
<b>Balance at February 20, 2005</b>	189,295,483	10,129	49,486	159,705
Net income	—	—	—	16,102
Cash dividends	—	—	—	(3,375)
Bonuses to directors and corporate auditors	—	—	—	(134)
Reversal of land revaluation decrement	—	—	—	(390)
Adjustment for valuation allowance relating to deferred tax assets	—	—	—	—
Net change in unrealized gains on available-for-sale securities, net of applicable income taxes	—	—	—	—
Translation adjustment	—	—	—	—
Purchases of treasury stock and fractional shares, net	—	—	—	—
<b>Balance at February 20, 2006</b>	189,295,483	¥10,129	¥49,486	¥171,908

For the Year Ended February 20, 2007	Millions of Yen			
	Number of Common Shares Issued	Common Stock	Capital Surplus	Retained Earnings
<b>Balance at February 20, 2006</b>	189,295,483	¥10,129	¥49,486	¥171,908
Net income	—	—	—	<b>9,302</b>
Cash dividends	—	—	—	<b>(3,399)</b>
Bonuses to directors and corporate auditors	—	—	—	<b>(112)</b>
Reversal of land revaluation decrement	—	—	—	<b>(442)</b>
Decrease in retained earnings through inclusion of additional subsidiaries on consolidation	—	—	—	<b>(92)</b>
Fractional shares acquired, net	—	—	<b>1</b>	—
Change in equity share portion of subsidiary	—	—	—	—
Net changes other than shareholders' equity for the year	—	—	—	—
<b>Balance at February 20, 2007</b>	<b>189,295,483</b>	<b>¥10,129</b>	<b>¥49,487</b>	<b>¥177,165</b>

For the Year Ended February 20, 2007	Thousands of U.S. Dollars			
	Number of Common Shares Issued	Common Stock	Capital Surplus	Retained Earnings
<b>Balance at February 20, 2006</b>		\$85,118	\$415,849	\$1,444,604
Net income		—	—	<b>78,168</b>
Cash dividends		—	—	<b>(28,563)</b>
Bonuses to directors and corporate auditors		—	—	<b>(941)</b>
Reversal of land revaluation decrement		—	—	<b>(3,714)</b>
Decrease in retained earnings through inclusion of additional subsidiaries on consolidation		—	—	<b>(773)</b>
Fractional shares acquired, net		—	<b>8</b>	—
Change in equity share portion of subsidiary		—	—	—
Net changes other than shareholders' equity for the year		—	—	—
<b>Balance at February 20, 2007</b>		<b>\$85,118</b>	<b>\$415,857</b>	<b>\$1,488,781</b>

See accompanying Notes to Consolidated Financial Statements.

Millions of Yen				
Land Revaluation Decrement	Net unrealized Gains on Available-for-Sale Securities	Foreign Currency Translation Adjustment	Treasury Stock	Total Shareholders' Equity
¥(1,039)	¥4,102	¥(499)	¥(262)	¥214,178
—	—	—	—	10,878
—	—	—	—	(3,403)
—	—	—	—	(161)
28	—	—	—	—
—	—	—	—	158
—	1,109	—	—	1,109
—	—	(69)	—	(69)
—	—	—	(78)	(78)
(1,011)	5,211	(568)	(340)	222,612
—	—	—	—	16,102
—	—	—	—	(3,375)
—	—	—	—	(134)
390	—	—	—	—
(722)	—	—	—	(722)
—	4,658	—	—	4,658
—	—	265	—	265
—	—	—	(261)	(261)
¥(1,343)	¥9,869	¥(303)	¥(601)	¥239,145

Millions of Yen								
Other Components of Equity								
Treasury Stock	Total Shareholders' Equity	Net Unrealized Gains on Available-for-Sale Securities	Net Deferred Gains on Hedging Instruments	Land Revaluation Decrement	Foreign Currency Translation Adjustment	Total Other Components of Equity	Minority Interests	Total Equity
¥(601)	¥230,922	¥9,869	¥ —	¥(1,343)	¥(303)	¥8,223	¥123,164	¥362,309
—	9,302	—	—	—	—	—	—	9,302
—	(3,399)	—	—	—	—	—	—	(3,399)
—	(112)	—	—	—	—	—	—	(112)
—	(442)	—	—	—	—	—	—	(442)
—	(92)	—	—	—	—	—	—	(92)
(126)	(125)	—	—	—	—	—	—	(125)
12	12	—	—	—	—	—	—	12
—	—	(308)	47	439	(29)	149	(3,311)	(3,162)
¥(715)	¥236,066	¥9,561	¥ 47	¥ (904)	¥(332)	¥8,372	¥119,853	¥364,291

Thousands of U.S. Dollars								
\$ (5,050)	\$1,940,521	\$82,933	\$ —	\$(11,286)	\$(2,546)	\$69,101	\$1,034,992	\$3,044,614
—	78,168	—	—	—	—	—	—	78,168
—	(28,563)	—	—	—	—	—	—	(28,563)
—	(941)	—	—	—	—	—	—	(941)
—	(3,714)	—	—	—	—	—	—	(3,714)
—	(773)	—	—	—	—	—	—	(773)
(1,059)	(1,051)	—	—	—	—	—	—	(1,051)
101	101	—	—	—	—	—	—	101
—	—	(2,588)	395	3,689	(244)	1,252	(27,824)	(26,572)
\$ (6,008)	\$1,983,748	\$80,345	\$395	\$ (7,597)	\$(2,790)	\$70,353	\$1,007,168	\$3,061,269

CONSOLIDATED STATEMENTS OF CASH FLOWS

UNY CO., LTD. and Consolidated Subsidiaries For the Years Ended February 20, 2007, 2006 and 2005	Millions of Yen	Millions of Yen	Millions of Yen	Thousands of U.S. Dollars
	2007	2006	2005	2007
<b>Cash Flows from Operating Activities:</b>				
Income before income taxes and minority interests	¥ 29,266	¥ 46,454	¥ 34,853	\$ 245,933
Adjustments for:				
Depreciation	26,681	29,257	30,713	224,210
Impairment loss on fixed assets	11,057	48,963	—	92,916
Loss on sales or disposal of property and equipment	2,996	2,315	4,715	25,176
Net (decrease) increase in employee retirement benefit liability	(2,765)	(52,755)	2,062	(23,235)
Changes in operating assets and liabilities:				
Trade receivables	(4,925)	(3,075)	(6,995)	(41,386)
Inventories	2,373	1,078	(2,640)	19,941
Trade payables	(458)	(25,140)	16,741	(3,849)
Other, net	23,331	890	13,467	196,059
Subtotal	87,556	47,987	92,916	735,765
Interest and dividends received	1,148	828	2,276	9,647
Interest paid	(3,288)	(2,990)	(3,320)	(27,630)
Income taxes paid	(15,781)	(13,384)	(14,379)	(132,614)
Net cash provided by operating activities	69,635	32,441	77,493	585,168
<b>Cash Flows from Investing Activities:</b>				
Property and equipment:				
Purchases	(57,572)	(48,002)	(48,547)	(483,798)
Proceeds from sales	3,081	4,222	1,503	25,891
Lease deposits made	(9,703)	(12,555)	(14,068)	(81,538)
Lease deposits repaid	8,951	9,127	7,341	75,218
Net (increase) decrease in short-term investments	(2,969)	273	(401)	(24,950)
Increase in cash through acquisition of subsidiaries (Note 3)	116	391	—	975
Transfer of business acquired (Note 3)	—	—	(641)	—
Payment for transfer of golf club operation business	—	(3,148)	—	—
Other, net	(14,446)	(9,975)	(10,716)	(121,395)
Net cash used in investing activities	(72,542)	(59,667)	(65,529)	(609,597)
<b>Cash Flows from Financing Activities:</b>				
Increase in long-term debt	42,280	50,100	38,193	355,294
Repayment of long-term debt	(30,467)	(43,692)	(20,479)	(256,025)
(Decrease) increase in short-term borrowings	(3,014)	17,967	(659)	(25,328)
Dividends paid to shareholders	(3,399)	(3,375)	(3,403)	(28,563)
Dividends paid to minority shareholders	(2,278)	(2,274)	(1,905)	(19,143)
Net (decrease) increase in guarantee deposits from tenants	(2,532)	3,348	(476)	(21,277)
Repurchases of subsidiary's stock from minority shareholders	(5,172)	—	—	(43,462)
Other, net	6	2,380	1,052	50
Net cash (used in) provided by financing activities	(4,576)	24,454	12,323	(38,454)
Effect of exchange rate changes on cash and cash equivalents	(18)	273	(70)	(151)
Net (decrease) increase in cash and cash equivalents	(7,501)	(2,499)	24,217	(63,034)
Increase in cash and cash equivalents upon inclusion of additional subsidiaries on consolidation	1,518	—	389	12,757
Increase in cash and cash equivalents upon merger of consolidated subsidiary	—	—	765	—
Cash and cash equivalents at beginning of year	108,104	110,603	85,232	908,437
Cash and cash equivalents at end of year	¥102,121	¥108,104	¥110,603	\$ 858,160

See accompanying Notes to Consolidated Financial Statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

UNY CO., LTD. and Consolidated Subsidiaries

## 1. BASIS OF CONSOLIDATED FINANCIAL STATEMENTS

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

The accompanying consolidated financial statements of UNY CO., LTD. (the "Company") and its consolidated subsidiaries (together with the Company, the "UNY Group") have been prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards. These consolidated financial statements are compiled from the original consolidated financial statements in Japanese prepared by the Company as required by the Securities and Exchange Law of Japan and submitted to the Director of the Kanto Finance Bureau of Japan.

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

The Company maintains its accounting records in Japanese Yen. The U.S. dollar amounts included in the accompanying consolidated financial statements and notes thereto represent the arithmetic results of translating Japanese Yen into U.S. dollars at a rate of ¥119 to \$1, the approximate rate of exchange at February 20, 2007. The inclusion of such dollar amounts is solely for the convenience of the readers and is not intended to imply that Yen and the assets and liabilities originating in Yen have been or could be readily converted, realized or settled in dollars at ¥119 to \$1 or at any other rate.

### (c) Reclassification

Certain comparative figures have been reclassified to conform to the current year's presentations.

## 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. Investments in significant unconsolidated subsidiaries and affiliates are accounted for by the equity method. Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method are stated at cost. The differences between the acquisition cost of investments in subsidiaries and the underlying equity in the net assets adjusted based on the fair value at the time of acquisition are principally deferred as goodwill and amortized over five years, except for those for the acquisition of former SUNKUS & ASSOCIATES INC. ("SUNKUS"). The goodwill as the excess of the acquisition cost over the underlying equity in the net assets acquired in relation to the acquisition of SUNKUS is amortized over 20 years from the year ended February 20, 2000. All significant inter-company accounts and transactions have been eliminated on consolidation.

Under the accounting standard for consolidation, a subsidiary is defined as an enterprise which is controlled by another enterprise, and that is a majority (more than 50%) owned enterprise or 40% to 50% owned enterprise that meets certain criteria. In addition, an affiliated company is defined as an enterprise in which the investor has a significant influence, and that is an enterprise, other than a subsidiary, with 20% or more of voting stock as well as 15% to 19% owned enterprise that meets certain criteria. For the years ended February 20, 2007, 2006 and 2005, the number of the companies with not exceeding 50% voting interest classified as consolidated subsidiaries based on the self-judgment of the Company in accordance with the accounting standard was seven, four, and four, respectively.

Effective September 1, 2004, CIRCLE K JAPAN Co., Ltd. ("CIRCLE K") merged with SUNKUS and C&S Co., Ltd., all of which had been consolidated subsidiaries of the Company, and CIRCLE K renamed itself to Circle K Sunkus Co., Ltd. This merger gave no effect on the consolidated financial statements of the UNY Group and the term of amortization of goodwill in relation to the acquisition of SUNKUS has not been changed.

The number of consolidated subsidiaries, unconsolidated subsidiaries and affiliates for the years ended February 20, 2007, 2006 and 2005 was as follows:

	2007	2006	2005
Consolidated subsidiaries:			
Domestic	22	20	21
Overseas	2	2	2
Affiliates, accounted for by the equity method	1	1	1
Unconsolidated subsidiaries, stated at cost	14	17	14
Affiliates, stated at cost	14	16	18

The overseas consolidated subsidiaries located in Hong Kong adopt accounting principles generally accepted in their country. No adjustments to conform to accounting principles generally accepted in Japan have been made to their financial statements on consolidation as allowed under accounting principles and practices generally accepted in Japan and there are no material differences of accounting principles between such a country and Japan.

Although the fiscal year-end of certain consolidated subsidiaries differs from the consolidated fiscal year-end of the Company, the Company has consolidated their accounts as of their year-end due to the difference being not more than three months. Significant transactions for the period between subsidiaries' year-end and the Company's year-end are adjusted on consolidation.

### (b) Accounting standard for presentation of net assets in the balance sheet

The Accounting Standards Board of Japan ("ASBJ") issued "Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Statement No.5)" and Implementation Guidance "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Guidance No. 8)" on December 9, 2005, which are applied for the year ending on May 1, 2006. The standard requires presenting the equity section in the balance sheet as similar to International Financial Reporting Standards. The UNY Group has adopted these new accounting standards from the year ended February 20, 2007. If the previous accounting method had been applied for the consolidated balance sheet at February 20, 2007, equity would have amounted to ¥244,391 million (\$2,053,706 thousand).

### (c) Cash equivalents

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

### (d) Investments and marketable securities

The UNY Group classifies certain investments in debt and equity securities as "held-to-maturity," "trading" or "available-for-sale," whose classification determines the respective accounting method as stipulated by the accounting standard for financial instruments. Debt securities for which the UNY Group has both a positive intent and the ability to hold to maturity are classified as held-to-maturity securities, and are stated at amortized cost. Marketable securities with market quotations for available-for-sale securities are stated at fair value and net unrealized gains or losses on these securities are reported as a component of equity, net of applicable income taxes. Gains and losses on 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.

### (e) Accounting for derivatives

Certain transactions classified as hedging transactions are accounted for under a deferral method. Until the year ended February 20, 2006, unrealized gains or losses on hedging instruments were deferred as assets or liabilities on the balance sheet until the gains and losses on the hedged items were realized. Effective for the year ended February 20, 2007, such unrealized gains or losses, net of tax amounts, are deferred and reported as a component of equity in accordance with Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Statement No.5, see Note 2(b) above.) According to the special treatment as permitted by the accounting standard for financial instruments, the hedging interest rate swap or cap contracts are accounted for on an accrual basis, and recorded net of interest expenses generated from borrowings, hedged items, if certain conditions are met. Foreign currency exchange forward or option contracts are accounted for to translate foreign currency denominated assets and liabilities at such contracts rates as an interim measure, if certain hedging criteria are met.

The gains and losses for revalued compound instruments including embedded derivatives are included in "miscellaneous" of other income (expenses) in the accompanying consolidated statements of income for the years ended February 20, 2007, 2006 and 2005, where such embedded derivatives can not be separated from the host contract.

#### (f) Allowance for doubtful accounts

Allowance for doubtful accounts has been provided for at the aggregate amount of estimated credit loss based on the individual financial review approach for doubtful or troubled receivables and a general reserve for other receivables calculated based on the historical loss experience for a certain past period.

#### (g) Inventories

Inventories are principally stated at cost being determined by the retail method.

Until the year ended February 20, 2004, the Company stated fresh foods at cost being determined by the retail method. Effective from the year ended February 20, 2005, fresh foods are stated at cost, being determined by the last purchase price in order to record the result of the operation more fairly regarding fresh foods which have short turnover period and of which mark-up ratio fluctuates because of price changes in stores. The effect of this change was not material.

One of the consolidated subsidiaries previously adopted the cost method determined by the specific identification method for some jewelry merchandise and the cost method determined by the retail method for other merchandise. From the year ended February 20, 2006, the consolidated subsidiary changed the valuation method for merchandise inventories except for those for women and miscellaneous items to state at the lower of cost or market, cost being determined by the specific identification method. This change was made in order to recognize the operational results more fairly and timely based on the establishment of the computerized inventory management system. As a result, the UNY Group recorded the cumulative effect of this accounting change of ¥2,371 million for the year ended February 20, 2006.

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

Property and equipment, including significant renewals and additions, are stated at cost, and have been depreciated principally by the straight-line method for the overseas consolidated subsidiaries and by the declining-balance method for the Company and its domestic consolidated subsidiaries at rates based on the estimated useful lives of the assets, except as mentioned below.

The buildings of the Company and its domestic consolidated subsidiaries acquired on and after April 1, 1998 have been depreciated by the straight-line method. The Company and its domestic consolidated subsidiaries have capitalized the property with the cost of not less than ¥100,000 and have depreciated the property of less than ¥200,000 and more than ¥100,000 over three years on a straight-line basis.

The leased property of a certain consolidated subsidiary engaged in leasing operations as lessor was recorded at cost as property and equipment in the accompanying consolidated balance sheets, and was depreciated over the lease contract terms by the straight-line method to the amount equal to the estimated disposal value at the lease termination date.

#### (i) Leases

Where financing leases do not transfer ownership of the leased property to the lessee during the term of the lease, the leased property of the Company and its domestic consolidated subsidiaries as lessee is not capitalized and the relating rental and lease expenses are charged to income as incurred as accepted by the "Opinion Concerning Accounting Standard for Leases" issued by the Business Accounting Deliberation Council of Japan ("BADC") and the related practical guideline issued by the Japanese Institute of Certified Public Accountants ("JICPA").

#### (j) Accounting standard for impairment of fixed assets

On August 9, 2002, BADC issued "Accounting Standard for Impairment of Fixed Assets," which is effective for the fiscal years beginning April 1, 2005. ASBJ issued related practical guidance on October 31, 2003. The UNY Group has adopted this new accounting standard and related practical guidance from the year ended February 20, 2006. The standard requires that fixed assets be reviewed 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 impaired assets or a group of assets to the recoverable amount 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 level for which there are identifiable cash flows from other groups of assets.

For the purpose of recognition and measurement of an impairment loss, fixed assets of the UNY Group are principally grouped into cash-generating units, such as stores, other than idle or unused property. The UNY Group determines if assets are impaired by comparing their undiscounted expected

cash flows to the carrying amounts in the accounting records. An impairment loss is recognized if undiscounted expected cash flows are less than the carrying amount of the asset. Recoverable amounts of the assets were measured based on their net selling prices primarily for appraisal valuations or amounts of operating cash flows discounted by interest rates ranging from 2.9% to 6.3% for the year ended February 20, 2007.

For the years ended February 20, 2007 and 2006, the UNY Group recognized an impairment loss on fixed assets of ¥11,057 million (\$92,916 thousand) and ¥48,963 million, respectively, as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Superstores, convenience stores, specialty stores, and other property	¥10,971	¥46,943	\$92,193
Idle property	86	2,020	723
Total	¥11,057	¥48,963	\$92,916

As a result of adoption of this new accounting standard, for the year ended February 20, 2006, operating income increased by ¥2,766 million and income before income taxes and minority interests decreased by ¥46,197 million, as compared with the previous accounting method.

#### (k) Revaluation of land

In accordance with the Law Concerning Revaluation of Land, one of the consolidated subsidiaries elected the one-time revaluation to restate the cost of land used for the business at values rationally reassessed effective on February 20, 2002, reflecting appropriate adjustments for land shape and other factors, based on the appraisal values issued by the Japanese National Tax Agency or municipal property tax bases. According to the Law, the amount equivalent to the tax effect on the difference of the original book values and sound reassessed values is recorded as deferred tax liabilities for revaluation account, and the rest of such difference, net of the tax effect and minority interests portion, is recorded in a component of the equity section as land revaluation decrement account in the accompanying consolidated balance sheets. At February 20, 2007 and 2006, the differences of the carrying values of land used for the business after reassessment over the market value of such land at the respective fiscal year-ends amounted to ¥647 million (\$5,437 thousand) and ¥631 million, respectively.

#### (l) Employee retirement benefits

Employees who terminate their service with the UNY Group are entitled to retirement benefits generally determined by the reference of current basic rates of pay, length of service and conditions under which the termination occurs. Such retirement and severance benefits to employees are principally covered by a non-contributory pension plan (the "plan") and funded in outside insurance companies and trust banks.

The UNY Group has principally recognized the retirement benefits for employees including pension cost and related liability based on actuarial present value of projected benefit obligation using the actuarial appraisal approach and the pension plan assets available for benefits at the fiscal year-end. Unrecognized actuarial differences as changes in the projected benefit obligation or pension plan assets resulting from the experience different from that assumed and from changes in assumptions are amortized on a straight-line basis over five to ten years as a certain period within remaining service lives of employees from the next year in which they arise. Past service costs are amortized on a straight-line basis over six to ten years as a certain period within remaining service lives of employees.

In conjunction with enforcement of the Defined Benefit Enterprise Pension Plan Law, the Company and its major domestic consolidated subsidiaries received an approval from the Minister of Health, Labor and Welfare of Japan, for exemption from payment of future benefit of the substituted portion of the employee welfare pension fund on February 17, 2003 and received an approval for returning the assets relating to the substituted portion of the employee welfare pension fund on January 1, 2006, and then recognized an extinguishment of the retirement benefit obligation with respect to such substituted portion during the year ended February 20, 2006. As a result, the UNY Group recorded this effect of ¥53,720 million as other income on the consolidated statements of income for the year ended February 2006. The UNY Group also received an approval from the Minister of Health, Labor and Welfare of Japan on January 1, 2006 to transfer from the employee welfare pension fund plan to the corporate pension fund plan.

In addition, SUNKUS, a portion of a current consolidated subsidiary,



received an approval from the Minister of Health, Labor and Welfare of Japan, for exemption from payment of future benefit regarding the substituted portion of the employee welfare pension fund on July 29, 2005. As of February 20, 2007, pension plan assets equivalent to the amount to be returned to the Japanese government amounted to ¥1,532 million (\$12,874 thousand). As SUNKUS has not elected to apply for the transitional accounting treatment specified in paragraph 47-2 of the "Practical Guidelines of Accounting for Retirement Benefits (Interim Report)" (Accounting Committee Report No.13 issued by JICPA), SUNKUS has not recognized an extinguishment of retirement benefit obligation with respect to such substituted portion as of the date of the approval. If SUNKUS had applied for the transitional treatment as of the fiscal year ended February 20, 2007, an income of ¥897 million (\$7,538 thousand) for an extinguishment of the retirement benefit obligation would have been recognized on the accompanying consolidated statements of income.

#### **(m) Severance indemnities for officers**

Until May 2005, the UNY Group paid severance indemnities to directors and corporate auditors upon the approval of the shareholders, and the Company and its principal consolidated subsidiaries provided for this liability at the amount that would be payable assuming such directors and corporate auditors terminate their service at the balance sheet date. In May 2005, the Company and its principal consolidated subsidiaries terminated the severance benefit plan for directors and corporate auditors and the shareholders of the companies approved to pay the severance indemnities benefits granted prior to the termination date of the severance benefit plan. At February 20, 2007 and 2006, unpaid portion of such severance indemnities benefits was included in current liabilities and other long-term liabilities in the accompanying consolidated balance sheets.

#### **(n) Allowance for sales promotion**

Some of the consolidated subsidiaries grant certain points to customers as member cardholders on their purchase of merchandise at stores in proportion to their purchase amounts, allowing them to get a present in the future ("Point card system"). Some of the consolidated subsidiaries provide the allowance for sales promotion based on the available appropriate estimates at the fiscal year-end under the point card system as accrued. During the year ended February 20, 2007, as one subsidiary changed to provide the allowance rather than a record of expense at the time of usage of points earned, for the year ended February 20, 2007, operating income increased by ¥27 million (\$227 thousand) and income before income taxes and minority interests decreased by ¥128 million (\$1,076 thousand), as compared with the previous accounting method.

#### **(o) Accounting for allowance for losses for interest repayments**

The allowance for losses for interest repayments is provided by one of the consolidated subsidiaries engaged in financial services to customers based on the anticipated losses taking into consideration the historical repayment for a certain period for the claims from the customers for the refund of interest received from the customers exceeding the upper limit of the interest rate prescribed under the Interest Rate Restriction Law. The accrued amounts were included in other long-term liabilities of ¥1,669 million (\$14,025 thousand) at February 20, 2007 and in allowance for doubtful accounts of ¥210 million at February 20, 2006. Such a consolidated subsidiary has adopted "Application of Auditing for Provision of Allowance for Loss for Reclaimed Refund of Interest in the Accounting of Consumer Finance Companies" (Industry Audit Practice Committee Report No. 37), which was issued by JICPA on October 13, 2006 to clarify the guideline concerning methods for calculating the allowance for losses on interest repayments and the reasonable period of estimation. As a result of the adoption of this report for the change of estimation for the provision, the consolidated subsidiary recorded a loss of ¥832 million (\$6,992 thousand) as other expenses in the accompanying consolidated statements of income for the year ended February 20, 2007 to account for the difference between the amount recalculated in accordance with the above report and the balance at the previous fiscal year-end. In addition, operating income and income before income taxes and minority interests for the year ended February 20, 2007 decreased by ¥360 million (\$3,025 thousand) and ¥1,192 million (\$10,017 thousand), respectively, as compared with the previous accounting method.

#### **(p) Translation of foreign currency accounts**

Receivables, payables and securities, other than stocks of subsidiaries and certain other securities, are translated into Japanese Yen at the exchange rates at the fiscal year-end. Transactions in foreign currencies are recorded based on the prevailing exchange rates on the transaction dates. Resulting

translation gains or losses are included in the current earnings.

In respect of the financial statement items of overseas consolidated subsidiaries, all asset and liability accounts are translated into Japanese Yen by applying the exchange rates in effect at the fiscal year-end. All income and expense accounts are translated at the average rates of exchange prevailing during the fiscal year. Translation differences, after allocating to minority interests portions attributable to minority interests, are reported as foreign currency translation adjustment in a separate component of equity in the accompanying consolidated balance sheets.

#### **(q) Accounting change for revenue recognition**

From the year ended February 20, 2007, one of the consolidated subsidiaries changed to the method of revenue recognition at the time of delivery of the merchandise to the customers in order to unify the accounting method to the UNY Group accounting policies. Such a consolidated subsidiary previously recognized the revenue when cash payment was received subsequent to contracts entered into with the customers. As a result, for the year ended February 20, 2007, as the cumulative effect of this accounting change of ¥1,257 million (\$10,563 thousand) was recorded, operating income increased by ¥633 million (\$5,319 thousand) and income before income taxes and minority interests decreased by ¥624 million (\$5,244 thousand), as compared with the previous accounting method.

#### **(r) Income taxes**

Income taxes are accounted for under 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 and operating loss carryforwards. 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.

#### **(s) 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).

#### **(t) Accounting standard for directors' bonus**

From the year ended February 20, 2007, the UNY Group has adopted "Accounting Standard for Directors' Bonus (ASBJ Statement No.4)" issued by ASBJ on November 29, 2005. The standard requires that the directors' bonuses, including those for corporate auditors, shall be accounted for as an expense of the accounting period in which such bonuses are accrued. Until the year ended February 20, 2006, bonuses to directors and corporate auditors were recorded as a part of the appropriation of retained earnings in the fiscal year when a proposed appropriation of retained earnings for directors and corporate auditors' bonuses was approved by the Board of Directors and/or shareholders. As a result, as UNY Group has accrued such bonus, operating income and income before income taxes and minority interests decreased by ¥183 million (\$1,538 thousand) for the year ended February 20, 2007, respectively, as compared with the previous accounting method.

#### **(u) Appropriation of retained earnings**

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

See Note 2(t) for the accounting for bonuses to directors and corporate auditors.

#### **(v) 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, as the UNY Group had no diluted common shares for the three years ended February 20, 2007. Cash dividends per share shown for each fiscal year in the accompanying consolidated statements of income represent dividends declared as applicable to the respective years.

### 3. ACQUISITION

During the year ended February 20, 2005, a certain consolidated subsidiary acquired the assets and assumed the liabilities of a third-party company as a business transfer as follows:

	Millions of Yen
Current assets	¥ 236
Noncurrent assets	218
Goodwill	200
Total assets	¥ 654
Current liabilities	¥ 13
Total liabilities	¥ 13

In addition, another consolidated subsidiary merged with an affiliate of the Company during the year ended February 20, 2005. The acquired assets and assumed liabilities through the merger were as follows:

	Millions of Yen
Current assets	¥ 2,053
Noncurrent assets	784
Total assets	¥ 2,837
Current liabilities	¥ 2,470
Noncurrent liabilities	277
Total liabilities	¥ 2,747

In December 2005, one of the consolidated subsidiaries acquired a 100.0% interest in the issued and outstanding shares of common stock of SUZUNOKI CO., LTD. ("SUZUNOKI") for an aggregate amount of ¥40 million. SUZUNOKI is a retailer for kimono or jewelry and furs. The Company consolidated only the balance sheet as of February 20, 2006. A summary of the assets and liabilities of SUZUNOKI is as follows:

	Millions of Yen
Current assets	¥ 2,202
Noncurrent assets	2,069
Goodwill	277
Current liabilities	(2,226)
Noncurrent liabilities	(2,282)
Acquisition cost	40
Loan relating to acquisition	300
Cash and cash equivalents held by SUZUNOKI	(731)
Increase in cash presented on the accompanying consolidated statements of cash flows	¥ (391)

In March 2006, Circle K Sunkus Co., Ltd. acquired a 100.0% interest in the issued and outstanding shares of common stock of SUNKUS NISHISHIKOKU CO., LTD. ("NISHISHIKOKU") for an aggregate amount of ¥603 million (\$5,067 thousand). NISHISHIKOKU is a certain area franchisor for SUNKUS stores in the Nishi-Shikoku region of Japan. A summary of the assets and liabilities of NISHISHIKOKU is as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥ 906	\$ 7,613
Noncurrent assets	1,650	13,866
Goodwill	97	815
Current liabilities	(1,590)	(13,361)
Noncurrent liabilities	(450)	(3,782)
Common stock owned by Circle K Sunkus Co., Ltd.	(10)	(84)
Acquisition cost	603	5,067
Cash and cash equivalents held by NISHISHIKOKU	(719)	(6,042)
Increase in cash presented on the accompanying consolidated statements of cash flows	¥ (116)	\$ (975)

### 4. INVESTMENTS

At February 20, 2007 and 2006, short-term investments consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Marketable securities—bonds	¥ 100	¥ 799	\$ 840
Time deposits with an original maturity of more than three months	1,372	403	11,530
	¥1,472	¥1,202	\$12,370

At February 20, 2007 and 2006, investment securities consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Marketable securities:			
Equity securities	¥22,106	¥23,088	\$ 185,765
Bonds	2,894	3,135	24,320
Others	95	82	798
	25,095	26,305	210,883
Other nonmarketable securities	1,078	1,169	9,058
	¥26,173	¥27,474	\$219,941

Held-to-maturity debt securities, which are not marketable, are included in investment securities. Marketable securities are classified as available-for-sale and are stated at fair value with unrealized gains and losses which are excluded from the current earnings and reported as a net amount within the equity account until realized. At February 20, 2007 and 2006, gross unrealized gains and losses for marketable securities were summarized as follows:

	Cost	Gross unrealized		Fair and carrying value
		gains	losses	
Millions of Yen				
At February 20, 2007:				
Marketable securities:				
Equity securities	¥ 5,867	¥16,286	¥ (47)	¥22,106
Bonds	3,110	0	(116)	2,994
Others	52	43	—	95
	¥ 9,029	¥16,329	¥(163)	¥25,195
At February 20, 2006:				
Marketable securities:				
Equity securities	¥ 5,948	¥17,167	¥ (27)	¥23,088
Bonds	4,109	2	(177)	3,934
Others	49	33	—	82
	¥10,106	¥17,202	¥(204)	¥27,104

Thousands of U.S. Dollars				
At February 20, 2007:				
Marketable securities:				
Equity securities	\$49,303	\$136,857	\$ (395)	\$ 185,765
Bonds	26,134	0	(974)	25,160
Others	437	361	—	798
	\$75,874	\$137,218	\$(1,369)	\$211,723

During the years ended February 20, 2007, 2006 and 2005, the UNY Group sold available-for-sale securities and recorded realized gains of ¥379 million (\$3,185 thousand), ¥96 million and ¥414 million, respectively, and realized losses of ¥1 million (\$8 thousand), ¥26 million and ¥2 million, respectively, on the accompanying consolidated statements of income. During the years ended February 20, 2007, 2006 and 2005, the UNY Group recorded a loss on the write-down of available-for-sale securities and investments in unconsolidated subsidiaries and affiliates due to other-than-temporary impairments in value amounting to ¥277 million (\$2,328 thousand), ¥199 million and ¥408 million, respectively.

At February 20, 2007, expected maturities of held-to-maturity and available-for-sale debt securities were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due in one year or less	¥ 100	\$ 840
Due after one year through five years	915	7,689
Due after five years through ten years	2,105	17,689
Due after ten years	100	840
	¥3,220	\$27,058

At February 20, 2007 and 2006, investments in and long-term loans to unconsolidated subsidiaries and affiliates consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Investments, accounted for by the equity method for one significant affiliate and at cost for others	¥8,115	¥8,980	\$68,193
Interest bearing long-term loans	257	382	2,160
	¥8,372	¥9,362	\$70,353

## 5. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at February 20, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Short-term unsecured bank loans with interest rates ranging from 0.16% to 1.925% per annum at February 20, 2007	¥24,716	¥20,112	\$207,697
Commercial paper at interest rates ranging from 0.478% to 0.364% per annum at February 20, 2007	59,500	67,000	500,000
	¥84,216	¥87,112	\$707,697

At February 20, 2007 and 2006, long-term debt consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Loans principally from banks and insurance companies due through 2017 at interest rates ranging from 0.545% to 3.0% per annum at February 20, 2007:			
Collateralized	¥ 3,621	¥ 4,201	\$ 30,428
Unsecured	202,678	180,085	1,703,176
2.26% notes due in March 2006	—	10,000	—
1.75% notes due in April 2007	5,000	5,000	42,017
2.13% notes due in April 2010	5,000	5,000	42,017
0.56% notes due in May 2010	5,000	5,000	42,017
1.26% notes due in September 2010	5,000	5,000	42,017
	226,299	214,286	1,901,672
Less, current maturities	(52,475)	(30,155)	(440,966)
	¥173,824	¥184,131	\$1,460,706

The aggregate annual maturities of long-term debt at February 20, 2007 are summarized as follows:

Years ending February 20,	Millions of Yen	Thousand of U.S. Dollars
2008	¥52,475	\$440,966
2009	30,740	258,319
2010	18,262	153,462
2011	34,302	288,252
2012	48,626	408,622
Thereafter	41,894	352,051

Certain assets of the UNY Group that were pledged as collateral for long-term debt at February 20, 2007, are summarized as follows:

	Millions of Yen	Thousands of U.S. Dollars
Short-term investments as time deposits	¥ 3	\$ 25
Land	4,483	37,672
Buildings and structures	7,341	61,689
Lease deposits	288	2,420

As is customary in Japan, substantially all bank borrowings are subject to general agreements which provide, among other things, that the banks may, under certain circumstances, request additional security for these loans and may treat any security so furnished to the banks, as well as cash deposited with them, as security for all present and future indebtedness. The banks have never requested the UNY Group to submit such additional security. Also, as is customary in Japan, the Company and certain of its subsidiaries have time deposits with the banks from which they have short-term and long-term borrowings. However, there are no agreements with any banks, which would require maintaining such deposits.

## 6. EMPLOYEE RETIREMENT BENEFITS

The UNY Group principally has a non-contributory defined benefit pension plan and a lump-sum retirement benefit plan, which substantially cover all full-time employees.

The following table reconciles the benefit liability and net periodic retirement benefit expense as at or for the years ended February 20, 2007, 2006 and 2005:

February 20	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Projected benefit obligation	¥ 95,274	¥ 99,680	\$ 800,622
Fair value of pension plan assets at end of year	(88,529)	(81,935)	(743,941)
Projected benefit obligation in excess of pension plan assets	6,745	17,745	56,681
Less, unrecognized transitional provision	(149)	(166)	(1,252)
Less, unrecognized actuarial differences (loss)	(4,742)	(14,072)	(39,849)
Unrecognized past service costs	9,214	10,505	77,428
	11,068	14,012	93,008
Prepaid pension cost	178	—	1,496
Net amounts of employee retirement benefit liability recognized on the consolidated balance sheets	¥ 11,246	¥ 14,012	\$ 94,504

Years ended February 20	Millions of Yen			Thousands of U.S. Dollars
	2007	2006	2005	2007
Component of net periodic retirement benefit expense:				
Service cost	¥ 2,939	¥ 3,563	¥ 3,880	\$ 24,697
Interest cost	1,963	3,752	4,050	16,496
Expected return on pension plan assets	(3,262)	(4,035)	(3,921)	(27,412)
Transitional provision	17	16	16	143
Amortization of actuarial differences	2,627	5,945	6,329	22,076
Amortization of past service costs	(1,290)	(1,655)	(1,655)	(10,840)
Net periodic retirement benefit expense	¥ 2,994	¥ 7,586	¥ 8,699	\$ 25,160

Major assumptions used in the calculation of the above information for the years ended February 20, 2007, 2006 and 2005 were as follows:

	2007	2006	2005
Method attributing the projected benefits to periods of services	Straight-line method	Straight-line method	Straight-line method
Discount rate	0.5%~2.0%	1.5%~2.0%	1.5%~2.0%
Expected rate of return on pension plan assets	2.0%~4.0%	3.0%~4.0%	3.0%~4.0%
Amortization period of past service costs	6 to 10 years	6 to 10 years	6 to 10 years
Amortization period of actuarial differences	5 to 10 years	5 to 10 years	5 to 10 years
Amortization period of transitional provision	15 years for one subsidiary acquired three years ago	15 years for one subsidiary acquired two years ago	15 years for one subsidiary acquired in the previous year

## 7. EQUITY

The authorized number of shares of common stock without par value is 600 million. At February 20, 2007 and 2006, respectively, the number of shares of common stock issued was 189,295,483 shares. At February 20, 2007 and 2006, respectively, the number of treasury stock held by the UNY Group was 530,273 and 456,353 shares.

At February 20, 2007 and 2006, respectively, capital surplus principally consisted of additional paid-in capital. In addition, retained earnings included legal reserve of the Company in the amount of ¥2,532 million (\$21,277 thousand) at February 20, 2007 and 2006, respectively. The Corporate Law of Japan (formerly the Commercial Code of Japan) provides that an amount equivalent to 10% of cash dividends as an appropriation of retained earnings shall be appropriated as legal reserve until a total amount of additional paid-in capital and such legal reserve equals 25% of common stock. The reduction of legal reserve is restricted under the certain circumstances by proper actions of shareholders of the Company.

On May 17, 2007, cash dividends of ¥1,699 million (\$14,277 thousand) for appropriation of retained earnings was approved at an annual general meeting of shareholders of the Company.

## 8. LEASE COMMITMENTS

### (a) Lessee

The UNY Group leases stores and office buildings that are generally under long-term noncancelable lease agreements. These leases are normally for terms of 20 years, with annual rental charges negotiated every two or three years. Under such lease agreements, lease deposits are required which generally bear no interest for the first 10 years after the original agreement date. A major portion of the deposits is refundable over the succeeding 10 years in equal installments with nominal interest. The remaining portion is refundable upon termination of the lease and is non-interest bearing.

The Company and certain domestic consolidated subsidiaries also lease computer equipment, store fixtures, private power generation equipment and vehicles under one to twenty years' noncancelable lease agreements. As disclosed in Note 2(i), the leased property of the Company and its domestic consolidated subsidiaries under such noncancelable lease agreements which were categorized as financing leases is not capitalized and the related rental and lease expenses are charged to income as incurred as accepted by the "Opinion Concerning Accounting Standard for Leases" issued by BADC and the related practical guideline issued by JICPA. If the leased property of the UNY Group had been capitalized, the related accounts would have been increased/(decreased) at February 20, 2007 and 2006, as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Property and equipment, net of accumulated depreciation*1	¥23,155	¥22,505	\$ 194,580
Lease obligations as liabilities*2	25,376	24,721	213,244
Allowance for impairment loss on leased property	(1,403)	(862)	(11,790)
Net effect on retained earnings at year-end	¥ (818)	¥ (1,354)	\$ (6,874)

Additionally, income before income taxes and minority interests would have been increased by ¥96 million (\$807 thousand) and ¥23 million for the years ended February 20, 2007 and 2006, respectively.

\*1. Pro forma depreciation of the leased property is computed by the straight-line method over the lease contract terms, assuming the leased property had been capitalized.

\*2. Pro forma interest on lease obligations for financing leases is computed by the interest method over the lease contract terms.

The aggregate future minimum payments for noncancelable operating leases and financing leases, excluding imputed interest portion, at February 20, 2007 and 2006, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Financing leases as lessee:			
Due within one year	¥ 7,961	¥ 8,593	\$ 66,899
Due after one year	17,415	16,128	146,345
	¥ 25,376	¥ 24,721	\$ 213,244
Operating leases as lessee:			
Due within one year	¥ 15,944	¥ 16,344	\$ 133,983
Due after one year	132,099	142,145	1,110,076
	¥148,043	¥158,489	\$1,244,059

The gross rental and lease expenses, consisting of minimum rental payments for all operating leases and financing leases, for the years ended February 20, 2007, 2006 and 2005, were ¥103,656 million (\$871,059 thousand), ¥99,609 million and ¥98,132 million, respectively. For the years ended February 20, 2007, 2006 and 2005, the lease expenses for non-cancelable lease agreements, which were categorized as financing leases, amounted to ¥10,373 million (\$87,168 thousand), ¥9,786 million and ¥11,410 million, respectively.

### (b) Lessor

The UNY Group leases portions of its floor spaces to tenants under sublease agreements, which are generally cancelable upon six months' advance notice. Rental payments are based upon minimum payments plus a percentage of the tenants' sales. Other operating revenue in the accompanying consolidated statements of income included such sublease rentals received from tenants.

A certain consolidated subsidiary engaged in leasing operations enters into various lease agreements principally for vehicles with third parties as lessor, whose leased property is recorded as property and equipment. The effect of the finance lease adjustment is not material. The aggregate future minimum lease commitments to be received for non-cancelable lease agreements, excluding the imputed interest at February 20, 2007 and 2006, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Financing leases as lessor:			
Due within one year	¥124	¥117	\$ 1,042
Due after one year	225	262	1,891
	¥349	¥379	\$2,933
Operating leases as lessor:			
Due within one year	¥ 96	¥101	\$ 807
Due after one year	118	167	991
	¥214	¥268	\$1,798

## 9. COMMITMENTS AND CONTINGENT LIABILITIES

### (a) Loan commitment

A certain consolidated subsidiary engaged in financial services to customers has card cashing agreements that permit the customers to extend their loans up to the designated amounts. The outstanding balance of unexercised commitments relating to the above agreements as of February 20, 2007 and 2006 amounted to ¥1,088,229 million (\$9,144,782 thousand) and ¥681,825 million, respectively. As most of these agreements are entered into with credit card members without exceptions, the unused amount does not necessarily represent actual future cash flow requirements.

### (b) Contingent liabilities

At February 20, 2007 and 2006, the UNY Group was contingently liable for guarantees of the indebtedness of unconsolidated subsidiaries, affiliates and others in the amounts of ¥3,981 million (\$33,454 thousand) and ¥4,465 million, respectively.

At February 20, 2006, contingent liabilities in respect of trade notes discounted with banks with recourse in the ordinary course of business amounted to ¥482 million.



## 10. DERIVATIVE FINANCIAL INSTRUMENTS

The UNY Group is a party to derivative financial instruments such as foreign currency exchange contracts or interest rate contracts in the normal course of business to reduce its own exposure to fluctuations in exchange rates or interest rates for hedge purposes. The UNY Group is exposed to credit loss in the event of nonperformance by the other parties. However, the UNY Group does not expect nonperformance by the counterparties, as the counterparties of the derivative transactions are limited to major banks with a relatively high credit rating. At February 20, 2007 and 2006, all outstanding derivative financial instruments are accounted for by the hedge accounting.

## 11. INCOME TAXES

Income taxes for the years ended February 20, 2007, 2006 and 2005 consisted of the following:

	Millions of Yen			Thousands of U.S. Dollars
	2007	2006	2005	2007
Income taxes:				
Current	<b>¥15,914</b>	¥13,604	¥13,989	<b>\$133,731</b>
Deferred	<b>457</b>	10,293	2,136	<b>3,841</b>
	<b>¥16,371</b>	¥23,897	¥16,125	<b>\$137,572</b>

The tax effects on temporary differences that give rise to a significant portion of deferred tax assets and liabilities at February 20, 2007 and 2006, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Deferred tax assets—Current:			
Accrued bonus	¥ 1,942	¥ 1,669	\$ 16,319
Operating loss carryforwards	607	1,451	5,101
Enterprise tax accruals	826	761	6,941
Employee welfare contribution	651	676	5,471
Other	3,561	2,559	29,925
Less, valuation allowance	(1,348)	(1,909)	(11,328)
	<b>6,239</b>	5,207	<b>52,429</b>
Net of deferred tax liabilities—Current	<b>(32)</b>	(1)	<b>(269)</b>
Deferred tax assets—Current portion	¥ 6,207	¥ 5,206	\$ 52,160
Deferred tax liabilities—Current:			
Deferred hedge and other	32	1	269
Net of deferred tax assets—Current	<b>(32)</b>	(1)	<b>(269)</b>
Deferred tax liabilities—Current portion	¥ —	¥ —	\$ —
Deferred tax assets—Noncurrent:			
Impairment loss on fixed assets	¥ 15,491	¥ 15,146	\$ 130,176
Operating loss carryforwards	4,948	4,144	41,580
Employee retirement benefit liability	4,395	5,455	36,933
Loss on write-down of securities	1,380	3,116	11,597
Inter-company profits	1,218	1,206	10,235
Other	3,528	3,344	29,647
Less, valuation allowance	(12,282)	(10,166)	(103,210)
	<b>18,678</b>	22,245	<b>156,958</b>
Net of deferred tax liabilities—Noncurrent	<b>(7,039)</b>	(9,636)	<b>(59,151)</b>
Deferred tax assets—Noncurrent portion	¥ 11,639	¥ 12,609	\$ 97,807
Deferred tax liabilities—Noncurrent:			
Unrealized gains on available-for-sale securities	¥ 4,661	¥ 6,826	\$ 39,168
Gain on sale of property	2,350	2,654	19,748
Other	128	157	1,075
	<b>7,139</b>	9,637	<b>59,991</b>
Net of deferred tax assets—Noncurrent	<b>(7,039)</b>	(9,636)	<b>(59,151)</b>
Deferred tax liabilities—Noncurrent portion included in other long-term liabilities	¥ 100	¥ 1	\$ 840

In assessing the realizability of deferred tax assets, management of the UNY 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 the future taxable income during the periods in which those temporary differences become deductible. At February 20, 2007 and 2006, a valuation allowance was established to reduce the deferred tax assets to the extent that the management of the UNY Group believes that the amount of the deferred tax assets is expected to be realizable.

The reconciliation of the difference between the Japanese statutory effective tax rate and the effective income tax rate on pre-tax income reflected in the accompanying consolidated statements of income for the years ended February 20, 2007, 2006 and 2005, was as follows:

	Percentage of pre-tax income		
	2007	2006	2005
Japanese statutory effective tax rate	<b>40.2%</b>	40.2%	41.6%
Increase (decrease) due to:			
Local minimum taxes—per capita levy	<b>3.9</b>	2.4	3.0
Adjustments due to a change in tax rate	—	—	2.6
Amortization of goodwill	<b>3.3</b>	0.8	1.1
Change in valuation allowance	<b>14.4</b>	10.5	(0.7)
Adjustments for sale of land under revaluation	<b>(2.1)</b>	—	—
Other	<b>(3.8)</b>	(2.5)	(1.3)
Effective income tax rate	<b>55.9%</b>	51.4%	46.3%



## 12. SEGMENT INFORMATION

The UNY group operates in five segments, "Superstores," "Convenience stores," "Specialty stores," "Financial services," and "Other business." A summary of information classified by lines of business of the UNY Group for the years ended February 20, 2007, 2006 and 2005 is as follows:

	Millions of Yen							
	Superstores	Convenience stores	Specialty stores	Financial services	Other	Total	Elimination of inter-segment transactions	Consolidated total
<b>For the year 2007:</b>								
Operating revenue:								
External customers	¥884,733	¥190,557	¥133,600	¥18,854	¥ 1,202	¥1,228,946	¥ —	¥1,228,946
Inter-segment sales/transfers	3,437	3	—	2,980	15,373	21,793	(21,793)	—
	888,170	190,560	133,600	21,834	16,575	1,250,739	(21,793)	1,228,946
Operating costs and expenses	869,957	169,134	131,572	17,158	15,736	1,203,557	(21,753)	1,181,804
Operating income	¥ 18,213	¥ 21,426	¥ 2,028	¥ 4,676	¥ 839	¥ 47,182	¥ (40)	¥ 47,142
Identifiable assets	¥573,441	¥226,882	¥ 75,651	¥96,910	¥20,695	¥ 993,579	¥(27,353)	¥ 966,226
Depreciation	17,390	6,687	1,932	393	279	26,681	—	26,681
Impairment loss on fixed assets	6,764	3,170	982	7	134	11,057	—	11,057
Capital expenditures	36,574	12,822	2,613	1,290	5,427	58,726	—	58,726
<b>For the year 2006:</b>								
Operating revenue:								
External customers	¥876,225	¥184,188	¥128,068	¥ —	¥14,160	¥1,202,641	¥ —	¥1,202,641
Inter-segment sales/transfers	3,439	3	0	—	17,498	20,940	(20,940)	—
	879,664	184,191	128,068	—	31,658	1,223,581	(20,940)	1,202,641
Operating costs and expenses	867,464	159,961	125,526	—	27,069	1,180,020	(20,960)	1,159,060
Operating income	¥ 12,200	¥ 24,230	¥ 2,542	¥ —	¥ 4,589	¥ 43,561	¥ 20	¥ 43,581
Identifiable assets	¥574,392	¥228,906	¥ 79,725	¥ —	¥97,295	¥ 980,318	¥(29,167)	¥ 951,151
Depreciation	19,005	7,426	2,152	—	674	29,257	—	29,257
Impairment loss on fixed assets	33,282	4,985	2,937	—	7,759	48,963	—	48,963
Capital expenditures	35,730	9,756	2,996	—	2,423	50,905	—	50,905
<b>For the year 2005:</b>								
Operating revenue:								
External customers	¥874,757	¥176,842	¥127,600	¥ —	¥12,100	¥1,191,299	¥ —	¥1,191,299
Inter-segment sales/transfers	3,368	1	—	—	16,369	19,738	(19,738)	—
	878,125	176,843	127,600	—	28,469	1,211,037	(19,738)	1,191,299
Operating costs and expenses	865,400	153,640	125,578	—	24,653	1,169,271	(19,767)	1,149,504
Operating income	¥ 12,725	¥ 23,203	¥ 2,022	¥ —	¥ 3,816	¥ 41,766	¥ 29	¥ 41,795
Identifiable assets	¥616,405	¥219,911	¥ 87,825	¥ —	¥92,937	¥1,017,078	¥(34,769)	¥ 982,309
Depreciation	19,341	8,332	2,203	—	837	30,713	—	30,713
Capital expenditures	45,157	19,541	2,665	—	2,523	69,886	—	69,886

	Thousands of U.S. Dollars							
	Superstores	Convenience stores	Specialty stores	Financial services	Other	Total	Elimination of inter-segment transactions	Consolidated total
<b>For the year 2007:</b>								
Operating revenue:								
External customers	\$ 7,434,731	\$ 1,601,319	\$ 1,122,689	\$ 158,437	\$ 10,101	\$ 10,327,277	\$ —	\$ 10,327,277
Inter-segment sales/transfers	28,882	25	—	25,042	129,185	183,134	(183,134)	—
	7,463,613	1,601,344	1,122,689	183,479	139,286	10,510,411	(183,134)	10,327,277
Operating costs and expenses	7,310,563	1,421,294	1,105,647	144,185	132,235	10,113,924	(182,798)	9,931,126
Operating income	\$ 153,050	\$ 180,050	\$ 17,042	\$ 39,294	\$ 7,051	\$ 396,487	\$ (336)	\$ 396,151
Identifiable assets	\$ 4,818,832	\$ 1,906,571	\$ 635,723	\$ 814,370	\$ 173,907	\$ 8,349,403	\$ (229,857)	\$ 8,119,546
Depreciation	146,134	56,193	16,235	3,303	2,345	224,210	—	224,210
Impairment loss on fixed assets	56,840	26,639	8,252	59	1,126	92,916	—	92,916
Capital expenditures	307,345	107,748	21,958	10,840	45,605	493,496	—	493,496

**(Accounting change in the composition of reportable business segment)**

Effective for the year ended February 20, 2007, the Company changed the composition of its reportable business segment from four segments to five segments such as "Superstores," "Convenience stores," "Specialty stores," "Financial services," and "Other business" in order to disclose segment information more properly. This change for the separation of "Financial services" segment resulted from the increase of the importance of the financial services including the credit cards, insurance agency and leasing businesses. If the current reportable business segment composition had been applied for the year ended February 20, 2006, operating results for the year 2006 would be stated as follows:

	Millions of Yen							
	Superstores	Convenience stores	Specialty stores	Financial services	Other	Total	Elimination of inter-segment transactions	Consolidated total
For the year 2006:								
Operating revenue:								
External customers	¥876,225	¥184,188	¥128,068	¥12,798	¥ 1,362	¥1,202,641	¥ —	¥1,202,641
Inter-segment sales/transfers	3,439	3	—	2,367	15,144	20,953	(20,953)	—
	879,664	184,191	128,068	15,165	16,506	1,223,594	(20,953)	1,202,641
Operating costs and expenses	867,464	159,961	125,526	11,300	15,776	1,180,027	(20,967)	1,159,060
Operating income	¥ 12,200	¥ 24,230	¥ 2,542	¥ 3,865	¥ 730	¥ 43,567	¥ 14	¥ 43,581
Identifiable assets	¥574,392	¥228,906	¥ 79,725	¥78,751	¥18,544	¥ 980,318	¥(29,167)	¥ 951,151
Depreciation	19,005	7,426	2,152	371	303	29,257	—	29,257
Impairment loss on fixed assets	33,282	4,985	2,937	—	7,759	48,963	—	48,963
Capital expenditures	35,730	9,756	2,996	1,915	508	50,905	—	50,905

Information of geographic segment and overseas sales is not shown as the amounts for total sales of consolidated subsidiaries outside Japan and overseas sales are not material to be disclosed.

MISUZU Audit Corporation

A network firm of 

Dai Nagoya Building  
3-28-12, Meieki, Nakamura-ku  
Nagoya, 450-8565 Japan  
Telephone 81-52-551-3001  
Facsimile 81-52-551-3005

**Report of Independent Auditors**

To the Board of Directors and Shareholders of  
UNY CO., LTD.

We have audited the accompanying consolidated balance sheets of UNY CO., LTD. and its consolidated subsidiaries (the "UNY Group") as of February 20, 2007 and 2006, and the related consolidated statements of income, changes in equity, and cash flows for each of the three years in the period ended February 20, 2007, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the UNY Group's management. Our responsibility is to 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 the UNY Group as of February 20, 2007 and 2006, and the consolidated results of its operations and its cash flows for each of the three years in the period ended February 20, 2007 in conformity with accounting principles generally accepted in Japan.

As described in Notes 2(j) and 2(g), effective from the year ended February 20, 2006, the UNY Group adopted a new accounting standard for impairment of fixed assets, and one of the consolidated subsidiaries changed the valuation method for merchandise inventories. In addition, as described in Note 2(q), effective for the year ended February 20, 2007, one of the consolidated subsidiaries changed the method of revenue recognition.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.



Misuzu Audit Corporation  
Nagoya, Japan  
May 17, 2007

## CORPORATE DATA

### BOARD OF DIRECTORS

(As of May 17, 2007)

#### Chairman

Koji Sasaki

#### President

Tetsuro Maemura

#### Senior Managing Director

Yoshiaki Tsuzuki

#### Managing Directors

Hiroshi Isomi

Kazuhiko Arisue

#### Directors

Kimiaki Yamaguchi

Hitoshi Shibuya

Tadashi Oda

Masayoshi Ohno

Mitsuo Maeda

Fumito Tezuka

Toshikazu Nishikawa

#### Corporate Auditors

Takashi Morioka

Tatsumi Yoshida

Kazuyoshi Kouketsu

Ikuo Tange

### INVESTOR INFORMATION

(As of February 20, 2007)

#### Stock Listings

Tokyo Stock Exchange

Nagoya Stock Exchange

#### Securities Code Number

8270

#### Common Stock

Authorized: 600,000,000 shares

Issued: 189,295,483 shares

#### Number of Shareholders

6,463

#### Stock Transfer Agent

The Sumitomo Trust and Banking Company, Limited

### CONSOLIDATED SUBSIDIARIES\*

(As of February 20, 2007)

Sagami Co., Ltd. (kimono retailing)

U Store Co., Ltd. (superstores)

Circle K Sunkus Co., Ltd. (convenience stores)

Molie Co., Ltd. (high-quality womens wear)

Palemo Co., Ltd. (young women's apparel and accessories)

Suzutan Co., Ltd. (young women's apparel and accessories)

Rough Ox Co., Ltd. (casual wear for men)

Uny (HK) Co., Ltd. (superstore)

U Life Co., Ltd. (real-estate rental business)

Tomei Crown Kaihatsu Co., Ltd. (real-estate rental business)

UCS Co., Ltd. (credit card service and insurance service)

Sun Sogo Maintenance Co., Ltd. (facility management)

\* In addition to the above list, the Uny Group includes five Sagami subsidiaries, five Circle K Sunkus subsidiaries and two Suzutan subsidiaries.

#### For further information, contact:

Uny Co., Ltd., Accounting & Finance  
1, Amaikegotanda-cho  
Inazawa, Aichi 492-8680, Japan  
Phone: 0587-24-8037  
Fax: 0587-24-8042



1, Amaikegotanda-cho  
Inazawa, Aichi 492-8680, Japan  
Phone: 0587-24-8111