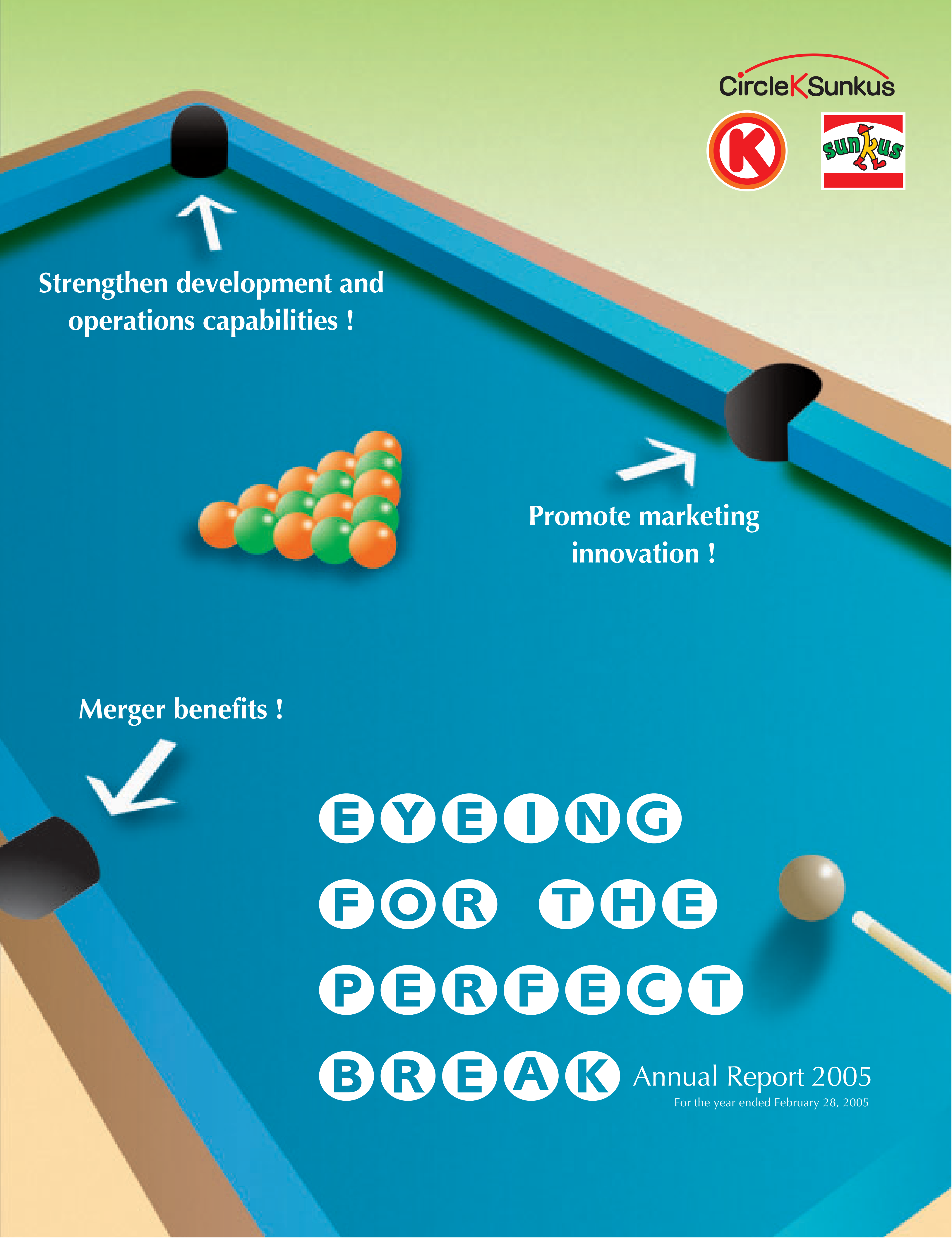


EYEING FOR THE PERFECT BREAK

Annual Report 2005

For the year ended February 28, 2005

EYEING FOR THE

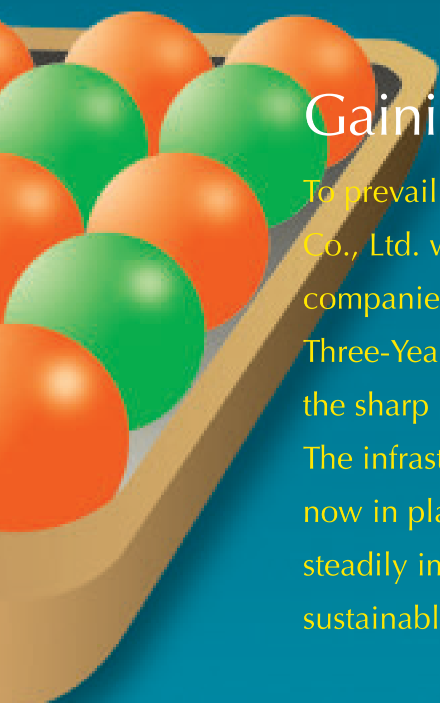
Consolidated Financial Highlights

Circle K Sunkus Co., Ltd.
Figures for the year ended February 28, 2005 are for Circle K Sunkus Co., Ltd., while figures for the year ended February 29, 2004 and the year ended February 28, 2003 are for C&S Co., Ltd.

	Millions of Yen			Thousands of U.S. Dollars
	Circle K Sunkus 2005	C&S 2004	C&S 2003	**Circle K Sunkus 2005**
For the year:				
Total store sales (Note 5)	**¥933,521**	¥902,248	¥891,889	**$8,890,676**
Total operating revenues	**176,843**	169,501	158,314	**1,684,219**
Operating income	**24,385**	22,435	24,169	**232,238**
Net income	**12,654**	7,652	11,491	**120,514**
At year-end:				
Total assets	**201,056**	204,873	194,488	**1,914,819**
Total shareholders' equity	**110,044**	110,946	106,083	**1,048,038**
Number of stores (Note 6):				
Circle K	**2,855**	2,651	2,710	
Sunkus	**2,273**	2,200	2,257	
Subtotal	**5,128**			
Sunkus Aomori	**67**			
Sunkus Nishi-Saitama	**76**			
Total	**5,271**	4,851	4,967	
Number of employees	**1,943**	1,962	1,900	
	Yen			U.S. Dollars
Per share data:				
Net income	**¥146.19**	¥87.78	¥132.28	**$1.39**
Cash dividends	**36.00**	32.00	32.00	**0.34**

Notes: 1. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥105 to U.S.$1, the rate of exchange at February 28, 2005.
2. Figures for the fiscal year ended February 28, 2005 do not correspond to the Consolidated Statements of Income on page 44 because they are presented on **basis B**. For further details on these figures, please refer to page 23 of the Financial Section.
3. As of June 1, 2004, the Company absorbed consolidated subsidiary CKTOHOKU Co., Ltd.
4. For the fiscal year ended February 28, 2005, Circle K Sunkus Co., Ltd. had two consolidated subsidiaries: Sunkus Aomori Co., Ltd. and Sunkus Nishi-Saitama Co., Ltd.
5. Total store sales represent combined net sales of franchised and Company-owned stores, excluding non-consolidated area franchised stores.
6. Number of stores excludes non-consolidated area franchised stores.

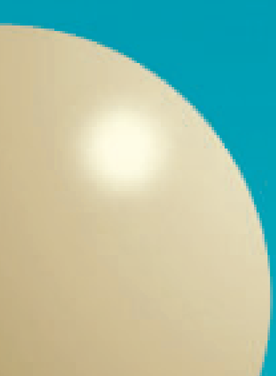
PERFECT BREAK



Gaining Advantage Through the Perfect Break

To prevail in Japan's maturing convenience store industry, Circle K Sunkus Co., Ltd. was formed through the merger of the three major C&S Group companies on September 1, 2004. This was followed by the formulation of a Three-Year Management Plan designed to build further momentum behind the sharp recovery in Circle K Sunkus' earnings and drive profitability higher. The infrastructure and strategies required to take Circle K Sunkus forward are now in place. Eyeing for the perfect break, we will use this infrastructure to steadily implement various initiatives so that we can deliver steady, sustainable growth.

Contents



To Our Shareholders and Other Investors

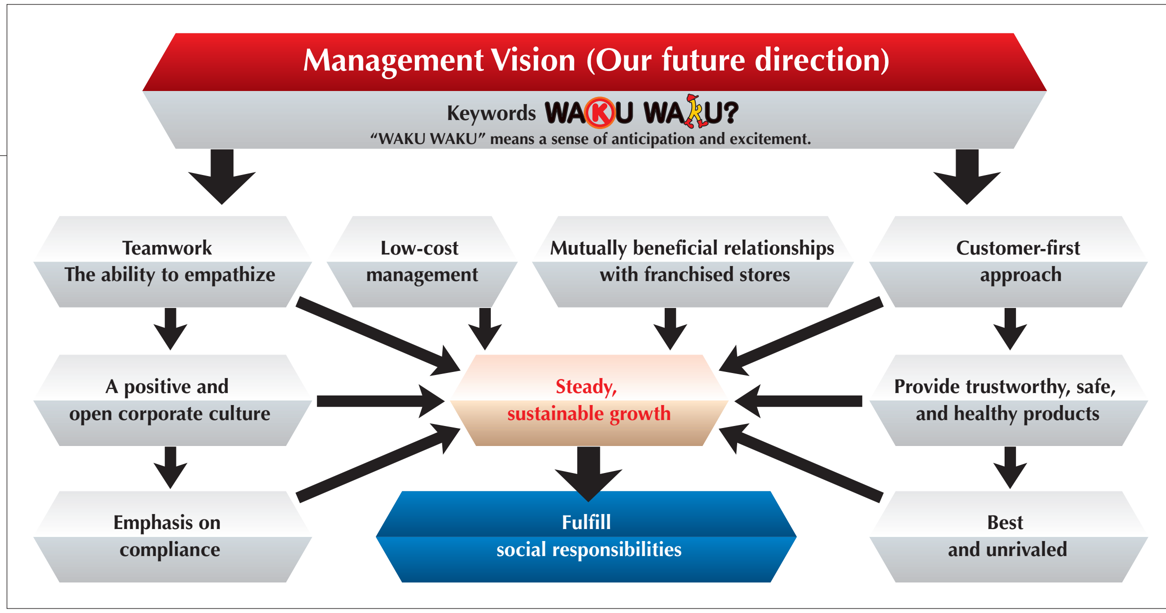
Guided by the thinking that a shift to a strategy predicated on further internal integration is essential to responding to the fast-changing environment surrounding the maturing convenience store industry, Circle K Sunkus was formed through a merger of the three major companies of the C&S Group on September 1, 2004. With this fresh start, Circle K Sunkus will work to capture synergies between its two store brands—Circle K and Sunkus—while taking the integration process pursued so far to a higher level, in order to prevail against fierce competition in the convenience store industry.

Kiyoshi Hijikata, President

CIRCLE K SUNKUS' OBJECTIVES

Our corporate philosophy is: "We aim to be a company that achieves, steady, sustainable growth, while earning the trust of society." Yet earning the trust of society, in essence, entails playing a meaningful role in society in the eyes of stakeholders, including shareholders, customers, local communities, franchised stores, business partners and employees. This cannot be accomplished by merely growing earnings. In addition to providing trustworthy, safe, and high-quality products, we must be an organization that can deliver value on many more fronts, encompassing an emphasis on compliance, engagement in environmental protection and social contribution activities, as well as the provision of timely, transparent disclosure and much more.

Guided by this corporate philosophy, a management vision has been formulated that clarifies our future direction—the kind of company we hope to be in the years ahead. Staying true to this vision, our ultimate goal is to achieve sustainable growth and fulfill our social responsibilities.



ACHIEVED A SHARP TURNAROUND IN FISCAL 2005 AND FIRST YEAR GOALS OF THE THREE-YEAR MANAGEMENT PLAN

Following the merger, Circle K Sunkus released a Three-Year Management Plan, with fiscal 2005 positioned as the first year. We had a measure of success in reshaping our organization and consolidating vendor and logistics networks in the processed foods category as part of a review of our cost structure. Meanwhile, Circle K Sunkus also maximized the economies of scale offered by more than 6,200 stores brought together through the merger, and vigorously pursued measures to boost sales through joint sales campaigns and other initiatives.

However, the business environment surrounding Circle K Sunkus remains difficult. Slower sales at stores in the Hokkaido and Tohoku regions, as well as lackluster alcoholic beverages sales at Sunkus, led to a year-on-year decline of 0.9% in existing store sales at Circle K Sunkus. Furthermore, the Company was forced to open 54 fewer stores than planned, for a total of 400 stores for the full fiscal year, reflecting its greater emphasis on opening immediately profitable new stores.

In fiscal 2005, however, Circle K Sunkus benefited from cost-cutting measures began in the previous fiscal year, and booked lower store closure expenses as the number of stores closed settled down to normal levels. These and other factors helped Circle K Sunkus to achieve a sharp turnaround in earnings and meet the first-year goals of the Three-Year Management Plan.

Fiscal 2006 will see Circle K Sunkus implement deeper cost-cutting measures, improvements in profitability and other measures to prevail in the maturing convenience store industry. The collective strengths of Circle K and Sunkus will also be exerted to reinforce sales capabilities.

Interview with the President

How will Circle K Sunkus rise above intensifying competition in the convenience store industry? In the following interview, President Hijikata outlines Circle K Sunkus' future strategies and initiatives to shareholders and other investors.

Q1: Please describe the Three-Year Management Plan announced at the time of the merger.

A1: In autumn 2004, Circle K Sunkus announced a Three-Year Management Plan premised on achieving double-digit growth every year. The plan is based on conservative assumptions regarding the opening of new stores and growth in existing store sales, in light of our challenging business environment. However, the main thrust of this plan is to reform our cost and earnings structure to deliver earnings growth with certainty. Even including the effect of the early adoption of asset impairment accounting in the fiscal 2006, we are still targeting recurring profit of ¥28.5 billion in fiscal 2007, the final fiscal year of the plan.

Q2: What are your strategies for achieving the goals of the Three-Year Management Plan?

A2: Cost and earnings structure reforms are the two main strategies. Cost structure reforms are aimed at unifying all business processes by fiscal 2007 in order to maximize economies of scale provided by the merger, while reducing redundant costs. Concrete actions include the promotion of further integration of product vendors and logistics networks, as well as the consolidation of back-office operations and shift of Head Office personnel to sales divisions to reduce personnel expenses. Meanwhile, earnings structure reforms will see us boost sales by offering products and services only possible with the scale merits that come with our network of just over 6,200 stores. Collaboration products with Benetton, a world-famous apparel retailer, as well as newly installed ATMs offering no withdrawal fees during certain hours and other new services are some examples. By steadily implementing these measures, we aim to reap merger benefits of ¥3.0 billion over the three-year period of the plan.

Q3: How is the Three-Year Management Plan progressing, particularly the process of unifying business processes?

A3: Circle K Sunkus met all of the plan's goals for fiscal 2005, the first year of the Three-Year Management Plan. Unifying our business processes is essential to reaching the final goals of this plan. In fiscal 2005, we successively took steps to unify vendor and logistics networks in the processed foods category, including beverages and snacks, and had a measure of success in improving product markups. Progress was also made on the unification of personnel systems and labor unions.

I believe that fiscal 2006, the second fiscal year since the merger, will be a highly significant year for realizing merger benefits. In the run up to this fiscal year, organizational reforms were implemented in March 2005 to lay the groundwork for reaping many more merger benefits at a faster pace. More specifically, our business unit system, which had previously structured the company around the existing Circle K and Sunkus store brands, was eliminated and personnel exchanges between the two convenience store chains were implemented half a year before schedule. Under its new organization, Circle K Sunkus aims to maximize merger benefits and take the integration process forward.

For further details on the Three-Year Management Plan see pages 8-11. ☞

Q4: Fiscal 2006 has been positioned as a highly significant year for realizing merger benefits. However, the shortfall in the number of new stores opened and decline in existing store sales in fiscal 2005 are causes for concern. How will you address these issues going forward?

A4: Our response will be to strengthen store development capabilities, store operations and the development of new product and services. With respect to reinforcing store

development capabilities, the fundamental strategy for major cities such as Tokyo, Nagoya and Osaka will be to reestablish a dominant presence and continue to accelerate the relocation of stores. In addition, stores will be opened in prime new locations offering strong prospects for attracting customers, such as the premises of train stations. Plans for fiscal 2007 also call for expanding our store network into Gunma Prefecture, a region where we have not opened any stores. Meanwhile, with respect to strengthening store operations, Circle K Sunkus will improve store operations by holding training programs that sharpen the skills of employees. On the product and service development front, our sights are set on increasing customer satisfaction by pursuing an unrivalled degree of originality in order to drive sales higher.

To rapidly address these priorities, the business unit system, which had previously structured the Company around the existing Circle K and Sunkus store brands, was reorganized into a new structure based on functions, centered on a General Store Operations Headquarters and General Store Development Headquarters. This process has enabled us to unify management across specific convenience store chains, marking the completion of a structure that contributes to higher operating efficiency and clearer channels of communication.

Please see pages 12-18 for further details on strengthening store development capabilities, store operations and the development of new products and services. ☞

Q5: In closing, do you have any message for shareholders and other investors?

A5: There are increasing moves by the major convenience store chains to open stores based on entirely new formats and establish new avenues for growth by moving into overseas markets. However, I believe the first priority for Circle K Sunkus is to focus on reinforcing its business in Japan. Our approach will be to cement our operating base through a number of initiatives. On top of upgrading existing stores through such means as the launch of new services, we will first seek to establish a dominant presence in the primary regions of both convenience store chains, Tokyo and Nagoya, and expand our store network into regions where stores have not been opened.

In the challenging business environment surrounding the convenience store industry, all convenience store chains—even the largest—must constantly implement reforms and drive innovation in order to stay on top of the competition. In this climate, Circle K Sunkus took the decision to proceed with a merger. As the president of Circle K Sunkus, I have a responsibility to make a success of this merger and lead this organization on to a path of steady, sustainable growth. The cover of this year's annual report embodies the thinking behind various measures that will be implemented by Circle K Sunkus in fiscal 2006. To unify our business processes further and achieve the goals of our Three-Year Management Plan, I will set Circle K and Sunkus into motion with a series of precise shots, guided by my firm resolve to provide strong leadership of Circle K Sunkus.

I ask for your continued support as we endeavor to reach our highest goal—to achieve steady, sustained growth to become an organization trusted and admired by all stakeholders.

July 2005

Kiyoshi Hijikata

Kiyoshi Hijikata
President

Progress on the Three-Year Management Plan and Integration Schedule

Circle K Sunkus used the opportunity of its merger to announce a new Three-Year Management Plan in October 2004, as promised in last year's annual report. By taking integration a step further through the merger, Circle K Sunkus will reform its cost and earnings structures in pursuit of greater economies of scale and rationalization benefits with the aim to deliver double-digit earnings growth every year. Furthermore, initiatives are being taken to unify all business processes in order to eliminate redundant costs.

APPROACH TO THE THREE-YEAR MANAGEMENT PLAN

Aiming for Double-digit Earnings Growth Every Year Through Cost Structure Reforms

The maturing convenience store industry faces a challenging business environment, shaped by intensifying competition with industry outsiders and other issues. In light of this, our Three-Year Management Plan is based on conservative assumptions for new store openings, total store sales, growth in existing store sales, and so on. However, by eliminating redundant costs and proactively making investments that boost sales, Circle K Sunkus plans to deliver double-digit earnings growth every year.

Merger Benefits Conservatively Estimated at ¥3.0 Billion Over Three Years

Circle K Sunkus is targeting merger benefits of ¥3.0 billion. These merger benefits will be realized through the various initiatives aimed at fully unifying all business processes outlined in the following paragraphs. Merger benefits include approximately ¥0.7 billion in personnel cost savings, ¥1.6 billion in savings from the integration of vendor and logistics networks and ¥0.7 billion from the integration of Head Office functions, including product seminars for franchised stores and joint sales promotions and advertising. Merger-related costs, meanwhile, are estimated at approximately ¥1.7 billion over the three-year period covered by the plan. Merger benefits and costs are reflected in the Three-Year Management Plan.

Achieved Goals for Fiscal 2005, the First Year of the Three-Year Management Plan

In fiscal 2005, Circle K Sunkus opened 55 fewer stores than planned and total store sales were approximately ¥6.6 billion below target. However, despite this lackluster top-line performance, operating income exceeded initial targets due to savings in operating expenses, which helped to reduce SG&A expenses ¥1.6 billion below target. Net income grew sharply in fiscal 2005 in line with plans due to lower losses on store closures, after the previous fiscal year's major strategic store closure program focused on unprofitable stores.

	Three-Year Management Plan Announced October 2004			First-Year Results and Revised Three-Year Management Plan Goals		
	2005/2 (Planned)	2006/2 (Planned)	2007/2 (Planned)	**2005/2 (Results)**	2006/2 (Planned)	2007/2 (Planned)
Store openings	417	436	449	362	386	420
Store closures	238	213	230	238	221	250
No. of stores at end of period	5,326	5,549	5,768	5,271	5,436	5,606
Total store sales	940,130 (+4.2%)	973,200 (+3.5%)	1,007,150 (+3.5%)	933,521 (+3.5%)	955,610 (+2.4%)	984,600 (+3.0%)
Changes in existing store sales	–0.8%	–1.4%	–1.7%	–0.9%	–0.9%	–1.1%
Average product markups	28.9% (+0.05%)	29.1% (+0.15%)	29.3% (+0.25%)	28.8% (–0.09%)	29.0% (+0.16%)	29.2% (+0.25%)
Merger benefits	3.0 billion			3.0 billion		
SG&A expenses	109,340 (+3.8%)	111,510 (+2.0%)	113,590 (+1.9%)	107,714 (+2.3%)	109,760 (+1.9%)	111,410 (+1.5%)
Operating income	24,270 (+8.2%)	27,370 (+12.8%)	30,380 (+11.0%)	24,385 (+8.7%)	27,620 (+13.3%)	30,590 (+10.8%)
Recurring profit	23,210 (+17.8%)	25,800 (+11.2%)	28,550 (+10.7%)	23,625 (+19.9%)	25,930 (+9.8%)	28,550 (+10.1%)
Net income	12,580 (+64.4%)	14,210 (+13.0%)	15,750 (+10.8%)	12,654 (65.4%)	12,550 (-0.8%)	16,650 (32.7%)

Note: Figures in parentheses represent year-on-year changes.

Revision of the Three-Year Management Plan in April 2005

In light of fiscal 2005 operating results, Circle K Sunkus has revised its targets for the second and third fiscal years of the Three-Year Management Plan. The net increase in the number of stores to be opened, total store sales and other targets have been revised down from the initial plan. This will result in a decline in income relative to the plan. However, earnings targets have been recalculated based on the larger-than-planned reductions in SG&A expenses in fiscal 2005. As a result, operating income and recurring profit are both projected to remain largely in line with the initial plan.

In addition to the early application of asset impairment accounting standards, Circle K Sunkus will change certain accounting methods in fiscal 2006 and subsequent fiscal years. In line with this change, Circle K Sunkus expects to book a temporary extraordinary loss. Consequently, net income is expected to fall short of the initial target for the second fiscal year of the plan. However, as mentioned above, recurring profit is largely on track to meeting the initial target.

Please see the "Consolidated Operating Results for Fiscal 2005" section in the MD&A on page 37 for further details on the effect of accounting changes. ☞

PROGRESS ON INTEGRATION SCHEDULE

Circle K Sunkus aims to reap maximum economies of scale occasioned by the merger, while unifying all business processes by fiscal 2007 in order to reduce redundant costs.

First Phase of Integration Proceeded as Planned

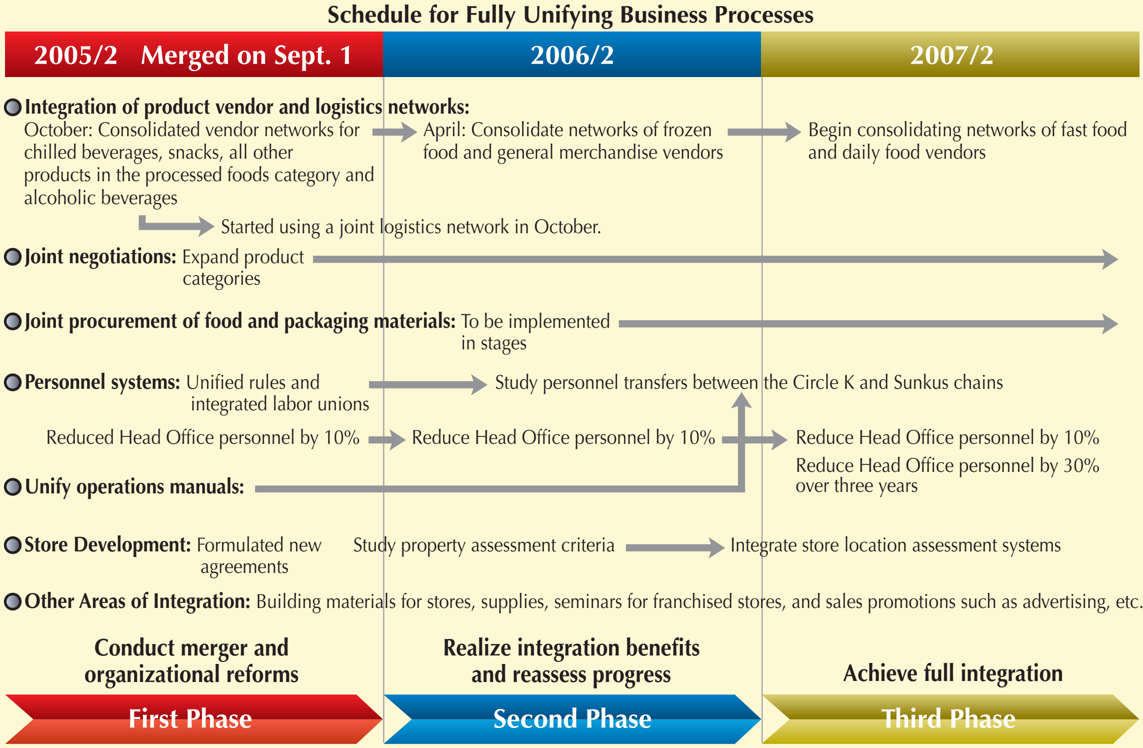
In fiscal 2005, the first phase of integration, Circle K Sunkus unified personnel systems and labor unions in conjunction with the merger. On the store operations front, inconsistent terminology at both convenience store chains was standardized. Differences in agreements with franchise stores at Circle K and Sunkus were narrowed, resulting in the elimination of certain conditions unique to Sunkus, including the liquor-exempt system and Type E store agreements. Furthermore, product seminars for franchised stores, which were previously held by Circle K and Sunkus on an individual basis, were standardized based on a common format. In addition, efforts were made to reduce costs by unifying sales promotion and advertising initiatives, such as television commercials, and conducting joint sales campaigns.

Improved Gross Profit Through the Integration of Product Vendor and Logistics Networks

The most effective means of reforming our cost structure will be to integrate product vendor and logistics networks. These reforms are expected to boost average product markups by as much as 0.25 of a percentage point.

In the first phase, integration was initiated in stages from October 2004 in four categories—chilled beverages, snacks, processed foods, and alcoholic beverages. Plans call for completing this process in all regions during fiscal 2006. In the second phase, consolidation has begun in the frozen foods and general merchandise categories. Through the first two phases of integration of vendor and logistics networks, Circle K Sunkus forecasts an improvement of ¥270,000 in annual gross profit per store. Plans are also on the table to initiate the integration of product vendor and logistics networks in the fast food and daily foods categories in the third phase of integration in fiscal 2007, the final year of the three-year plan. Preparations are currently underway on various fronts to set these plans into motion.

Schedule for Fully Unifying Business Processes



KEY STRATEGIES AND INITIATIVES

Measures to Strengthen Store Development Capabilities

Store development is the lifeline of Circle K Sunkus. No steady, sustainable growth is achievable unless targets for opening new stores are met. Our policy for fiscal 2006 is to restore growth. Guided by this policy, we will achieve our targets for opening new stores, while continuing to emphasize store profitability as we develop highly competitive stores that can prevail against the competition even ten years from now.

Yasuhiko Fuma
Senior Managing Director
Head of General Store Development Headquarters

STRENGTHENING STORE DEVELOPMENT CAPABILITIES BY CREATING SYNERGIES BETWEEN CIRCLE K AND SUNKUS

Through organizational reforms implemented in March 2005, Circle K Sunkus eliminated the previous business unit system and established the General Store Development Headquarters to provide a structure for closely coordinating and unifying the management of store development departments at Circle K and Sunkus. Sections responsible for development support functions previously set up in other departments were transferred to the General Store Development Headquarters. Through this move, a framework for enhancing operating efficiency and achieving clearer channels of communication has been put in place. The idea is to raise the standard of store development capabilities at Circle K Sunkus as a whole by closely sharing information. We have also unified formerly separated departments responsible for developing stores for corporate customers to fully exert our proposal-making and planning capabilities as one of Japan's largest convenience store chains.

Our store development policy for fiscal 2006 remains unchanged. Circle K Sunkus will continue to emphasize profitability, while focusing on developing highly competitive stores. We are also seeking to reestablish a dominant presence and step up the relocation of stores. In particular, in the primary regions of Kanto, Chukyo, and Kansai, we will build a stronger presence for Circle K Sunkus as a whole. In these primary regions, which promise high average daily store sales, Circle K Sunkus will promote the relocation of existing stores where competitiveness has deteriorated to build a strong foundation.

Our policy also calls for proactively expanding our store network to include new locations offering strong prospects for attracting customers, such as the premises of train stations, commercial facilities, hospitals and expressway parking areas.

Stores are being opened in new locations offering strong prospects for attracting customers.

Opened the Circle K Kariya Oasis store in an expressway parking area.

Opened the Sunkus Central Japan International Airport store in the terminal building of this new airport, which opened in February 2005.

ESTABLISHED NEW AREA DEVELOPMENT DEPARTMENT TO MOVE INTO REGIONS WITHOUT CIRCLE K OR SUNKUS STORES

The March 2005 organizational reforms also saw us establish the New Area Development Department. By selecting new store locations and making various preparations for rapidly opening new stores in regions where stores have not yet been opened, this department will help us expand into new areas rapidly and efficiently. Aiming to enter Gunma Prefecture in fiscal 2007, Circle K Sunkus has already started store development activities in this prefecture. Since Sunkus already has stores in regions around Gunma Prefecture, we are planning to open approximately 50 Sunkus stores in the prefecture over a three-year period starting in fiscal 2007. Doing so will make the most of the market visibility of the Sunkus brand in the region and maximize distribution efficiency.

TOWARD ACHIEVING TARGETS FOR OPENING NEW STORES

Besides securing prime locations, it has become increasingly difficult to secure franchisee candidates in recent years. This has started to hinder the opening of new stores. In response, Circle K Sunkus has held Store Development Cooperation Meetings that fully leverage its existing network of construction contractors, real estate companies, product vendors and other partners with whom the Company has built business relationships. In addition to securing properties for stores, we will promote the use of these gatherings for the benefit of Circle K Sunkus as a whole. These meetings will serve as an avenue to sign corporate franchise agreements, obtain introductions to franchisee candidates, and accomplish much more.

Through these and other initiatives, we will work to achieve our target for opening new stores. The objective is to restore growth by giving full play to our outstanding store development capabilities.

Initiatives to Strengthen Store Operations

To rise above fierce competition, Circle K Sunkus must reinforce store operations at each individual store. With the aim of creating stores that deliver high levels of customer satisfaction, Circle K Sunkus has been implementing a training program called the Six Stages of Store Operations to strategically mobilize all store staff. Moving forward, our policy for fiscal 2006 is to drive growth in existing store sales. We will provide thorough guidance to franchised stores to achieve this goal.

Akira Ishihara
Senior Managing Director
Head of General Store Operations Headquarters

IMPLEMENTING THE SIX STAGES OF STORE OPERATIONS TO ENHANCE STORE OPERATIONS

Creating stores that deliver high levels of customer satisfaction is essential to prevailing against the competition. Circle K Sunkus thus positions the Six Stages of Store Operations as a pillar of store operations. Efforts are thus being made to raise the awareness of store managers by implementing each step of this program, and strategically mobilizing store staff. The Six Stages of Store Operations were introduced at Circle K three years ago, and have played a key role in minimizing the impact of Seven-Eleven Japan's entry into Aichi Prefecture, late-night operating hours at supermarkets, and other developments. In light of this track record, we used the opportunity of the merger to extend this program to Sunkus in September 2004.

The Six Stages of Store Operations: a Training Program for Strategically Mobilizing Staff

Manager Awareness	The main thrust of this stage is to change the mindset of storeowners and managers, who are responsible for the management of all aspects of store operations.
Personnel Development	One of the most important responsibilities of storeowners and managers is to nurture productive store staff.
Delegation of Tasks	To systematically and efficiently operate stores, storeowners and managers draw up work schedules and delegate tasks to each store staff.
Responsibility for Retail Spaces	By delegating responsibility for product management and order placement to store staff, storeowners and managers motivate employees and make the most of their abilities.
Delegation of Order Placement	Delegating order placement enables storeowners and managers to establish meticulous order placement systems.
Single-Product Inventory Management	The goal is to achieve product lineups that satisfy customer needs by repeating the cycle of placing orders based on working hypotheses and conducting follow-up studies on product sales.

Now in the third year of this program, Circle K is seeing steady year-on-year growth in net sales at stores that have been making progress on the Six Stages of Store Operations. On the other hand, the goal for Sunkus, where the program has just begun, is to make the program an integral part of store operations in order to return slowing existing store sales to a growth trajectory.

AIMING TO DRIVE GROWTH IN EXISTING STORE SALES BY PROVIDING THOROUGH GUIDANCE TO FRANCHISEES

Organizational reforms in March 2005 led to the inception of the General Store Operations Headquarters, which gives us a structure for responding in a timely manner to issues concerning the entire organization. We have used this opportunity to transfer personnel between Circle K and Sunkus at the regional manager and district manager levels. This move has promoted the cross-fertilization of the respective strengths of both chains. Moreover, upgrading the skills of store supervisors is essential to offering thorough guidance to franchisees. Guided by this thinking, we are sharing best practices and implementing measures to improve business operations.

Circle K Sunkus is also focusing on franchisee training programs as a means to enhance store operations. The first step of the Six Stages of Store Operations program for storeowners and store managers is to raise their awareness regarding their roles as managers. This training is offered prior to the opening of stores. For store staff, Step-up Training is offered in which training is tailored to the level of achievement of the individual staff member. Staff members who have reached advanced levels receive Certified Sub-manager Training, for which certification is extremely difficult. Furthermore, Circle K Sunkus sends Store Trainers, who are specialists in training, to stores undergoing training in each region, to work together with store supervisors to raise the standard of store operations at the regional level. In other initiatives, through seminars held twice a year for franchised stores and monthly newsletters distributed to franchised stores, Circle K Sunkus presents the latest information on best practices, new products, display pointers, the use of store information systems, measures to deal with competing stores and other topics. Under this backup framework provided by the Head Office, Circle K Sunkus aims to strengthen store operations with the view to increasing sales.

Store supervisors help to build high-quality stores by providing multi-faceted support to storeowners and managers.

Aiming to strategically mobilize store staff, the Head Office offers detailed training tailored to the level of achievement of the individual staff member.

Promoting Marketing Innovation

We will conduct marketing innovation focused on three themes: increasing sales, increasing earnings, and advancing structural reforms. This will require us to constantly give thought to measures that will enable us to offer truly great-tasting and valued products and convenient services from the viewpoint of customers. Leveraging various cutting-edge technologies, Circle K Sunkus will continue to insist on the finest materials, sources, preparation methods and convenience as we drive further innovation.

Motohiko Nakamura
Director
Head of Marketing, Services & Merchandising Division

INITIATIVES TO INCREASE SALES

One of our initiatives to increase sales is to reinforce the planning and development of products. This will see us shift our previous approach of purchasing products for sale at our stores to an approach where we plan and develop our own products. This will entail developing original products and services that demonstrate the individuality of Circle K Sunkus. In fiscal 2005, we extended *KACHIAL*, a private brand common to both Circle K and Sunkus, to the general merchandise, stationery and snacks categories. Notably, in the snacks category, the *Hogaraka Time* brand has proven popular for being packaged in single-serving sizes and uniformly value-priced at ¥100, and has been selling strongly. Looking ahead, we hope to continue to develop private brands as a means of delivering truly valued products to customers. Circle K Sunkus is also using the opportunity of the merger to proactively develop products and services with industry outsiders, leveraging its network of over 6,200 stores. On the product front, in April 2005 Circle K Sunkus began sales of a new lineup of general merchandise designed and produced by Benetton, an Italian apparel manufacturer, and manufactured by ten leading manufacturers in their respective fields, including cosmetics and towels. Meanwhile, on the services front, in April 2005 Circle K Sunkus began accepting Edy electronic money at all stores nationwide ahead of rival convenience store chains. Furthermore, *KARUWAZA CLUB*, Circle K Sunkus' house credit card with Edy electronic money, is seeing steady increases in its membership. Looking ahead, Circle K Sunkus aims to build a captive customer base by offering shopping points to card members and other benefits.

Another initiative is the pursuit of great-tasting products. We are working to upgrade our lineups of fast foods and daily foods, such as rice balls and boxed lunches, delicatessen items, baked goods, and processed noodles. As part of our insistence on developing great-tasting products, we will be reviewing preparation methods, ingredients and contents for all products, including food preparation facilities and other infrastructure.

Through these and other initiatives, we will work to develop unique and truly great-tasting products and valued services that are offered only at Circle K and Sunkus stores, with the aim of increasing sales.

General merchandise designed and produced by Benetton. Efforts are being made to develop original products and services that demonstrate the individuality of Circle K Sunkus.

Customers can easily make payments by placing Edy cards on top of card readers.

INITIATIVES TO INCREASE EARNINGS

The greatest benefits of the merger will be reaped from the consolidation of vendor and logistics networks. Our overall policy is to steadily implement consolidation in four areas—vendor, logistics, manufacturer, and product networks—in each product category during the period from the merger to fiscal 2008. In fiscal 2005, the consolidation of vendor and logistics networks in the processed foods category was started. Combined with measures to consolidate these networks in the general merchandise and frozen foods categories in fiscal 2006, we expect to reap merger benefits of approximately ¥1.6 billion. In fiscal 2007, plans call for consolidating networks in the fast food and daily foods categories, where the greatest benefits on gross profit are anticipated. In doing so, we expect to improve the average product markup by 0.5 of a percentage point over the medium term.

Please see the section on the Three-Year Medium-term Management Plan on pages 8-11 for further details. ☞

INITIATIVES TO ADVANCE STRUCTURAL REFORMS

A steady stream of innovative ideas for developing and selling products is essential to meeting diversifying customer needs. Circle K Sunkus has used the opportunity of the merger to establish the Operations Planning & Promotion Office to support each division, while the Marketing Support Department conducts a variety of market surveys and data analysis and offers marketing proposals. One example of these activities is the compilation of questionnaires uploaded from two-dimensional bar codes by customers using their mobile phones and sent to Circle K Sunkus. The results of these questionnaires are reflected in the development of future products. In addition, purchasing behavior is analyzed by customer segment, and the results are used to formulate sales promotion plans. Product development tailored to regional characteristics will also be implemented, as customer preferences differ according to region. Through these and other initiatives, we aim to better satisfy customer needs.

TOPIC: INSTALLED "ZERO BANK" ATMS OFFERING NO WITHDRAWAL FEES

ATM services are becoming increasingly significant for convenience stores. In October 1999, Circle K Sunkus joined forces with FamilyMart Co., Ltd., other convenience store chains and IBM Japan, Ltd. to establish E-Net Co., Ltd., and began installing E-Net ATMs at stores. However, E-Net ATMs do not fully leverage the infrastructure of convenience stores, and the system was not necessarily easy for customers to understand due to a number of factors, including differences in withdrawal fees according to partner banks. In response, Circle K Sunkus has been conducting independent surveys and research into improving in-store ATMs. In March 2005, Circle K Sunkus introduced the "Zero Bank" proprietary ATM service in partnership with Ogaki Kyoritsu Bank, Ltd. at stores in Aichi and Gifu prefectures. This is a highly innovative ATM service. As the name suggests, customers holding cash cards issued by some 1,600 financial institutions nationwide, including city banks, regional banks, and trust banks, can make withdrawals free of charge during operating hours on weekdays and Saturdays. By fall 2005, "Zero Bank" ATMs will be installed at approximately 1,300 stores in Aichi and Gifu prefectures. Moving forward, Circle K Sunkus plans to actively promote this ATM service, with the aim of expanding the ATM network to include other regions.

The highly innovative "Zero Bank" ATM service allows customers to make withdrawals free of charge during operating hours on weekdays and Saturdays.

Corporate Social Responsibility (CSR)

Guided by our mission statement of aiming "to be a company that achieves steady, sustainable growth, while earning the trust of society," Circle K Sunkus has been focusing on two themes in particular since the merger—reinforcing compliance and providing transparent disclosure. The Circle K Sunkus Group conducts environmental programs and socially beneficial activities at its nationwide network of more than 6,200 Circle K and Sunkus stores, leveraging its ties with local communities. By fulfilling its social responsibilities through responsible behavior and service to local communities, Circle K Sunkus aims to earn the trust of all stakeholders.

BASIC CORPORATE GOVERNANCE POLICIES

Engaged in the retailing sector, Circle K Sunkus always thinks from a customer-first perspective, and views winning the support and trust of area customers as a management issue of paramount importance. Circle K Sunkus views its shareholders, franchised stores, business partners and employees as key stakeholders, with a particular emphasis on relationships with shareholders. While building strong relationships with every stakeholder, Circle K Sunkus will implement measures to further improve corporate governance, including reinforcing and improving legal functions and systems, establishing a compliance system and providing proactive disclosure.

Circle K Sunkus' policy is to limit its Board of Directors to around ten members, a size deemed appropriate for focusing decision-making proceedings on important decisions related to overall management issues, based on a management framework centered on a corporate auditor system. As of May 25, 2005, the Board of Directors comprised ten members. Circle K Sunkus' management framework is further underpinned by a robust auditing framework of five corporate auditors, including three standing corporate auditors. One external director and external auditor have each been invited from the Board of Directors of Uny Co., Ltd., the parent company of Circle K Sunkus, to ensure that information is effectively shared among group companies.

Circle K Sunkus has used the opportunity of the merger to introduce an executive officer system. As of May 25, 2005, there were six executive officers.

ESTABLISHMENT OF INTERNAL STRUCTURES

Circle K Sunkus has also used the opportunity of the merger to establish a Legal Affairs Office to improve document management. A Compliance Promotion Office has also been established to further promote legal compliance throughout the Group, including at franchisees and business partners, while taking concrete actions to reinforce internal management systems, through such means as measures to fully comply with Japan's Personal Information Protection Law, which was enforced on April 1, 2005. In addition to proactively providing fair disclosure, the Corporate Communications & Environmental Affairs Office is earnestly committed to playing a central role in environmental programs and socially beneficial activities.

ENVIRONMENTAL ACTIVITIES

Circle K Sunkus conducts environmental programs on an ongoing basis at its Head Office, regional offices and all stores, ranging from energy and resource conservation programs, to reducing waste volumes and delivery frequencies, and promoting the introduction of low-pollution vehicles. In February 2005, Circle K Sunkus became an official registrant of ISO 14001, an international certification for environmental management systems, which was previously obtained separately by Circle K and Sunkus.

Since spring 2003, Circle K Sunkus has been conducting trials of fertilizer made from food waste. One major step in fiscal 2005 was the collection of food waste from products such as boxed lunches, delicatessen items and bread generated in a single day from 36 Circle K stores in Nagoya in July 2004. This food waste, weighing around 0.4 of a ton, was converted into fertilizer over 70 days, and with the help of farmers, onions were cultivated using this fertilizer from November 2004 on a trial basis. The approximately 1.6 tons of onions harvested in June 2005 were used as ingredients for boxed lunches sold at some 320 Circle K stores mainly in Nagoya. While efforts to convert food waste into fertilizer are currently in a trial phase, Circle K Sunkus plans to win the support of many more farmers as it works to play a larger role in building a recycling-oriented society through these and other initiatives.

The *KACHIAL* brand is an original brand offering high-quality, reliable, and safe products that are also environmentally friendly.

Onions cultivated using fertilizer made from food waste.

Twice a year in the spring and fall, Circle K Sunkus takes part in clean-up campaigns where franchised storeowners, store staff members, and Head Office employees volunteer in environmental clean-up programs at parks, beaches and other locations in various regions. From April to May 2005, approximately 1,600 individuals participated in clean-up programs at 50 sites nationwide.

SOCIAL CONTRIBUTION ACTIVITIES

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

Store Fundraising Activities

In addition to the usual organizations receiving donations, in fiscal 2005 Circle K Sunkus contributed to emergency relief funds for areas in Japan and overseas affected by unforeseeable natural disasters, such as typhoons and earthquakes.

	Collection period	Organization receiving donations	Donations
Circle K	April to July 2003	The National Federation of All Japan Guide Dog Training Institutions "Nationwide Guide Dog Campaign"	¥23,776,110
	August to November 2003	Japanese Red Cross Society "Relief Fund for Overseas Disaster Victims"	
	December 2003 to March 2004	Japan Environmental Action Network (JEAN) "Environmental Preservation Fund"	
Sunkus	March 2003 to February 2004	Japan UNICEF	¥28,327,060
		Circle K Sunkus Total	¥52,103,170

	Collection period	Organization receiving donations	Contributions
Circle K Sunkus	September to October 2004	Relief Fund for Victims of Heavy Rain and Flooding in Mie Prefecture	¥2,356,357
	October to November 2004	Relief Fund for Victims of the Niigata-Chuestsu Earthquake and Typhoon No. 23	¥41,832,049
	December 2004 to January 2005	Relief Fund for Victims of the Sumatra Earthquake and South Asian Tsunami	¥22,980,578

NPO Support Activities

NPO Kokkyo naki Kodomotachi (KnK)

Kokkyo naki Kodomotachi (KnK) operates youth homes that accept underprivileged children in Cambodia, Vietnam and other countries and foster self-reliance.

NPO Japan Team of Young Human Power (JHP)

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

- **Built Second Elementary School for Cambodian Children**
  Following on from the opening of the first elementary school in December 2003, a second elementary school, also nicknamed "Everyone's Dream School," was opened in Cambodia in November 2004. Some 1,200 students are enrolled and studying at these schools.

The second elementary school nicknamed "Everyone's Dream School" was opened in November 2004.

NPO Family House

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

Boards of Directors and Corporate Auditors

From left: Motohiko Nakamura, Kazuo Takahashi, Toshifumi Hirano, Akira Ishihara, Yasuhiko Fuma, Kiyoshi Hijikata, Taizo Toyama, Sadao Takita, Teruyasu Ando, Koji Sasaki

From left: Yoshiaki Tsuzuki, Tsunehisa Ogura, Tsunemitsu Miyazaki, Kenji Kano, Akira Katsuragawa

Chairman
Taizo Toyama

President
Kiyoshi Hijikata

Senior Managing Directors
Yasuhiko Fuma
Akira Ishihara

Managing Director
Sadao Takita

Directors
Toshifumi Hirano
Teruyasu Ando
Kazuo Takahashi
Motohiko Nakamura

Director (External Director)
Koji Sasaki

Corporate Auditors
Tsunemitsu Miyazaki
Kenji Kano
Tsunehisa Ogura

Corporate Auditors (External Auditors)
Akira Katsuragawa
Yoshiaki Tsuzuki

Executive Officers
Toshitaka Yamaguchi
Shigemasa Mishina
Fujihito Matsumiya
Kiyoshi Aida
Masayoshi Abe
Yoshihiro Mori

(As of May 25, 2005)

FINANCIAL SECTION

This graphic indicates that further details are available in Circle K Sunkus INVESTORS' GUIDE (IG) 2005. Certain figures in this annual report differ from corresponding figures in the IG due to differences in rounding methods.

Note: In the MD&A, all information, except for the Cash Flows section on page 39, is based on operating results presented on **basis B ("operating results (B)")** solely to facilitate comparisons with the previous and subsequent fiscal year. In the MD&A, except for the Cash Flows section, the operating results of Circle K Sunkus Co., Ltd. for the fiscal year under review are represented by **operating results (B)**. Accordingly, these figures do not correspond with those shown in the financial statements and accompanying notes on pages 42 to 58, which are presented on **basis A**. For further details, please see the section on Presentation of Operating Results for Fiscal 2005 on page 36.

Basis A: First-half non-consolidated operating results of CIRCLE K JAPAN Co., Ltd., the surviving company + Second-half consolidated operating results of Circle K Sunkus Co., Ltd. after the merger

- The audited financial statements and accompanying notes on pages 42 to 58 are presented on **basis A**.
- Operating results presented on **basis A** exclude first-half operating results of SUNKUS & ASSOCIATES INC. (from March 1, 2004 to August 31, 2004).

Basis B: First-half consolidated operating results of C&S Co., Ltd. before the merger + Second-half consolidated operating results of Circle K Sunkus Co., Ltd. after the merger

- All information in the MD&A, except for the Cash Flows section on Page 39, and the non-audited financial statements on pages 60 to 62 is based on operating results presented on **basis B**.

Management's Discussion and Analysis of Results of Operations and Financial Position (As of February 28, 2005)

STORE RESULTS Investors' Guide P. 14 – 15 / P. 19 / P. 25 – 27

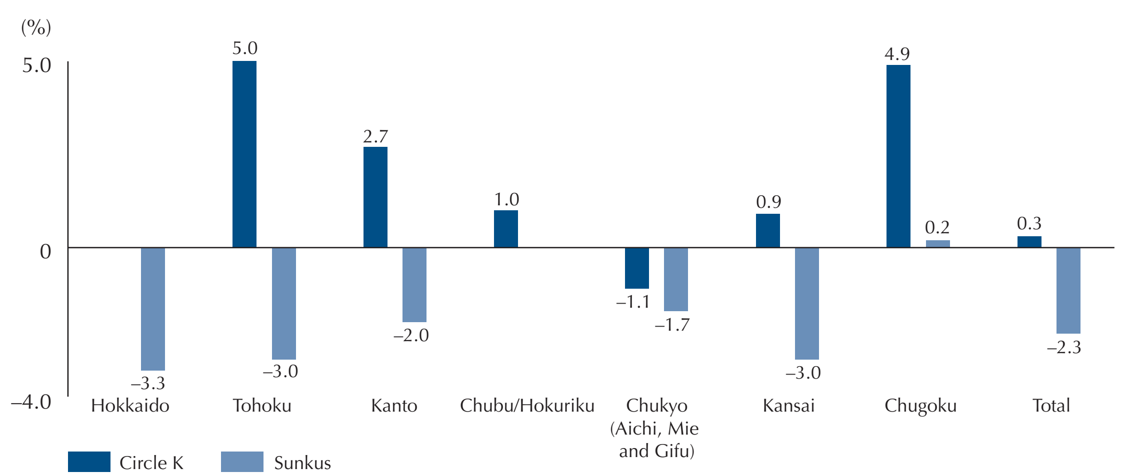
Sales and Existing Store Sales (YoY Comparisons)

In fiscal 2005, ended February 28, 2005, sales at Circle K and Sunkus proper, including franchised stores, increased 2.7% year on year to ¥907,407 million on contributions from new stores. This was ¥6.2 billion below forecasts, however, reflecting the significant impact on sales of the opening of 54 fewer stores than planned. Total store sales for the Circle K Sunkus Group, including area franchisers, rose 1.6% to ¥1,109,428 million.

On the other hand, existing store sales at Circle K Sunkus held steady in the first half of fiscal 2005, supported by brisk sales of summertime products such as beverages and chilled noodles, spurred on partly by a hot summer, in addition to generally fine weather from the spring onwards. However, the successive landfall of typhoons from midway through the fiscal year, compounded by the impact of an unusually mild winter, led to a decrease of 0.9% in existing store sales at Circle K Sunkus on a full-year basis. By convenience store chain, whereas Circle K reported a 0.3% increase in existing store sales on fairly strong sales throughout the year, Sunkus saw existing store sales fall 2.3% due to a downturn in alcoholic beverage sales reflecting intensified competition caused by the relaxation of regulations for obtaining licenses to sell alcoholic beverages. Lackluster performances in Hokkaido and the Tohoku region also affected Sunkus.

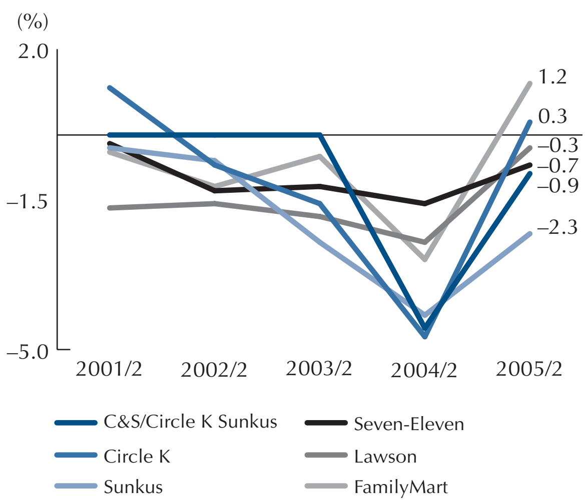
Turning to the outlook for fiscal 2006, despite Japan's gradual economic recovery, a full-fledged improvement in consumer sentiment will still be forthcoming due to concerns over the impact of reductions in temporary individual income tax cuts and burgeoning social insurance costs on the economy. In this climate, the convenience store industry faces intensified competition with industry outsiders, particularly from supermarkets with late-night operating hours and rapidly expanding drug store chains. In light of this difficult business environment, Circle K Sunkus projects a decline of 0.9% in existing store sales, representing declines of 0.5% at Circle K and 1.5% at Sunkus. Based on these assumptions, sales at Circle K and Sunkus proper, including franchised stores, are projected to increase 2.9% year on year to ¥933,510 million. Total store sales for the Group, including area franchisers, are forecast at

Year-on-Year Changes in Existing Store Sales by Region



Note: Figures exclude area franchisers.

Existing Store Sales of Major Convenience Store Chains



Source: Financial reports prepared by each company.
Note: In the February 2004 fiscal year, the one-time effect of the termination of sales of high-priced prepaid highway toll cards in denominations of ¥30,000 and ¥50,000 as of February 28, 2003 had an adverse effect on all major convenience store chains except Seven-Eleven Japan.

¥1,140,000 million for the year, up 2.8% year on year.

Looking at the convenience store industry as a whole, existing store sales at major convenience store chains have been decreasing since the February 2002 fiscal year, mainly due to a protracted slump in consumer spending and intensified competition from industry outsiders. However, in the February 2005 fiscal year, Circle K and FamilyMart posted higher existing store sales year on year. The other major convenience store chains saw only limited benefits from the hot summer of 2004 and continued to report declines in existing store sales.

OVERVIEW OF STORES

Investors' Guide P. 12 / P. 14 – 15 / P. 18 / P. 27

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

In fiscal 2005, Circle K Sunkus continued to emphasize profitability with regard to opening new stores, focusing on developing high-quality stores that can prevail against

Stores Opened/Closed

(Stores)

	Fiscal 2004			Fiscal 2005		
	C&S	Circle K	Sunkus	**Circle K Sunkus**	Circle K	Sunkus
Franchised and Company-owned stores						
Stores opened	**360**	200	160	**346**	193	153
Stores relocated	**62**	39	23	**65**	51	14
Stores closed	**476**	259	217	**223**	143	80
Net increase (Decrease)	**–116**	–59	–57	**123**	50	73
Fiscal year-end	**4,851**	**2,651**	**2,200**	**5,128**	**2,855**	**2,273**
Area franchisers						
Stores opened	**116**	28	88	**127**	25	102
Stores closed	**89**	23	66	**63**	11	52
Net increase	**27**	5	22	**64**	14	50
Fiscal year-end	**1,301**	**266**	**1,035**	**1,211**	**126**	**1,085**
Total	**6,152**	**2,917**	**3,235**	**6,339**	**2,981**	**3,358**

Note: On June 1, 2004, Circle K Sunkus absorbed CKTOHOKU Co., Ltd., an area franchiser of Circle K, and converted it into the Tohoku Business Division. The number of stores at Circle K proper had increased as of February 28, 2005 partly due to the absorption of CKTOHOKU and the transfer of 154 of its convenience stores to Circle K proper. The number of stores opened and closed by Circle K proper includes 8 stores opened and 20 stores closed by the Tohoku Business Division.

the competition. In addition to opening new stores in prime locations, Circle K Sunkus worked to develop stores with licenses to sell alcoholic beverages and tobacco and parking lots adjacent to stores. In the first half, Circle K Sunkus was able to open new stores according to budget. However, the Company was forced to open 54 fewer stores than planned, for a total of 346 stores for the full fiscal year, reflecting difficulties in securing prime locations and franchisees, and its greater emphasis on opening immediately profitable new stores, a key priority since the previous fiscal year. During fiscal 2005, Circle K opened 193 stores, 22 fewer than planned, while Sunkus opened 153 stores, 32 fewer than planned. Average daily sales per store were lackluster on the whole, with Circle K recording ¥439,000, ¥8,000 less than the previous fiscal year, and Sunkus ¥435,000, down ¥18,000 mainly due to weak performances by new stores opened in Hokkaido and Tohoku.

Meanwhile, Circle K Sunkus expanded its store network to prime new locations offering greater convenience for customers and strong prospects for attracting customers. These locations included the premises of hospitals, train stations, and expressway parking areas. In addition, Circle K and Sunkus each opened a new store in the passenger terminal and cargo building, respectively, of Central Japan International Airport, which opened in February 2005.

In line with changes in the environment surrounding some stores, Circle K Sunkus relocated certain stores to prime locations to ensure that all existing stores remain competitive. Fiscal 2005 saw Circle K relocate 51 stores, mainly in the Chukyo region, and Sunkus relocate 14 stores chiefly in Kanto and northern regions of Japan.

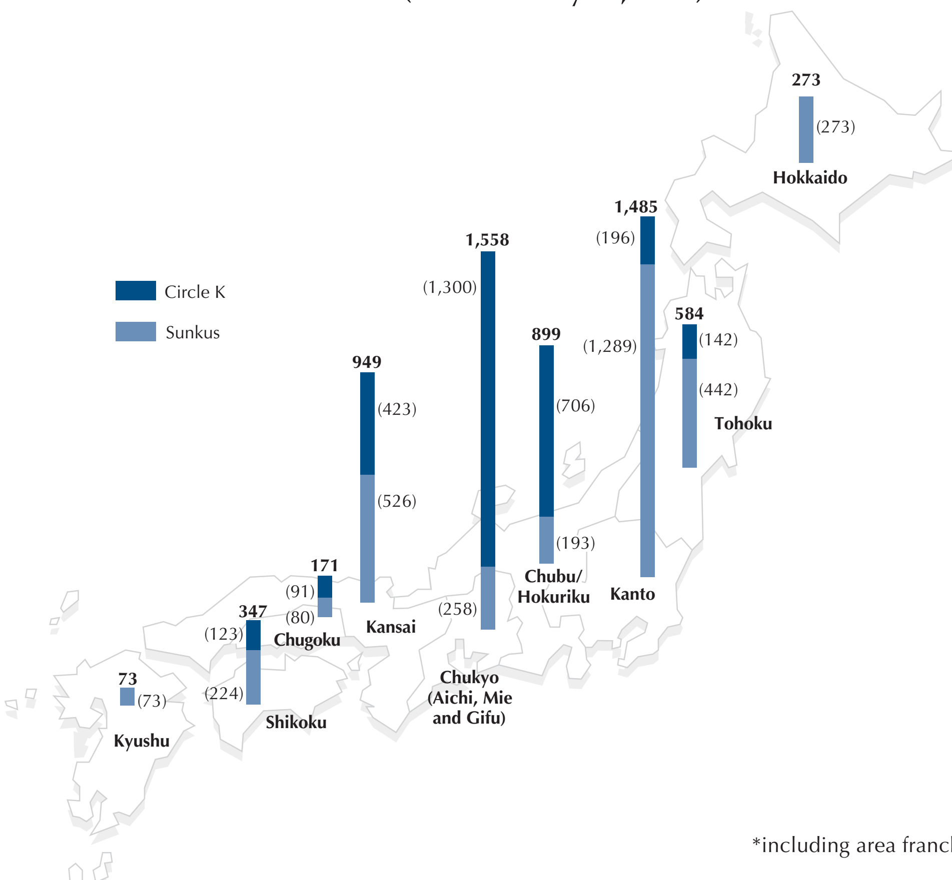
During the previous fiscal year, the Company pressed forward with a major store closure program focused mainly on unprofitable stores and stores likely to become unprofitable as part of structural reforms, resulting in a net decrease in stores. In fiscal 2005, however, the number of stores closed settled down to normal levels, with Circle K Sunkus collectively closing 223 stores.

As of February 28, 2005, Circle K Sunkus had a total of 5,128 stores, representing a net increase of 123 stores. The Group's 14 area franchisers had a network of 1,211 stores, representing a net increase of 64 stores. The total number of stores for the Circle K Sunkus Group, including area franchisers, was 6,339. With the opening of a new store in Kumamoto Prefecture in fiscal 2005, Circle K Sunkus' store network now covers 36 prefectures in Japan.

In fiscal 2006, Circle K Sunkus will maintain its policy of emphasizing store profitability, while opening high-quality new stores. Plans call for Circle K Sunkus to open a total of 370 new stores, including 195 stores at Circle K and 175 stores at Sunkus. The fundamental strategy for opening new stores is to reestablish a dominant presence and continue to relocate stores. This strategy calls for reestablishing dominance especially in the primary regions of both convenience store chains—the Chukyo and Kanto regions—and for Circle K Sunkus to relocate 91 stores. In March 2005, Circle K Sunkus implemented organizational reforms that saw the establishment of a New Area Development Department inside the General Store Development Headquarters to assemble a structure for efficiently and rapidly opening new stores in regions where stores have not been opened. Through these and other measures, Circle K Sunkus aims to achieve its plans for opening new stores in fiscal 2006. As of March 1, 2005, the number of outstanding contracts to be signed for new stores was 186. The planned closure of 208 stores will result in a net increase of 162 stores for fiscal 2006.

By February 28, 2006, Circle K Sunkus projects that the total number of stores at Circle K Sunkus will reach 5,290, while the total for the Group, including area franchisers, is projected to increase to 6,571 stores.

Stores Network (As of February 28, 2005)



*including area franchisers

Stores by Geographic Region (As of February 28, 2005)

(Stores)

	Circle K Sunkus		Circle K		Sunkus	
		Share		Share		Share
Hokkaido	**273**	4.3%	–	–	273	8.1%
Tohoku	**584**	9.2	142	4.8%	442	13.2
Kanto	**1,485**	23.4	196	6.6	1,289	38.4
Chubu / Hokuriku	**899**	14.2	706	23.7	193	5.7
Chukyo (Note 2)	**1,558**	24.6	1,300	43.6	258	7.7
Kansai	**949**	15.0	423	14.2	526	15.6
Chugoku	**171**	2.7	91	3.0	80	2.4
Shikoku	**347**	5.5	123	4.1	224	6.7
Kyushu	**73**	1.1	–	–	73	2.2
Total	**6,339**	100.0%	2,981	100.0%	3,358	100.0%
No. of prefectures covered	**36**		26		33	

Notes: 1. Figures include area franchisers.
2. The Chukyo region comprises Aichi, Mie and Gifu prefectures.

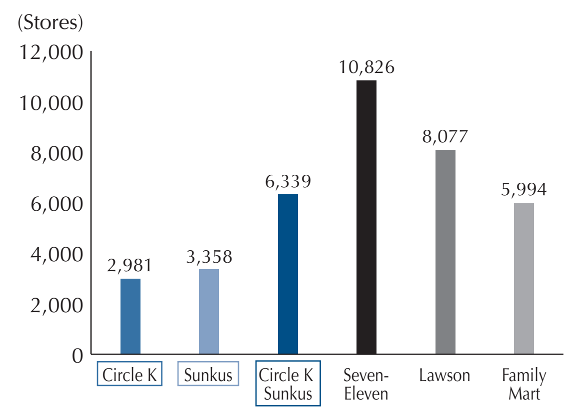
Looking at stores opened and closed by the five major convenience store chains in the February 2005 fiscal year, Circle K and Sunkus both achieved a net increase in the number of stores, after recording net decreases as part of a large store closure program in the previous fiscal year. All other major convenience stores also reported net increases in the number of stores. However, the major convenience store chains are still struggling to open new stores, falling short of plans for new store openings and closing more stores, resulting in slower net increases in store counts.

Breakdown by Store Conditions Investors' Guide P. 13

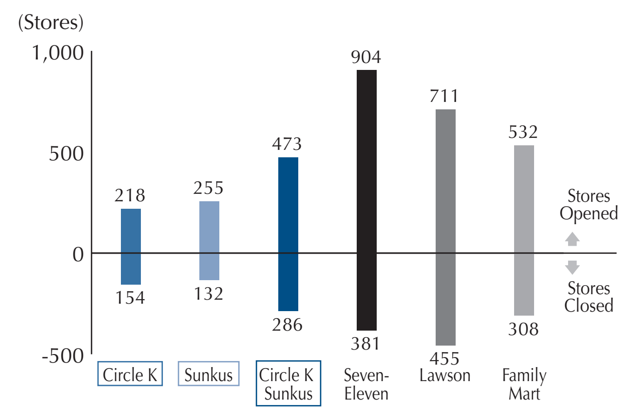
Faced with intensifying competition, Circle K Sunkus is determined to improve store conditions through actions that include obtaining licenses to sell alcoholic beverages and tobacco, and building parking lots adjacent to stores, as part of efforts to open quality stores in addition to maintaining competitive existing ones. In fiscal 2005, Circle K Sunkus took advantage of the relaxation of regulations for obtaining licenses to sell alcoholic beverages since the prior fiscal year to steadily increase the percentage of stores licensed. At Circle K, this percentage increased by 8 percentage points from the previous fiscal year. Sunkus managed to steadily increase the percentage of stores selling alcohol by 5.7 percentage points, although the percentage declined in the previous fiscal year due to the large proportion of stores closed that were licensed to sell alcohol. That said, licensing deregulation has worked to the disadvantage of Sunkus because it has the highest percentage of stores handling alcoholic beverages in the convenience store industry, resulting in a continuation of lackluster alcoholic beverage sales.

The proportion of Circle K and Sunkus stores selling tobacco rose steadily. At Circle K, where 91.9% of stores

No. of Stores of Major Convenience Store Chains (Fiscal 2005)



Stores Opened/Closed of Major Convenience Store Chains (Fiscal 2005)



Notes: 1. Figures for Circle K, Sunkus, and Circle K Sunkus include area franchisers.
2. Figures for each convenience store chain represent stores in Japan only, excluding those of consolidated subsidiaries.
Source: Financial reports prepared by each company.

Franchised and Company-owned Stores by Store Conditions in Fiscal 2005

(Stores)

	Circle K Sunkus	Change	Circle K	Change	Sunkus	Change
24-hour operations	**5,058 (98.6%)**	0.2%	2,833 (99.2%)	0.2%	2,225 (97.9%)	0.2%
Alcoholic beverage sales license	**4,192 (81.7%)**	6.9	2,288 (80.1%)	8.0	1,904 (83.8%)	5.7
Tobacco sales license	**4,399 (85.8%)**	1.9	2,624 (91.9%)	1.4	1,775 (78.1%)	2.1
Parking areas	**3,960 (77.2%)**	0.9	2,664 (93.3%)	0.4	1,296 (57.0%)	0.6
Total number of stores	**5,128 (100.0%)**	–	2,855 (100.0%)	–	2,273 (100.0%)	–

Notes: 1. Franchised and Company-owned stores only (excludes area franchisers).
2. Percentage change refers to changes in composition.
3. Figures enclosed in parentheses represent the number of stores as a percentage of total stores.

sell tobacco, sales are especially strong.

Parking lots adjacent to stores are an essential function for making stores more competitive. One initiative in recent years has seen Circle K Sunkus not only build parking lots adjacent to stores, but also enlarge these lots at many more stores. The percentage of Circle K stores with adjacent parking lots is 93.3%, higher than the 57% at Sunkus, reflecting the fact that Circle K stores have a greater share of suburban stores alongside roads.

Store Sales, Average Daily Sales and Customers Per Store, and Average Purchase Per Customer

Investors' Guide P. 14 – 15 / P. 27

Looking at major trends in customer footfall and average purchase per customer at Circle K and Sunkus, Circle K typically serves fewer customers per store, but records a higher average purchase per customer than Sunkus, reflecting its higher proportion of stores in suburban locations. By contrast, Sunkus typically serves more customers per store, but records a lower average purchase per customer than Circle K, as a high proportion of Sunkus stores are located in city centers and office districts.

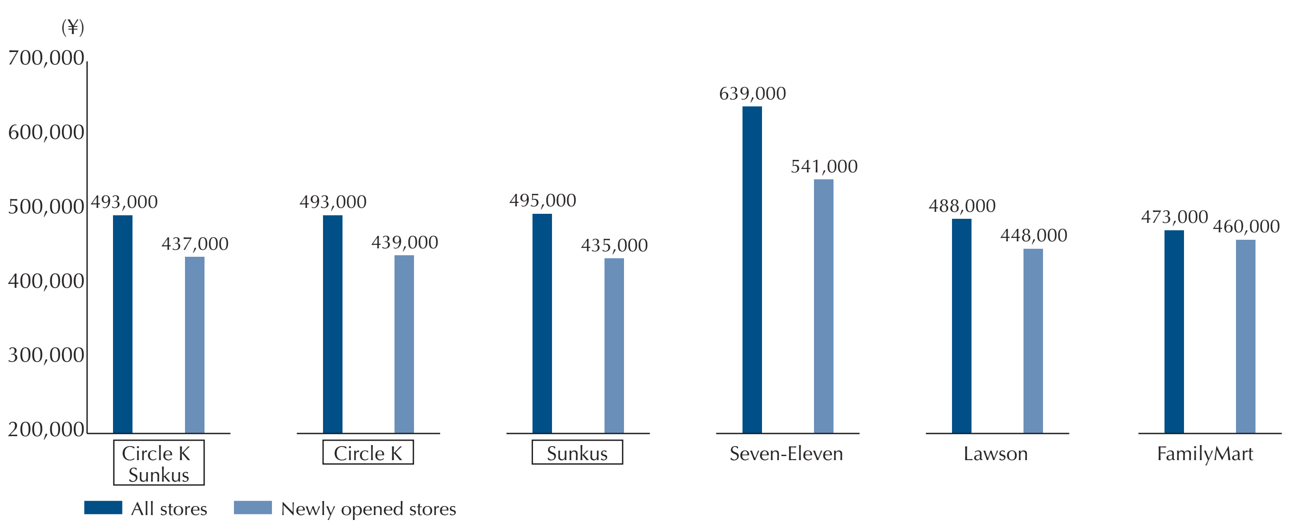
In fiscal 2005, Circle K and Sunkus both saw the number of customers visiting stores increase year on year. However, the average purchase per customer has been declining due to fewer items being purchased per customer, mirroring a persistent downturn in consumer spending. This trend is expected to continue for the time being, as a full-fledged improvement in consumer sentiment is still forthcoming.

Average Daily Sales, Average Number of Daily Customers, and Average Purchase Per Customer at Company and Franchised Stores

	Fiscal 2004				Fiscal 2005					
	Circle K	Change	Sunkus	Change	Circle K Sunkus	Change	Circle K	Change	Sunkus	Change
Existing stores										
Average daily sales per store	¥492,000	–4.7%	¥504,000	–1.9%	**¥496,000**	–	¥494,000	0.4%	¥500,000	–0.8%
Average number of daily customers per store	770	–0.1%	879	0.7%	**826**	–	775	0.6%	892	1.5%
Average purchase per customer	639	–3.2%	573	–2.7%	**601**	–	638	–0.2%	560	–2.3%
Average daily sales at all stores	¥488,000	–3.0%	¥500,000	–2.2%	**¥493,000**	–	¥493,000	1.0%	¥495,000	–1.0%
Average daily sales at newly opened stores	¥447,000	–9.5%	¥453,000	–8.3%	**¥437,000**	–	¥439,000	–1.8%	¥435,000	–4.0%

Note: Figures exclude area franchisers.

Average Daily Sales Per Store at Major Convenience Store Chains (Fiscal 2005)



Note: Figures exclude area franchisers.
Source: Financial reports prepared by each company.

Whereas Circle K reported a year-on-year increase in average daily sales per existing store, leading to higher results on an existing-store and all store basis, Sunkus suffered decreases in average daily sales per store on the same basis due to lackluster sales.

In fiscal 2005, Seven-Eleven Japan recorded average daily sales per store on an all-store basis on the order of ¥600,000, remaining far ahead of the second runner and other convenience store chains. On the other hand, the three other major convenience store chains, with the exception of Sunkus, saw year-on-year improvements in average daily sales per store, after all four of these chains reported declines in the preceding fiscal year due to the termination of prepaid highway toll cards. Meanwhile, Seven-Eleven Japan still leads the four major convenience stores in terms of average daily sales per store at newly opened stores, albeit by a smaller margin than for average daily sales per store on an all-store basis.

Product Details and Markup Rates Investors' Guide P. 16 – 17

During fiscal 2005, overall sales in the fast food category increased year on year, underpinned by brisk sales of countertop fast foods, despite slower rice dish sales due to lackluster sales of boxed lunches. The processed foods category saw overall sales decrease slightly, due to slowing sales of alcoholic beverages at Sunkus, snacks on the whole, and instant noodles. Sales in this category were helped by strong sales of beverages, such as soft drinks, due to a hot summer in 2004. In the non-foods category, despite the continuation of brisk tobacco sales, sales fell sharply from the previous fiscal year, due to lackluster sales of cosmetics and other products in the general merchandise category on the whole. In fiscal 2005, total product sales rose 2.0% at Circle K but were largely the same at Sunkus, reflecting a net increase in the number of stores and the absence of effects from the termination of high-priced prepaid highway toll cards.

FAST FOOD: Rice dishes, bread, noodles, delicatessen snacks and countertop fast foods

Circle K Sunkus emphasized the improvement of product quality in pursuit of great-tasting fast food products. For rice balls, Circle K Sunkus insisted on preparation methods and ingredients that produce soft, wholesome products. For boxed lunches, Circle K extended the *Kiwami* series of foods made from only the finest ingredients beyond rice balls to include boxed lunches. Meanwhile, Sunkus' boxed-lunch products, which are made from quality ingredients that take full advantage of the chilled temperature range for boxed lunches, also proved popular. However, overall rice-dish sales decreased slightly due to slower sales of boxed lunches, despite a continuation in brisk sales of rice balls.

Circle K posted stronger sales of delicatessen items, supported by renewal and sales promotion campaigns throughout the fiscal year, but processed noodle sales struggled to grow. Conversely, Sunkus posted higher processed noodle sales on popular pasta dishes, but weaker sales of delicatessen items and baked goods. However, driven by brisk sales of aggressively marketed countertop fast foods, overall fast food sales increased at both Circle K and Sunkus by 0.3% and 2.2%, respectively.

FRESH FOOD: Milk, chilled beverages, pastries, bread, desserts, and fresh food items

Circle K recorded higher sales of original baked goods, benefiting from the renewal of its lineup, but Sunkus saw slower growth in the final stage of its current product cycle. Sales of milk and chilled beverages remained strong at both Circle K and Sunkus, supported by a continued shift in consumer preferences from beverages packaged in PET bottles to those packaged in less-expensive paper cartons. Consequently, sales of fresh foods grew 1.2% at Circle K and 1.0% at Sunkus.

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

Benefiting from a hot summer, soft drink and ice cream sales were brisk in the first half of fiscal 2005. *Hogaraka Time*, an original lineup of snacks popular for being packaged in single-serving sizes and priced inexpensively, performed well. However, sales of chewing gum, chocolate, and snacks were lackluster. Circle K reaped the benefits of alcohol licensing deregulation, growing alcoholic beverage sales 7.2% year on year. By contrast, intensified competition diminished Sunkus' advantage in having the highest percentage of stores licensed to sell alcohol in the convenience store industry, reducing sales 9.3% year on year. This came despite an increase in the number of Sunkus stores licensed to sell alcoholic beverages. Consequently, overall sales of processed food increased 0.5% year on year at Circle K, while declining 2.6% at Sunkus.

NON-FOOD ITEMS: Magazines, newspapers, DVD software, tobacco, cosmetics, and general merchandise

In fiscal 2005, tobacco sales performed extremely well, and sales of DVD software steadily grew as Circle K Sunkus began handling more titles, centered on blockbuster films. *KACHIAL*, an eco-conscious original brand underpinned by the concepts of safety, value and trust, was extended to the general merchandise category in fiscal 2005, but sales of general merchandise remained lackluster. However, overall sales in the non-food items category increased 5.3% at Circle K and 3.3% at Sunkus, lifted sharply by an 8.6% increase in tobacco sales, which represent 17% of sales at Circle K Sunkus.

SERVICES: Prepaid highway toll cards, tickets, stamps and parcel delivery

Both Circle K and Sunkus recorded brisk sales of various prepaid cards, including prepaid highway toll cards, and cinema tickets. At Circle K, sales in the service category rose 1.0% year on year. The main contributing factors were a 10.7% increase in sales of prepaid highway toll cards, as the effects of the termination of high-priced prepaid highway toll cards were fully reflected in results in the previous fiscal year, as well as brisk sales of catalog gifts. Meanwhile, Sunkus saw sales in the service category decrease 5.2% year on year largely due to lower sales generated from parcel delivery services and slower overall catalog gift sales. The share of service category sales also decreased one percentage point.

PRODUCT MARKUPS

Circle K Sunkus has used the opportunity of its merger to unify the Marketing Division, enabling it to conduct negotiations on behalf of some 6,000 stores to improve product markups in each product category. However, the average product markup in fiscal 2005 for Circle K Sunkus was down 0.1 of percentage point at 28.8%. This was mainly a reflection of two factors: first, products with relatively high markups, such as snacks and other processed foods and general merchandise, represented a lower percentage of overall sales, due to lackluster sales; secondly, tobacco, which has a relatively low markup, represented a higher percentage of overall sales, due to robust sales. By convenience store chain, Circle K had an average product markup of 28.4%, down 0.2 of a percentage point, reflecting stronger growth in tobacco sales than at Sunkus. Meanwhile, Sunkus saw an improvement of 0.1 of a percentage point in the average product markup to 29.3%, partly due to the benefits of measures to integrate vendor and distribution networks in the processed foods category at Sunkus since the second half of fiscal 2005.

For fiscal 2006, Circle K Sunkus projects that products with relatively low markups, such as tobacco and service category products such as tickets, will represent a greater percentage of sales. Nonetheless, Circle K and Sunkus are both targeting increases of 0.16 of a percentage point in the average product markup. This will be accomplished through measures to raise the proportion of original products, including those under the original *KACHIAL* and *Hogaraka Time* brands, which cover general merchandise

Sales by Product and Product Markups

Circle K	Fiscal 2004			Fiscal 2005		
	Sales Growth	Share	Markup	Sales Growth	Share	Markup
Fast food	–1.5%	20.9%	34.5%	0.3%	20.6%	34.8%
Fresh food	3.1	11.9	32.8	1.2	11.9	33.3
Processed food	0.2	32.5	34.7	0.5	31.9	34.8
Non-food items	3.0	28.7	19.1	5.3	29.5	18.5
Services	–31.0	6.0	8.9	1.0	6.1	7.9
Total	–1.7%	100.0%	28.7%	2.0%	100.0%	28.4%

Sunkus	Fiscal 2004			Fiscal 2005		
	Sales Growth	Share	Markup	Sales Growth	Share	Markup
Fast food	3.1%	19.1%	34.4%	2.2%	19.6%	34.9%
Fresh food	2.2	12.9	32.4	1.0	13.1	33.2
Processed food	–3.0	34.5	34.1	–2.6	33.8	34.6
Non-food items	1.3	26.5	20.9	3.3	27.5	20.2
Services	–10.6	7.0	9.7	–5.2	6.0	8.9
Total	–0.7%	100.0%	29.2%	0.0%	100.0%	29.3%

Notes: 1. Sales growth and share figures represent those for all stores of Circle K and Sunkus.
2. Product markups for Sunkus include area franchisers.

and snacks, in addition to using the opportunity created by the merger to integrate vendor and logistics networks.

Looking at figures for each major convenience store chain over the past five years, in fiscal 2005, markups at three major convenience chains, Sunkus, Seven-Eleven and Lawson, have improved 0.1 of a percentage point, while those at Circle K and FamilyMart have declined 0.2 and 0.1 of a percentage point, respectively.

AREA FRANCHISERS Investors' Guide P. 20 – 21

Circle K Sunkus has a store network consisting of Company-owned stores and area franchisers. The Company establishes area franchisers as joint venture companies with prominent local firms to operate franchised stores in specific regions. Area franchisers receive expertise and guidance from the Company on their respective convenience store chains.

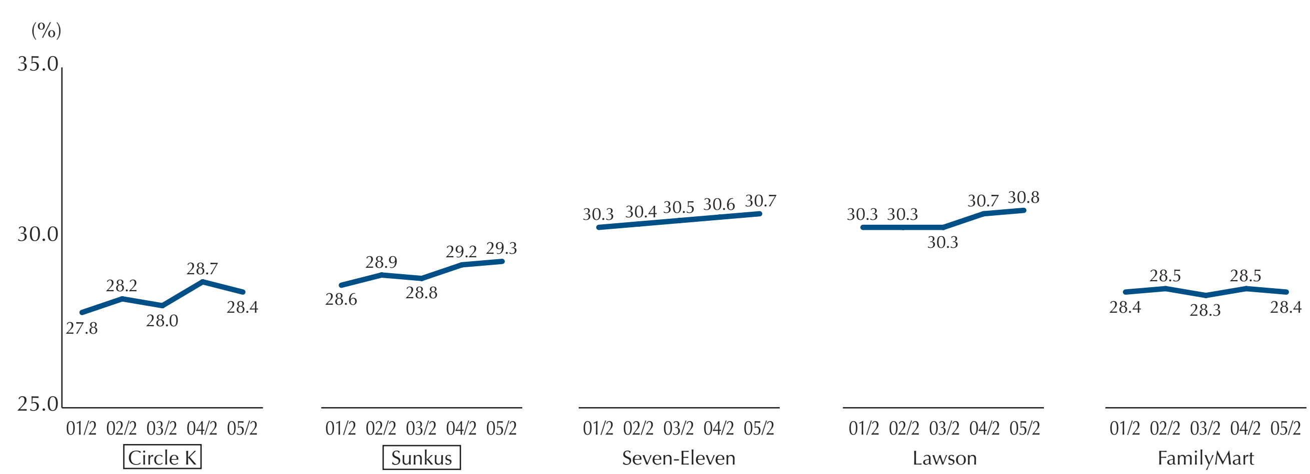
The Company provides guidance to area franchisers on topics such as store development, operations and accounting, while at the same time supplying them with products, information systems and other items. Fees from area franchisers are paid to the Company in return.

As of February 28, 2005, the Circle K Sunkus Group had 14 area franchisers who operated 1,211 stores in 22 prefectures. The Circle K Sunkus Group maximizes scale merits across the Group, including at area franchisers, with regard to product policies and developing its store network.

As of June 1, 2004, CIRCLE K JAPAN Co., Ltd., the predecessor of Circle K Sunkus Co., Ltd., absorbed CKTOHOKU Co., Ltd., a consolidated subsidiary until the first quarter of fiscal 2005. Furthermore, Sunkus Aomori Co., Ltd. and Sunkus Nishi-Saitama Co., Ltd. became consolidated subsidiaries in fiscal 2005. Sunkus Aomori and Sunkus Nishi-Saitama both returned to profitability in fiscal 2005, reporting operating income of ¥31 million and ¥68 million, respectively.

As of July 1, 2005, the area franchise agreement between the Company and Sunkus and Associates Tochigi Corporation was transferred to SUNKUS KITAKANTO Co., Ltd., which was newly established through a demerger.

Product Markups (Gross Margin) for Major Convenience Store Chains



Note: Figures for Sunkus include area franchisers.
Source: Financial reports prepared by each company.

On the same day, the Company acquired all shares in SUNKUS KITAKANTO Co., Ltd. for conversion into a wholly owned subsidiary.

Circle K Sunkus respects the autonomy of management at area franchisers. However, it is now vital that Circle K Sunkus carefully consider returns on investments from a Group-wide perspective, providing personnel and funding support for area franchisers as necessary.

The Circle K Sunkus Group will deepen ties and remain in close contact with area franchisers, while further strengthening management guidance.

Area Franchisers

Company	Date of agreement	2005/2 Number of stores (Stores)	Change	Sales (¥ million)	Change	Area license fees (¥ million)
Circle K Shikoku Co., Ltd.	1996. 5.14	126	17	¥ 18,988	15.4%	
Sunkus Aomori Co., Ltd.*	1994. 3. 1	67	3	¥ 9,819	1.3%	
Sunkus Nishi-Saitama Co., Ltd.*	1987. 2.28	76	1	11,638	–8.3%	
Eiko Sunkus Co., Ltd.	1988. 6.30	44	–2	4,357	–10.4%	
Sunkus Higashi-Saitama Co., Ltd.	1988. 7.19	75	–6	10,737	–7.7%	
Sunkus Tokai Co., Ltd.	1989. 9. 6	89	2	14,414	4.1%	
Sunkus Keihanna Co., Ltd.	1989. 10.26	119	6	19,737	0.3%	
Sunkus Nishi-Shikoku Co., Ltd.	1992. 8.27	91	–1	14,348	1.2%	
Sunkus and Associates Higashi-Shikoku Co., Ltd.	1995. 1.12	133	7	23,537	1.6%	
Sunkus Hokulia Corporation	1995. 1.24	84	4	15,225	6.0%	
Sunkus and Associates Toyama Co., Ltd.	1996. 7. 2	74	9	12,070	11.0%	
Sunkus and Associates Tochigi Corporation (Note)	1997. 3.12	37	–1	5,875	2.5%	
Minami-Kyushu Sunkus Co., Ltd.	1998. 8.21	73	19	10,029	28.6%	
CVS Bay Area Inc.	1997. 1.14	123	9	26,583	8.6%	
Total		**1,211**	**67**	**¥197,364**	**–5.0%**	**¥3,192**

Note: As of July 1, 2005, the area franchise agreement between the Company and Sunkus and Associates Tochigi Corporation was transferred to SUNKUS KITAKANTO Co., Ltd., which was newly established through a demerger. On the same day, the Company acquired all shares in SUNKUS KITAKANTO Co., Ltd. for conversion into a wholly owned subsidiary.

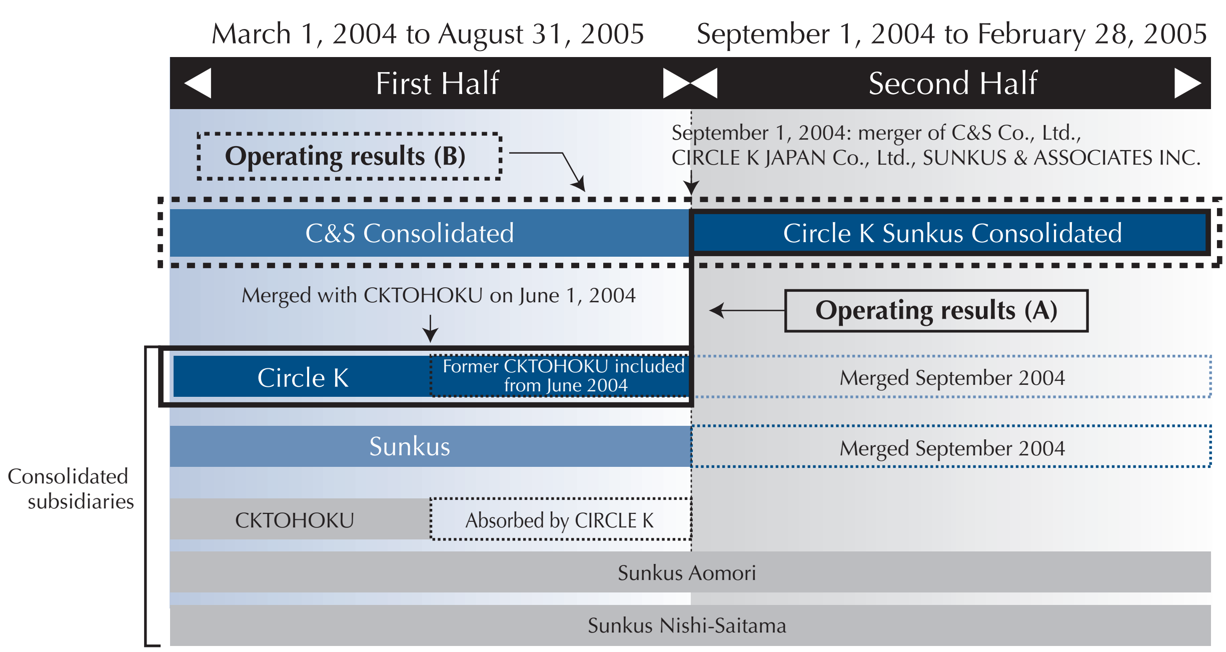
* Consolidated subsidiaries

(As of February 28, 2005)

PRESENTATION OF OPERATING RESULTS FOR FISCAL 2005 Investors' Guide P. 2

During fiscal 2005, Circle K Sunkus Co., Ltd. was formed through a three-way merger among CIRCLE K JAPAN Co., Ltd., C&S Co., Ltd. and SUNKUS & ASSOCIATES INC., with CIRCLE K JAPAN as the surviving company. Consequently, operating results presented on **basis A* ("operating results (A)")** for fiscal 2005 represent the sum of operating results for the surviving company CIRCLE K JAPAN for the first half of fiscal 2005 and those of Circle K Sunkus for the second half of the fiscal year. Operating results for fiscal 2005 thus exclude results for the former SUNKUS & ASSOCIATES INC. for the first half. **Operating results (A)** are not comparable with the previous or subsequent fiscal years. The financial statements and accompanying notes on pages 42 to 58 of this annual report present these **operating results (A)**. The operating results presented on **basis B** ("operating results (B)")** more accurately reflect the actual performance of Circle K Sunkus. Please refer to pages 60 to 62 for these figures.

Presentation of Operating Results



* **Basis A**: First-half non-consolidated operating results of CIRCLE K JAPAN Co., Ltd., the surviving company + Second-half consolidated operating results of Circle K Sunkus Co., Ltd. after the merger

** **Basis B**: First-half consolidated operating results of C&S Co., Ltd. before the merger + Second-half consolidated operating results of Circle K Sunkus Co., Ltd. after the merger

CONSOLIDATED OPERATING RESULTS FOR FISCAL 2005

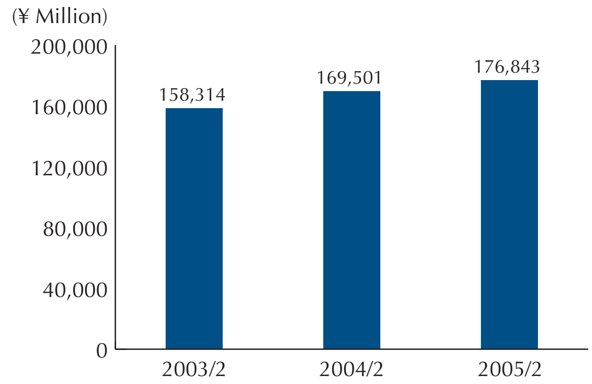
In fiscal 2005, total consolidated operating revenues were ¥176,843 million, up 4.3% year on year. This was mainly a reflection of an increase of ¥3,493 million in franchise commissions from franchised stores due to contributions from new stores and the consolidation of two subsidiaries in fiscal 2005; and an increase of ¥3,730 million in net sales of Company-owned stores, due to a higher number of such stores during the fiscal year.

Despite an increase in consolidated selling, general and administrative (SG&A) expenses from the addition of ¥2.5 billion in expenses due to the consolidation of new subsidiaries, Circle K Sunkus worked on every front to reduce operating expenses. In fiscal 2005, the formation of Circle K Sunkus Co., Ltd. through a merger eliminated goodwill—the excess of cost of investments over equity in net assets acquired—associated with the purchase of SUNKUS & ASSOCIATES INC. by CIRCLE K JAPAN Co., Ltd. in 1998. Due to these and other factors, SG&A expenses rose only 2.3%, or ¥2,402 million year on year. As a result, consolidated operating income climbed 8.7% year on year to ¥24,385 million.

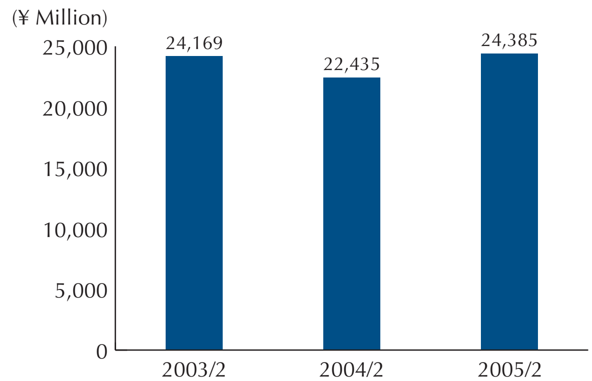
In fiscal 2005, Circle K Sunkus finished a major store closure program focused on unprofitable stores, and the number of stores closed settled down to normal levels. This led to decreases of ¥2,522 million in the loss on cancellation of lease contracts and ¥1,083 million in the loss on sales or disposal of property and equipment related to store closures. As a result, income before income taxes and consolidated net income both sharply increased year on year. Income before income taxes was up 48.4% at ¥22,150 million, while consolidated net income climbed 65.4% to ¥12,654 million.

Looking ahead to fiscal 2006, Circle K Sunkus is projecting higher total operating revenues of ¥181,580 million

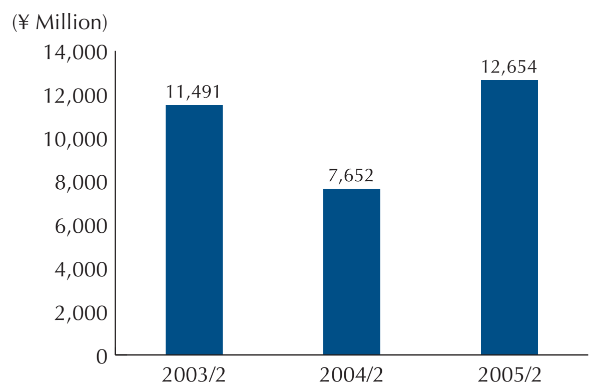
Total Operating Revenues



Operating Income



Net Income



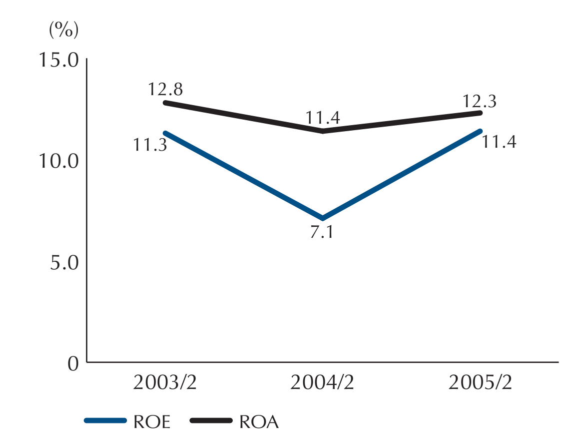
Note: Figures for fiscal 2003 and fiscal 2004 represent the consolidated operating results of C&S Co., Ltd. while those for fiscal 2005 represent those of Circle K Sunkus Co., Ltd. on an actual basis.

on an increase in the number of stores. On the earnings front, through efforts to reduce SG&A expenses, Circle K Sunkus is targeting consolidated operating income of ¥27,620 million and net income of ¥12,550 million.

For fiscal 2006, as a result of the early adoption of new accounting standards for the impairment of fixed assets, depreciation expenses and leasing fees are projected to decrease ¥680 million compared with the previous accounting method, and Circle K Sunkus expects to book a one-time extraordinary loss of ¥4,652 million on the impairment of fixed assets for fiscal 2006. On the other hand, Circle K Sunkus is projecting an extraordinary gain of ¥1,492 million on the return of the substitutional portion of the Employees' Pension Fund of the Uny Group to the Japanese government in line with accounting standards for retirement benefits, which require that the extraordinary gain be estimated based on the assumption that the return took place at the fiscal year-end on February 28, 2005. Furthermore, of the enterprise tax provision to be booked in line with the introduction of a pro forma enterprise tax, a tax obligation of ¥550 million corresponding to equity and value-added tax components is expected to be included in SG&A expenses.

The above accounting changes and other factors are projected to increase consolidated operating income by ¥130 million and decrease consolidated net income by ¥1,500 million compared with the previous accounting method.

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



Notes: 1. ROA = (Operating income + Interest and dividend income) / Total assets (Yearly average) x 100
2. ROE = Net income / Shareholders' equity (Yearly average) x 100

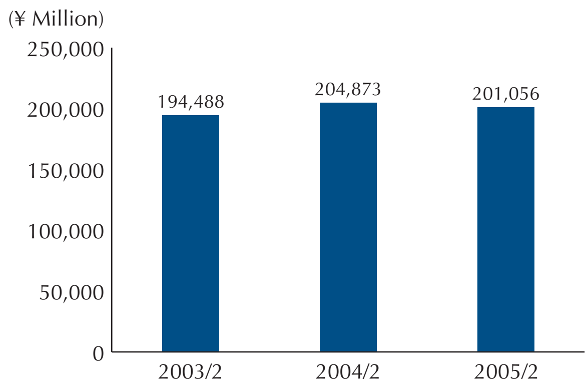
CONSOLIDATED FINANCIAL POSITION

Total current assets climbed ¥5,733 million from a year ago to ¥80,963 million. This mainly reflected an increase of ¥6,863 million in the combined total of cash and cash equivalents, and short-term investments, which constitute Circle K Sunkus' primary sources of liquidity. Due from franchised stores decreased ¥36 million from a year earlier to ¥3,564 million, including contributions of ¥124 million due to the consolidation of Sunkus Aomori Co., Ltd. and Sunkus Nishi-Saitama Co., Ltd. Excluding the effect of these two subsidiaries, due from franchised stores decreased ¥160 million.

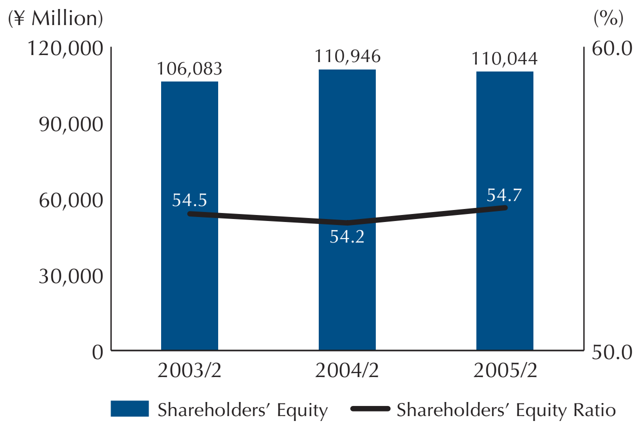
Net property and equipment rose ¥2,629 million to ¥42,354 million, mainly due to increases in buildings and structures due to new stores. The addition of two new consolidated subsidiaries had the effect of increasing net property and equipment by ¥1,462 million.

Investments and other assets declined ¥12,179 million to ¥77,739 million. Long-term leasehold deposits rose ¥2,002 million, reflecting the net increase in the number of stores, as well as contributions of ¥837 million from the addition of two new subsidiaries. On the other hand, the elimination of goodwill between C&S Co., Ltd. and SUNKUS & ASSOCIATES INC. following the merger led to a decrease of ¥10,795 million in goodwill. The remaining balance of ¥429 million applies to other consolidated subsidiaries.

Total Assets



Shareholders' Equity and Shareholders' Equity Ratio



Note: Figures for fiscal 2003 and fiscal 2004 represent the consolidated operating results of C&S Co., Ltd., while those for fiscal 2005 represent those of Circle K Sunkus Co., Ltd. on an actual basis.

Total current liabilities were ¥72,526 million, a decrease of ¥3,351 million from a year ago. This was due mainly to declines of ¥1,876 million in trade accounts payable and ¥1,004 million in other accounts payable, which reflected larger balances than normal in fiscal 2004, a leap year. Other components included an increase of ¥923 million in payments received largely in line with a higher handling volume of payments from customers for utility and other bills that are accepted at convenience stores. However, accrued severance benefits for officers decreased ¥261 million, due to the payment of the portions of these benefits at C&S and SUNKUS at the time of the merger. Short-term borrowings and long-term debt represent loans taken out by consolidated subsidiaries.

Total shareholders' equity was ¥110,044 million, a decrease of ¥902 million from a year earlier. This was mainly a reflection of liquidations associated with the merger, despite recording net income of ¥12,654 million. The shareholders' equity ratio was 54.7% and shareholders' equity per share was ¥1,276.63.

CASH FLOWS (BASIS A*)

*Please see page 36 for details.

Net cash provided by operating activities was ¥12,034 million. The main contributing factors were a sharp increase in income before income taxes and minority interests to ¥16,642 million, due to the effects of the merger, partly offset by a decrease in accounts payable, the primary factor behind lower operating liabilities.

Net cash used in investing activities was ¥10,783 million. The main components were a ¥6,567 million increase in property and equipment chiefly to open new stores and upgrade the functions of existing ones and a ¥4,983 million increase in long-term leasehold deposits related to new stores.

Consequently, free cash flow, which is net cash provided by operating activities minus net cash used in investing activities, amounted to ¥1,251 million.

Net cash used in financing activities totaled ¥2,865 million. The main cash outflows were a merger payment totaling ¥1,376 million (equivalent to the interim dividend payment), in addition to dividends paid of ¥1,104 million to shareholders of C&S Co., Ltd. prior to the merger.

As of February 28, 2005, cash and cash equivalents were ¥58,820 million, up ¥24,039 million from a year earlier. Excluding the effect of the increase of ¥25,653 million due to the merger and resulting increase in consolidated subsidiaries, cash and cash equivalents decreased ¥1,614 million from a year earlier.

RETURNING PROFITS TO SHAREHOLDERS

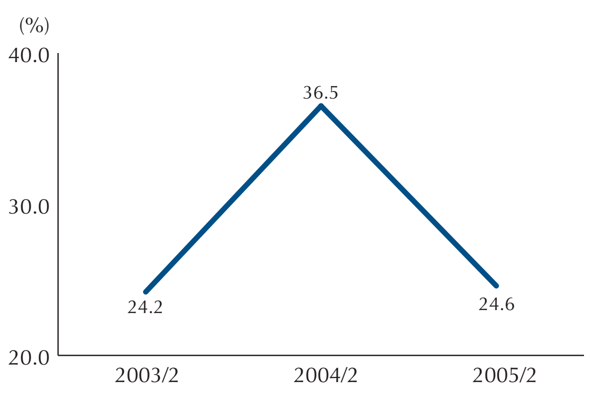
Investors' Guide **P. 24**

Circle K Sunkus returns profits to shareholders in line with business results while maintaining the internal reserves necessary to create a strong business base and sustain a high level of growth potential. Circle K Sunkus considers the maintenance of stable dividends its first priority and aims to pay out 20% of consolidated net income in the year under review in the form of dividends. Circle K Sunkus intends to raise the dividend payout ratio to 30% in the future.

In fiscal 2005, Circle K Sunkus paid a merger payment of ¥16 per share (equivalent to the interim dividend payment) in line with the merger carried out during the fiscal year. Circle K Sunkus also increased the year-end dividend by ¥4 per share to ¥20 per share, including a commemorative dividend of ¥2 per share occasioned by the merger. As a result, the annual dividend for fiscal 2005 was ¥36 per share, representing a dividend payout ratio of 24.6%.

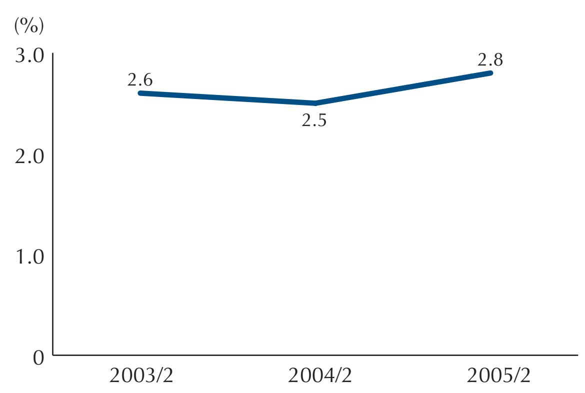
Circle K Sunkus does not plan to purchase treasury stock for the foreseeable future, as internal reserves are required to fund investments in revitalizing existing stores to make them still more competitive, in addition to developing new ones, acquiring store fixtures for displaying new products, and bringing a new information system on stream as planned in fiscal 2007. However, Circle K Sunkus will consider other means of returning profits to shareholders, such as dividend payments in line with earnings growth.

Dividend Payout Ratio



Note: Because profits declined in the fiscal 2004 reporting period due to restructuring costs, the dividend payout ratio for fiscal 2004 was unusually high.

Ratio of Dividends to Shareholders' Equity



OUTLOOK FOR FISCAL 2006

Circle K Sunkus continues to face a difficult business environment, as newly opened and existing stores struggle to grow sales amid intensifying competition. In addition to competing with rival convenience store chains, Circle K Sunkus must also contend with actions taken by industry outsiders, such as the emergence of new business formats, a sharp rise in supermarkets with late-night operating hours and expanding drugstore chains. Guided by the thinking that a shift to a strategy predicated on further internal integration is essential to responding to the fast-changing environment surrounding the maturing convenience store industry, the Circle K Sunkus Group was formed through a merger on September 1, 2004.

The completion of this merger marked the first phase of integration for Circle K Sunkus. To maximize the benefits of the merger, the Company intends to press on with the second and third phases of integration in fiscal 2006 and 2007, respectively. The aim is to fully unify all operating processes, including the consolidation of vendor and logistics networks, information systems, and various personnel systems by fiscal 2007.

In this climate, the Circle K Sunkus Group has positioned the fiscal year ending February 2006 as the year to fully realize merger benefits and will be taking steps to maximize the effect of the previous fiscal year's merger on operating results. To this end, it is imperative that Circle K Sunkus press on with further internal integration at a faster pace. Guided by this thinking, Circle K Sunkus implemented organizational reforms in March 2005. This process involved reorganizing the business unit system, which had previously structured the Company around the existing Circle K and Sunkus store brands, into a new structure based on functions, centered on a General Store Operations Headquarters and General Store Development Headquarters. Under this new organization, Circle K Sunkus will press ahead with further integration with the overriding goal of maximizing merger benefits. Key actions will include upgrading development and operations capabilities to establish a sharp competitive edge, and pouring energy into developing products and services that set Circle K Sunkus apart in the marketplace. Through these and other initiatives, Circle K Sunkus aims to deliver double-digit earnings growth every year.

Consolidated Balance Sheet

Circle K Sunkus Co., Ltd.
February 28, 2005

ASSETS	Millions of Yen 2005	Thousands of U.S. Dollars 2005
Current assets:		
Cash and cash equivalents	¥ 58,820	$ 560,190
Short-term investments (Note 4)	799	7,610
Accounts receivable:		
Due from franchised stores (Note 5)	3,564	33,943
Other	8,300	79,048
	11,864	112,991
Inventories	2,214	21,086
Deferred tax assets (Note 15)	864	8,228
Prepaid expenses and other current assets	7,031	66,962
Allowance for doubtful accounts	(629)	(5,991)
Total current assets	80,963	771,076
Property and equipment, at cost	74,703	711,457
Less, accumulated depreciation	(32,349)	(308,086)
Net property and equipment (Note 6)	42,354	403,371
Investments and other assets:		
Investment securities (Note 4)	4,057	38,638
Investments in and long-term loans to unconsolidated subsidiaries and affiliates (Note 7)	1,915	18,238
Long-term leasehold deposits	55,385	527,476
Software	5,092	48,495
Excess of cost of investments over equity in net assets acquired	429	4,086
Deferred tax assets (Note 15)	3,131	29,819
Other	9,071	86,391
Allowance for doubtful accounts	(1,341)	(12,771)
	77,739	740,372
	¥201,056	$1,914,819

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2005	Thousands of U.S. Dollars 2005
Current liabilities:		
Short-term borrowings (Note 9)	¥ 155	$ 1,476
Current maturities of long-term debt (Note 9)	14	133
Accounts payable:		
Trade	39,034	371,753
Due to franchised stores (Note 8)	3,185	30,333
Other	5,443	51,838
	47,662	453,924
Income taxes payable	2,893	27,552
Payments received	17,670	168,286
Other current liabilities	4,132	39,353
Total current liabilities	72,526	690,724
Long-term debt (Note 9)	42	400
Guarantee deposits received	12,738	121,314
Employee retirement benefit liability (Note 10)	4,554	43,371
Accrued severance benefits for officers	68	648
Long-term deferred credit and other long-term liabilities	1,083	10,314
Commitments and contingent liabilities (Notes 11 and 12)		
Minority interests in subsidiaries	1	10
Shareholders' equity (Notes 14 and 17)**:**		
Common stock, no par value—		
Authorized: 180,000,000 shares,		
Issued: 86,183,226 shares	8,380	79,810
Capital surplus	36,092	343,733
Retained earnings	64,829	617,419
Net unrealized gains on available-for-sale securities	748	7,124
Less, treasury stock, at cost—31,585 shares	(5)	(48)
	110,044	1,048,038
	¥201,056	$1,914,819

Consolidated Statement of Income

Circle K Sunkus Co., Ltd.
For the Year Ended February 28, 2005

	Millions of Yen	Thousands of U.S. Dollars
	2005	2005
Operating revenues:		
Franchise commission from franchised stores	¥ 77,153	$ 734,791
Net sales of Company-owned stores	50,379	479,800
Other operating revenues	11,087	105,590
	138,619	1,320,181
Operating costs and expenses (Note 16)**:**		
Cost of goods sold	38,410	365,810
Selling, general and administrative expenses	81,691	778,009
	120,101	1,143,819
Operating income	18,518	176,362
Other income (expenses):		
Interest and dividend income	409	3,895
Interest expenses	(27)	(257)
Loss on sales or disposal of property and equipment	(773)	(7,362)
Loss on cancellation of lease contracts	(1,396)	(13,295)
Miscellaneous, net (Note 4)	(89)	(848)
	(1,876)	(17,867)
Income before income taxes	16,642	158,495
Income taxes (Note 15)	7,270	69,238
Minority interests in net loss of subsidiaries	0	0
Net income	¥ 9,372	$ 89,257

	Yen	U.S. Dollars
Per share:		
Net income	¥217.55	$2.07
Cash dividends	20.00	0.19

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Shareholders' Equity

Circle K Sunkus Co., Ltd.
For the Year Ended February 28, 2005

	Number of common shares issued	Common stock	Capital surplus	Retained earnings	Net unrealized gains on available-for-sale securities	Treasury stock
		Millions of Yen				
Balance at February 29, 2004	167,608	¥8,380	¥36,091	¥12,761	¥547	¥ –
Net income	**–**	**–**	**–**	**9,372**	**–**	**–**
Cash dividends	**–**	**–**	**–**	**(1,101)**	**–**	**–**
Bonuses to directors and corporate auditors	**–**	**–**	**–**	**(31)**	**–**	**–**
Increase due to the merger	**86,015,618**	**–**	**–**	**43,828**	**–**	**–**
Net changes in unrealized gains on available-for-sale securities, net of applicable income taxes	**–**	**–**	**–**	**–**	**201**	**–**
Net changes in fractional shares	**–**	**–**	**1**	**–**	**–**	**(5)**
Balance at February 28, 2005	**86,183,226**	**¥8,380**	**¥36,092**	**¥64,829**	**¥748**	**¥(5)**

	Common stock	Capital surplus	Retained earnings	Net unrealized gains on available-for-sale securities	Treasury stock
	Thousands of U.S. Dollars				
Balance at February 29, 2004	$79,810	$343,724	$121,533	$5,209	$ –
Net income	**–**	**–**	**89,257**	**–**	**–**
Cash dividends	**–**	**–**	**(10,486)**	**–**	**–**
Bonuses to directors and corporate auditors	**–**	**–**	**(295)**	**–**	**–**
Increase due to the merger	**–**	**–**	**417,410**	**–**	**–**
Net changes in unrealized gains on available-for-sale securities, net of applicable income taxes	**–**	**–**	**–**	**1,915**	**–**
Net changes in fractional shares	**–**	**9**	**–**	**–**	**(48)**
Balance at February 28, 2005	**$79,810**	**$343,733**	**$617,419**	**$7,124**	**$(48)**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

Circle K Sunkus Co., Ltd.
For the Year Ended February 28, 2005

	Millions of Yen	Thousands of U.S. Dollars
	2005	2005
Cash flows from operating activities:		
Income before income taxes and minority interests	¥ 16,642	$ 158,495
Adjustments for:		
Depreciation and amortization	8,075	76,905
Loss on sales or disposal of property and equipment	773	7,362
Loss on cancellation of lease contracts	669	6,371
Decrease in trade receivables	297	2,829
Increase in inventories	(75)	(714)
Decrease in trade payables	(6,633)	(63,172)
Decrease in other accounts payable and accrued expenses	(1,734)	(16,514)
Other, net	(1,210)	(11,524)
Subtotal	16,804	160,038
Interest and dividends received	309	2,943
Interest paid	(1)	(9)
Income taxes paid	(5,078)	(48,362)
Net cash provided by operating activities	12,034	114,610
Cash flows from investing activities:		
Increase in property and equipment	(6,567)	(62,543)
Increase in long-term leasehold deposits	(4,983)	(47,457)
Increase in long-term investments and other assets	(4,229)	(40,276)
Net increase in short-term investments	(88)	(838)
Decrease in property, long-term investments and other assets	4,988	47,505
Other	96	914
Net cash used in investing activities	(10,783)	(102,695)
Cash flows from financing activities:		
Repayment of long-term debt	(7)	(67)
Net increase in short-term borrowings	155	1,476
Increase in guarantee deposits received	1,220	11,619
Decrease in guarantee deposits received	(1,748)	(16,647)
Dividends paid	(1,104)	(10,514)
Amount of money delivered due to merger paid	(1,376)	(13,105)
Other	(5)	(48)
Net cash used in financing activities	(2,865)	(27,286)
Net decrease in cash and cash equivalents	(1,614)	(15,371)
Cash and cash equivalents at beginning of year	34,781	331,247
Increase due to the merger	25,653	244,314
Cash and cash equivalents at end of year	¥ 58,820	$ 560,190

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Circle K Sunkus Co., Ltd.
For the Year Ended February 28, 2005

1. Basis of Financial Statements

(a) Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of Circle K Sunkus Co., Ltd. (the "Company") and its consolidated subsidiaries (together with the Company, the "Circle K Sunkus Group") have been prepared in accordance with the provisions set forth in the Commercial Code of Japan and the Securities and Exchange Law of Japan, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from application and disclosure requirements of International Accounting Standards. Certain items presented in the original consolidated financial statements in Japanese submitted to the Director of the Kanto Finance Bureau in Japan have been reclassified for the convenience of readers outside Japan.

(Accounting standard for impairment of fixed assets)

On August 9, 2002, the Business Accounting Council in Japan issued "Accounting Standard for Impairment of Fixed Assets". 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 net selling price and value in use. The standard shall be effective for fiscal years beginning on and after April 1, 2005, with earlier adoption permitted. The Circle K Sunkus Group has not adopted this new standard nor has determined the effect of applying it on its consolidated financial statements.

(b) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries, Sunkus Aomori Co., Ltd. ("Sunkus Aomori") and Sunkus Nishi-Saitama Co., Ltd. ("Sunkus Nishi-Saitama"), which are area franchisers of "Sunkus" stores and had been subsidiaries of former SUNKUS & ASSOCIATES INC. ("SUNKUS"). The result of operations of Sunkus Aomori and Sunkus Nishi-Saitama only from September 1, 2004 to February 28, 2005 have included in the accompanying consolidated statement of income because Sunkus Aomori and Sunkus Nishi-Saitama became the Company's subsidiaries at September 1, 2004 as a result of the merger of the Company and SUNKUS (Note 3). Investments in unconsolidated subsidiaries and affiliates are stated at cost, as unconsolidated subsidiaries and affiliates had no significant effect on the consolidated results of the operations. The difference 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 deferred and amortized over five years. All significant inter-company accounts and transactions have been eliminated on consolidation.

The number of consolidated subsidiaries, unconsolidated subsidiaries and affiliates for the year ended February 28, 2005 was as follows:

	2005
Consolidated subsidiaries	**2**
Unconsolidated subsidiaries, stated at cost	**8**
Affiliates, stated at cost	**12**

(c) Principal shareholder

UNY CO., LTD. ("UNY") directly owned 40,746 thousand shares of common stock of the Company at February 28, 2005, which represented 47.4% of the total voting interest of the Company at the balance sheet date. UNY has also significant influence to the Company. Accordingly, the Company has been a subsidiary of UNY.

(d) U.S. dollar amounts

The Circle K Sunkus Group 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 Yen into dollars at a rate of ¥105 to US$1, the approximate rate of exchange at February 28, 2005. The inclusion of such dollar amounts is solely for the convenience of the readers outside Japan 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 ¥105 to US$1 or at any other rate.

2. Summary of Significant Accounting Policies

(a) Franchise agreement and basis of recognizing franchise commission

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

Net sales which were reported by franchised stores as a calculation basis for franchise commission were ¥664,706 million ($6,330,533 thousand) for the year ended February 28, 2005.

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

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

In relation to the franchise agreement, the Company also enters into the lease agreement with each franchisee to lease land and/or buildings for the store spaces, as lessor. These leases are normally for the same terms as the franchise agreement, and the guarantee deposits received from franchised stores which are included in "Guarantee deposits received" in the accompanying consolidated balance sheets are refundable for their major portion on an installment basis and are noninterest bearing.

(b) Area franchise agreement

The Company entered into area franchise agreements with fourteen companies (area franchisers) located throughout Japan. The agreement provides each franchisor with a right to operate its own "Circle K" or "Sunkus" convenience stores and to be franchisors in limited areas determined by the respective agreement. Each area franchisor is required to pay a license fee to the Company based on certain percentages of revenue from its franchising business. Such license fee is included in "Franchise commission from franchised stores" in the accompanying consolidated statement of income.

(c) Cash equivalents

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

(d) Inventories valuation

Merchandise inventories are stated at cost, being determined by the retail method. Supplies are stated at cost, being determined by the last purchase price.

(e) Investments and marketable securities

The Circle K Sunkus Group classifies certain investments in debt and equity securities as "held-to-maturity", "trading" or "available-for-sale", whose classification determines the respective accounting method as stipulated by the accounting standard of financial instruments. Marketable securities with market quotations for available-for-sale securities are stated at fair value and unrealized gains or losses in these securities are reported as a separate component of shareholders' equity, net of applicable income taxes. Gains and losses on disposition of marketable securities are computed by the moving average method. Nonmarketable securities without available market quotations 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.

(f) Allowance for doubtful accounts

Allowance for doubtful accounts is provided for at the aggregate amount of estimated credit loss for doubtful or troubled receivables and a general reserve for other receivables calculated based on the prior loss experience for a certain past period.

(g) Property and equipment, and depreciation

Property and equipment, including significant renewals and additions, are stated at cost, and have been depreciated by the declining-balance method at rates based on the estimated useful lives of the assets, except that the buildings acquired on and after April 1, 1998 have been depreciated by the straight-line method. The aggregate expenditures capitalized for the property of not less than ¥100,000 and below ¥200,000 each are amortized over a three-year period by the straight-line method.

Expenditure on maintenance and repairs is charged to operating income as incurred. Upon the disposal of property, the cost and accumulated depreciation are removed from the accounts and any gain or loss is recorded as income or expense.

(h) Leases

Where financing leases do not transfer ownership of the leased property to the lessee during the term of the lease, the leased property is not capitalized and the relating rental and lease expenses are charged to income as incurred.

(i) Software

Software is amortized by the straight-line method over a five-year period as estimated useful lives.

(j) Employee retirement benefit liability

Employees who terminate their service with the Circle K Sunkus Group are entitled to retirement and severance benefits determined by reference to current basic rates of pay, length of service and conditions under which the termination occurs. Such retirement and severance benefits for employees are covered by a noncontributory welfare pension plan organized by UNY, its subsidiaries and affiliates including Circle K Sunkus and the employees taken in from SUNKUS on the occasion of the merger are covered by the same noncontributory welfare pension plan or qualified pension plan as the plans organized by SUNKUS.

The Circle K Sunkus Group has principally recognized the retirement benefits including pension cost and related liability based on actuarial present value of projected benefit obligation using 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 eight to ten years as a certain period within remaining service lives of employees from the next year in which they arise. Unrecognized past service cost is amortized on a straight-line basis over ten years as a certain period within remaining service lives of employees.

In conjunction with enforcement of the Defined Benefit Enterprise Pension Plan Law, Circle K Sunkus, as a member of the noncontributory welfare pension plan organized by UNY, its subsidiaries and affiliates, received 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 pension fund on February 17, 2003. As of February 28, 2005, pension plan assets equivalent to the amount to be returned to the Japanese Government amounted to ¥2,056 million ($19,581 thousand). As Circle K 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 the Japanese Institute of Certified Public Accountants), Circle K Sunkus has not recognized an extinguishment of retirement benefit obligation with respect to such substituted portion as of the date of the approval. If Circle K Sunkus had applied for the transitional treatment for the fiscal year ended February 28, 2005, ¥1,493 million ($14,219 thousand) would have been recognized as other income on the accompanying consolidated statement of income. Circle K Sunkus expects to complete such procedures for a return of pension plan assets to the Japanese government in next year.

(k) Accrued severance benefits for officers

The Circle K Sunkus Group may pay severance benefits to directors and corporate auditors, which are subject to an approval of shareholders. The Circle K Sunkus Group has provided for this liability at the amount which would be payable assuming all directors and corporate auditors terminate their service at the balance sheet dates.

(l) 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. 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.

(m) 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.

(n) Accounting for consumption tax

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

(o) 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 year. Cash dividends per share in the accompanying consolidated statement of income represent dividends declared as applicable to the year.

3. Merger

As of June 1, the Company merged with CKTOHOKU Co., Ltd. ("CKTOHOKU"), which had been an area franchiser of "Circle K" stores wholly owned by the Company.

The assets and the liabilities inherited through the merger with CKTOHOKU were summarized as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current assets	**¥ 1,938**	**$ 18,457**
Noncurrent assets	**2,390**	**22,762**
Total assets	**4,328**	**41,219**
Current liabilities	**(2,218)**	**(21,124)**
Noncurrent liabilities	**(1,368)**	**(13,028)**
Total liabilities	**(3,586)**	**(34,152)**
Net assets inherited	**¥ 742**	**$ 7,067**

As of September 1, 2004, the Company also merged with C&S Co., Ltd. ("C&S"), which had been its parent company and SUNKUS, which had been a wholly owned subsidiary of C&S. The Company renamed itself from CIRCLE K Co., Ltd. to Circle K Sunkus Co., Ltd. on this merger.

The assets and the liabilities inherited through the merger with C&S were summarized as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current assets	**¥ 4,245**	**$ 40,429**
Noncurrent assets	**6,121**	**58,295**
Total assets	**10,366**	**98,724**
Current liabilities	**(874)**	**(8,324)**
Noncurrent liabilities	**(3,877)**	**(36,924)**
Total liabilities	**(4,751)**	**(45,248)**
Net assets inherited	**¥ 5,615**	**$ 53,476**

The assets and the liabilities inherited through the merger with SUNKUS were summarized as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current assets	**¥ 33,396**	**$ 318,057**
Noncurrent assets	**54,087**	**515,115**
Total assets	**87,483**	**833,172**
Current liabilities	**(43,063)**	**(410,124)**
Noncurrent liabilities	**(4,904)**	**(46,705)**
Total liabilities	**(47,967)**	**(456,829)**
Net assets inherited	**¥ 39,516**	**$ 376,343**

4. Investments

At February 28, 2005, short-term investments consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
	2005	**2005**
Marketable securities – bonds	**¥699**	**$6,657**
Time deposits with an original maturity of more than three months	**100**	**953**
	¥799	**$7,610**

At February 28, 2005, investments securities consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
	2005	2005
Marketable securities:		
Equity securities	¥2,038	$19,410
Bonds	1,631	15,533
Total marketable securities	3,669	34,943
Other nonmarketable securities	388	3,695
	¥4,057	$38,638

During the year ended February 28, 2005, the Circle K Sunkus Group recorded a loss on write-down of marketable investment securities due to a permanent diminution in value in the amounts of ¥58 million ($552 thousand), on the accompanying consolidated statement of income.

Marketable securities are classified as available-for-sale and are stated at fair value with unrealized gains and losses excluded from the current earnings and reported as a net amount within the shareholders' equity account until realized. At February 28, 2005, gross unrealized gains and losses for marketable securities are summarized as follows:

	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
	Millions of Yen			
At February 28, 2005:				
Marketable securities:				
Equity securities	¥ 775	¥1,263	¥ –	¥2,038
Bonds	2,339	62	(71)	2,330
	¥3,114	¥1,325	¥(71)	¥4,368
	Thousands of U.S. Dollars			
At February 28, 2005:				
Marketable securities:				
Equity securities	$ 7,381	$12,029	$ –	$19,410
Bonds	22,276	590	(676)	22,190
	$29,657	$12,619	$(676)	$41,600

Expected maturities of debt securities for available-for-sale at February 28, 2005, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2005	2005
Due in one year or less	¥ 699	$ 6,657
Due after one year through five years	702	6,686
Due after five years through ten years	929	8,847
	¥2,330	$22,190

5. Accounts Receivable: Due from Franchised Stores

Under the franchise agreement, the Company as franchiser and the consolidated subsidiaries as area franchisers are responsible for providing architectural and designing services with respect to the respective franchised stores' facilities, for training of the franchisees' personnel, and for the centralized processing of invoices from suggested vendors of merchandise and subsequent payments of amounts payable to such vendors.

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

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

6. Property and Equipment

At February 28, 2005, property and equipment consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
	2005	**2005**
Land	**¥ 9,538**	**$ 90,838**
Buildings and structures	**48,639**	**463,229**
Machinery, equipment and vehicles	**268**	**2,552**
Furniture and fixtures	**16,002**	**152,400**
Construction in progress	**256**	**2,438**
	74,703	**711,457**
Less, accumulated depreciation	**(32,349)**	**(308,086)**
	¥ 42,354	**$ 403,371**

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

At February 28, 2005, investments in and long-term loans to unconsolidated subsidiaries and affiliates consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
	2005	**2005**
Investments in:		
Unconsolidated subsidiaries, stated at cost	**¥1,600**	**$15,238**
Affiliates, stated at cost	**139**	**1,324**
Interest bearing long-term loans	**176**	**1,676**
	¥1,915	**$18,238**

8. Accounts Payable: Due to Franchised Stores

The cost of merchandise supplied to the franchised stores is debited as "Accounts receivable: Due from franchised stores" account as described in Note 5 above.

On the contrary, all franchised stores make remittances of cash proceeds from daily sales to the Circle K Sunkus Group. In certain instances, the remittance from a franchised store exceeds the balance of "Accounts receivable: Due from franchised stores" account. In the accompanying consolidated balance sheet, such negative balances are shown as "Accounts payable: Due to franchised stores".

9. Short-term Borrowings and Long-term Debt

Short-term borrowings represented unsecured bank loans bearing interest rates of 1.9% per annum at February 28, 2005.

	Millions of Yen	Thousands of U.S. Dollars
	2005	**2005**
Long-term loans from banks and other financial institutions due through 2009 with interest rates of 1.9% per annum at February 28, 2005:		
Unsecured	**¥ 56**	**$ 533**
Less, current maturities	**(14)**	**(133)**
	¥ 42	**$ 400**

The aggregate annual maturities of long-term debt at February 28, 2005 was as follows:

Years ending February 28,	Millions of Yen	Thousand of U.S. Dollars
2006	¥14	$133
2007	14	133
2008	14	134
2009	14	133
	¥56	$533

10. Employee Retirement Benefits

The Circle K Sunkus Group has noncontributory defined benefit pension plans which substantially cover all employees.

The following table reconciles the benefit obligation and net periodic retirement benefit expense as at or for the year ended February 28, 2005:

	Millions of Yen	Thousands of U.S. Dollars
	2005	**2005**
Projected benefit obligation	**¥16,610**	**$158,191**
Fair value of pension plan assets at end of year	**(8,006)**	**(76,248)**
Project benefit obligation in excess of pension plan assets	**8,604**	**81,943**
Less, unrecognized actuarial differences (loss)	**(4,780)**	**(45,524)**
Unrecognized past service costs *2	**730**	**6,952**
Net amounts of employee retirement benefit liability recognized on the consolidated balance sheets	**¥ 4,554**	**$ 43,371**

Note. 1. The above table includes the amounts related to the portion subject to the Japanese Welfare Pension Insurance Law.
*2. Past service costs incurred in the year ended February 28, 2003 resulted from 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 pension fund on February 17, 2003. As disclosed in Note 2(j), the Circle K Sunkus Group has not elected to apply for the transitional accounting treatment of the accounting standard for retirement benefits.

	Millions of Yen	Thousands of U.S. Dollars
	2005	**2005**
Component of net periodic retirement benefit expense:		
Service cost	**¥ 536**	**$ 5,105**
Interest cost	**256**	**2,438**
Expected return on pension plan assets	**(231)**	**(2,200)**
Amortization of actuarial differences	**456**	**4,343**
Amortization of past service costs	**(97)**	**(924)**
Net periodic retirement benefit expense	**¥ 920**	**$ 8,762**

Major assumptions used in calculation of the above information for the year ended February 28, 2005 were as follows:

	2005
Method attributing the projected benefits to periods of services	**Straight-line method**
Discount rate	**2.0%**
Expected rate of return on pension plan assets	**4.0%**
Amortization of unrecognized actuarial differences	**8 to 10 years**
Amortization of unrecognized past service cost	**10 years**

11. Lease Commitments

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

As disclosed in Note 2(h), the leased property for noncancelable financing leases of the Circle K Sunkus Group is not capitalized as permitted by the accounting standard for leases. If the leased property of the Company had been capitalized, the related accounts would have been increased/(decreased) at February 28, 2005 as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2005	**2005**
Property and equipment, net of accumulated depreciation *1	**¥24,875**	**$236,905**
Lease obligations as liabilities *2	**25,444**	**242,324**
Net effect on retained earnings at year-end	**¥ (569)**	**$ (5,419)**

Additionally, income before income taxes would have been increased by ¥35 million ($333 thousand) for the year ended February 28, 2005.

Notes: *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.

Future minimum payments for noncancelable financing leases, excluding the imputed interest, and operating leases at February 28, 2005 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2005	2005
Financing leases:		
Due within one year	¥ 8,115	$ 77,286
Due after one year	17,329	165,038
	¥25,444	$242,324
Operating leases:		
Due within one year	¥ 621	$ 5,915
Due after one year	537	5,114
	¥ 1,158	$ 11,029

12. Contingent Liabilities

At February 28, 2005, contingent liabilities in respect of guarantees of indebtedness of unconsolidated subsidiaries, affiliates, franchisees and others amounted to ¥4,782 million ($45,543 thousand).

13. Derivative Instruments

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

14. Shareholders' Equity

The authorized number of shares of common stock without par value is 180 million, unless there may be a reduction due to a cancellation of treasury stock acquired.

At February 28, 2005, capital surplus principally consisted of additional paid-in capital. In addition, retained earnings included legal reserve of the Company in the amount of ¥688 million ($6,552 thousand) at February 28, 2005. The Commercial Code of Japan provides that an amount equivalent to at least 10% of cash payments 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 legal reserve is not available for distribution as dividends, but may be used to reduce a deficit or may be transferred to common stock by proper actions of the Board of Directors and/or shareholders of the Company.

15. Income Taxes

Income taxes for the year ended February 28, 2005 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
	2005	**2005**
Income taxes:		
Current	**¥5,021**	**$47,819**
Deferred	**2,249**	**21,419**
	¥7,270	**$69,238**

The tax effects on temporary differences that give rise to a significant portion of deferred tax assets at February 28, 2005 was as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2005	**2005**
Deferred tax assets:		
Enterprise tax accruals	**¥ 242**	**$ 2,305**
Allowance for doubtful accounts	**683**	**6,504**
Employee retirement benefit liability	**1,837**	**17,495**
Long-term deferred credit	**691**	**6,581**
Accrued bonus	**289**	**2,752**
Write-down of investment securities	**542**	**5,162**
Other	**628**	**5,981**
Less, valuation allowance	**(411)**	**(3,914)**
	4,501	**42,866**
Deferred tax liabilities:		
Unrealized gains on available-for-sale securities	**(506)**	**(4,819)**
	(506)	**(4,819)**
Net deferred tax assets	**¥3,995**	**$38,047**

In assessing realizability of deferred tax assets, management of the Circle K Sunkus Group considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of the future taxable income during the periods in which these temporary differences become deductible. At February 28, 2005, a valuation allowance was established to reduce the deferred tax assets to the extent that the management of the Circle K Sunkus Group believes that the amount of the deferred tax assets is expected to be realizable.

The difference between the effective Japanese statutory tax rate and the actual effective income tax rate on pre-tax income reflected in the accompanying consolidated statement of income for the year ended February 28, 2005 was not material.

16. Additional Income Statement Information

Additional income statement information for the year ended February 28, 2005 was as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2005	2005
Payroll and remuneration expenses	¥15,280	$145,524
Advertising expenses	7,733	73,648
Depreciation	7,022	66,876
Utility expenses	2,072	19,733
Rental and lease expenses	34,178	325,505
Amortization of excess of cost of investments over equity in net assets acquired	54	514

17. Subsequent Event

On May 25, 2005, the appropriations of retained earnings were approved at the annual general meeting of shareholders of the Company as follows:

	Millions of Yen	Thousand of U.S. Dollars
Cash dividends	¥1,723	$16,410
Bonuses to directors and corporate auditors	60	571

Report of Independent Auditors

ChuoAoyama PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS

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
Circle K Sunkus Co., Ltd.

We have audited the accompanying consolidated balance sheet of Circle K Sunkus Co., Ltd. and its consolidated subsidiaries as of February 28, 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company'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 Circle K Sunkus Co., Ltd. and its consolidated subsidiaries as of February 28, 2005, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

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.

ChuoAoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers
Nagoya, Japan
May 25, 2005

For reference only (Unaudited)

The financial position of C&S and its consolidated subsidiaries at February 29, 2004 is included solely for the convenience of the readers.

ASSETS	Millions of Yen Circle K Sunkus 2005	Millions of Yen C&S 2004	Thousands of U.S. Dollars Circle K Sunkus 2005
Current assets:			
Cash and cash equivalents	**¥ 58,820**	¥ 52,756	**$ 560,190**
Short-term investments	**799**	–	**7,610**
Accounts receivable:			
Due from franchised stores	**3,564**	3,600	**33,943**
Other	**8,300**	9,062	**79,048**
	11,864	12,662	**112,991**
Inventories	**2,214**	1,922	**21,086**
Deferred tax assets	**864**	2,131	**8,228**
Prepaid expenses and other current assets	**7,031**	6,352	**66,962**
Allowance for doubtful accounts	**(629)**	(593)	**(5,991)**
Total current assets	**80,963**	75,230	**771,076**
Property and equipment, at cost	**74,703**	69,919	**711,457**
Less, accumulated depreciation	**(32,349)**	(30,194)	**(308,086)**
Net property and equipment	**42,354**	39,725	**403,371**
Investments and other assets:			
Investment securities	**4,057**	4,628	**38,638**
Investments in and long-term loans to unconsolidated subsidiaries and affiliates	**1,915**	1,307	**18,238**
Long-term leasehold deposits	**55,385**	53,383	**527,476**
Software	**5,092**	7,021	**48,495**
Excess of cost of investments over equity in net assets acquired	**429**	11,224	**4,086**
Deferred tax assets	**3,131**	4,732	**29,819**
Other	**9,071**	9,763	**86,391**
Allowance for doubtful accounts	**(1,341)**	(2,140)	**(12,771)**
	77,739	89,918	**740,372**
	¥201,056	¥204,873	**$1,914,819**

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen Circle K Sunkus 2005	 C&S 2004	Thousands of U.S. Dollars Circle K Sunkus 2005
Current liabilities:			
Short-term borrowings	¥ 155	¥ 500	$ 1,476
Current maturities of long-term debt	14	–	133
Accounts payable:			
Trade	39,034	40,910	371,753
Due to franchised stores	3,185	3,111	30,333
Other	5,443	6,447	51,838
	47,662	50,468	453,924
Income taxes payable	2,893	3,313	27,552
Payments received	17,670	16,747	168,286
Other current liabilities	4,132	4,849	39,353
Total current liabilities	72,526	75,877	690,724
Long-term debt	42	–	400
Guarantee deposits received	12,738	13,024	121,314
Employee retirement benefit liability	4,554	4,499	43,371
Accrued severance benefits for officers	68	329	648
Long-term deferred credit and other long-term liabilities	1,083	198	10,314
Commitments and contingent liabilities			
Minority interests in subsidiaries	1	–	10
Shareholders' equity:			
Common stock, no par value—			
Authorized: 180,000,000 shares,			
Issued: 86,183,226 shares in 2005 and 2004	8,380	13,469	79,810
Capital surplus	36,092	26,223	343,733
Retained earnings	64,829	70,732	617,419
Net unrealized gains on available-for-sale securities	748	596	7,124
Less, treasury stock, at cost—31,585 shares in 2005 and 26,703 shares in 2004	(5)	(74)	(48)
	110,044	110,946	1,048,038
	¥201,056	¥204,873	$1,914,819

Presented below is the sum of operating results of C&S and its consolidated subsidiaries for the period from March 1, 2004 to August 31, 2004, that is the period before the merger with the Company, and the results of Circle K Sunkus and its consolidated subsidiaries for the period from September 1, 2004 to February 28, 2005, that is the period after the merger with C&S and SUNKUS. The operating results of C&S and its consolidated subsidiaries for the year ended February 29, 2004 was included solely for the convenience of the readers.

	Millions of Yen		Thousands of U.S. Dollars
	12 months ended February 28, 2005 (Unaudited)	The year ended February 29, 2004 C&S	12 months ended February 28, 2005 (Unaudited)
Operating revenues:			
Franchise commission from franchised stores	**¥105,265**	¥101,772	**$1,002,524**
Net sales of Company-owned stores	**58,877**	55,147	**560,733**
Other operating revenues	**12,701**	12,582	**120,962**
	176,843	169,501	**1,684,219**
Operating costs and expenses:			
Cost of goods sold	**44,744**	41,754	**426,133**
Selling, general and administrative expenses	**107,714**	105,312	**1,025,848**
	152,458	147,066	**1,451,981**
Operating income	**24,385**	22,435	**232,238**
Other income (expenses):			
Interest and dividend income	**542**	376	**5,162**
Interest expenses	**(33)**	(23)	**(314)**
Loss on sales or disposal of property and equipment	**(997)**	(2,080)	**(9,495)**
Loss on cancellation of lease contracts	**(1,613)**	(4,135)	**(15,362)**
Loss on write-down of investment securities	**(93)**	(531)	**(886)**
Loss on write-down of inventories	**–**	(532)	**–**
Miscellaneous, net	**(41)**	(586)	**(391)**
	(2,235)	(7,511)	**(21,286)**
Income before income taxes	**22,150**	14,924	**210,952**
Income taxes	**9,495**	7,272	**90,429**
Less, minority interests in net income of subsidiaries	**1**	–	**9**
Net income	**¥ 12,654**	¥ 7,652	**$ 120,514**
	Yen		U.S. Dollars
Per share:			
Net income	**¥146.19**	¥87.78	**$1.39**
Cash dividends	**20.00***	32.00	**0.19**

* The annual dividend for fiscal 2005, the year ended February 28, 2005, was effectively ¥36 per share, including a merger payment of ¥16 per share equivalent to the interim dividend.

The Uny Group

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

Consolidated Subsidiaries*

Sagami Co., Ltd. (kimono retailing)
U Store Co., Ltd. (superstores)
Molie Co., Ltd. (high-quality women's wear)
Palemo Co., Ltd. (young women's apparel and accessories)
Suzutan Co., Ltd. (young women's apparel and accessories)
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)
Aokigahara Kogen Kaihatsu Co., Ltd. (golf course management)
Sun Sogo Maintenance Co., Ltd. (facility management)

*In addition to the companies listed above, the Uny Group includes six Sagami subsidiaries and two Suzutan subsidiaries.

(As of February 20, 2005)

Investor Information

Number of shares
Authorized: 180,000,000
Issued: 86,183,226

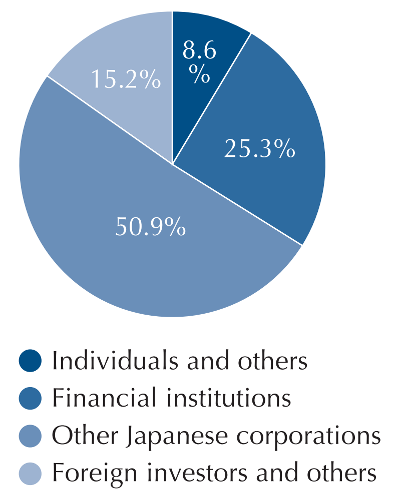
Securities code number
3337

Securities traded (Common stock)
First Section, Tokyo and Nagoya stock exchanges

Transfer agent
The Sumitomo Trust & Banking Co., Ltd.
5-33, Kitahama 4-chome, Chuo-ku, Osaka 540-8639, Japan

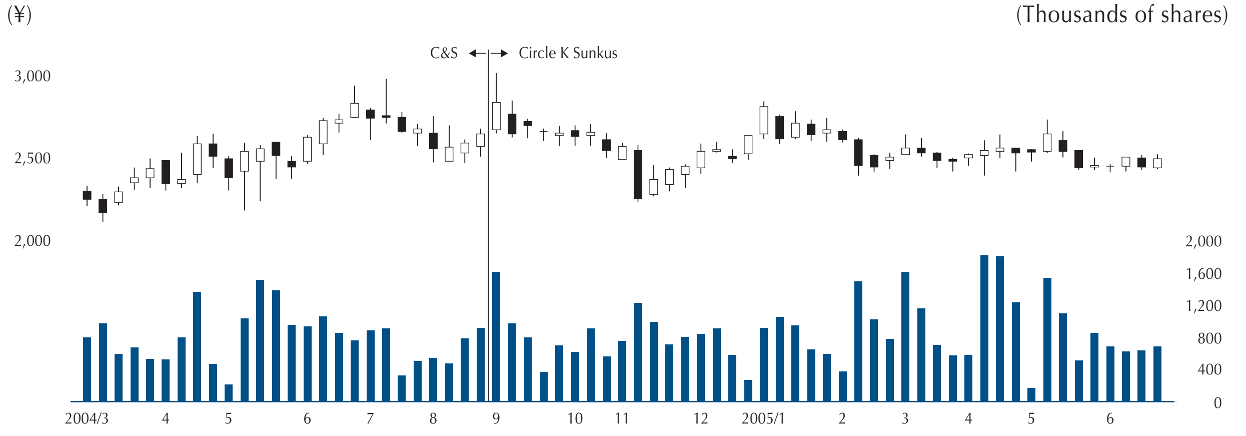
Number of shareholders
12,245

Breakdown by type of investors



(As of February 28, 2005)

Stock price/Turnover



Corporate Data

Corporate name
Circle K Sunkus Co., Ltd.

Registered head office
1 Gotanda-cho, Amaike, Inazawa-shi, Aichi, Japan

Headquarters
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Koto-ku, Tokyo 135-8539, Japan

Telephone
+81-3-5635-3939 (main)

URL
http://www.circleksunkus.jp

Date of establishment
July 2, 2001
* Date on which an operating company was formed through the business separation method following the establishment of CIRCLE K JAPAN Co., Ltd. on January 26, 1984, and the subsequent change in its name to C&S Co., Ltd. on July 1, 2001 upon its conversion to a pure holding company.

Commencement of operations
September 1, 2004

Capital
¥8,380 million

Fiscal year-end
End of February

Number of employees
1,893 (non-consolidated)

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

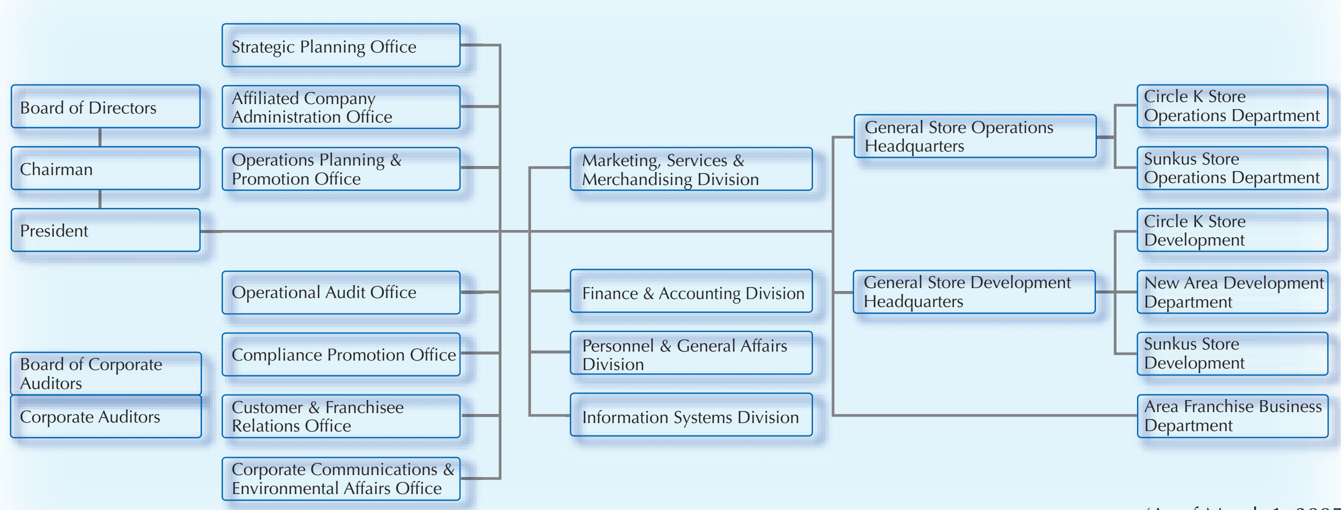
Total store sales
¥1,109,429 million (Figures include area franchisers.)

Number of stores
6,339 (Figures include area franchisers.)

Consolidated subsidiaries
Sunkus Aomori Co., Ltd.
Sunkus Nishi-Saitama Co., Ltd.

(As of February 28, 2005)

Organization of Circle K Sunkus Co., Ltd.



(As of March 1, 2005)

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