

CircleK Sunkus



# Annual Report 2007

For the year ended February 28, 2007





## PAVING THE WAY FOR NEW GROWTH

*Ever since its establishment in September 2004, Circle K Sunkus Co., Ltd. has aimed to be a company that achieves sustainable growth, while earning the trust of society. However, the convenience store industry has been facing an increasingly challenging operating climate characterized by diversifying customer needs driven by recent changes in Japan's social structure. In this environment, Circle K Sunkus is doing its utmost to accelerate a broad range of reforms in line with a new management vision, with the aim of improving corporate value.*



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

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



## CONSOLIDATED FINANCIAL HIGHLIGHTS

Circle K Sunkus Co., Ltd.

Years ended February 28, 2007 and 2006.



	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
<b>For the year:</b>			
Total store sales	¥911,282	¥919,825	\$7,722,729
Operating revenue	194,393	184,191	1,647,398
Operating income	23,113	25,785	195,873
Net income	10,237	11,498	86,754
<b>At year-end:</b>			
Total liabilities and equity	212,377	211,767	1,799,805
Total equity	119,883	118,393	1,015,958
<b>Number of stores:</b>			
Circle K	2,898	2,891	
Sunkus	2,205	2,263	
Subtotal *3	5,104	5,154	
Sunkus Aomori	70	67	
Sunkus Nishi-Saitama	75	79	
SUNKUS KITAKANTO	32	–	
Sunkus Nishi-Shikoku	88	–	
ZERO NETWORKS	–	–	
Total *3	5,369	5,300	
Number of employees	1,890	1,855	
<b>Per share data:</b>			
Net income	¥119.92	¥132.77	\$1.02
Cash dividends	38.00	38.00	0.32

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 ¥118 to U.S.\$1, the rate of exchange at February 28, 2007.

2. Circle K Sunkus Co., Ltd. had two consolidated subsidiaries in the fiscal year ended February 28, 2006 and five consolidated subsidiaries in the fiscal year ended February 28, 2007.

3. In fiscal 2007, the Circle K Sunkus subtotal and total number of stores at the fiscal year-end includes one new-concept store called *Fork Talk*. The sum of the corresponding figures for Circle K and Sunkus therefore do not match these figures.





Motohiko Nakamura, President

*During the three years since the merger that formed Circle K Sunkus Co., Ltd., the Company's business environment has become increasingly challenging, characterized not only by intensifying competition but also diversifying customer needs driven by changes in Japan's social structure, such as an aging population with fewer births, and polarizing consumption patterns. Determined to prevail in the face of these challenges, Circle K Sunkus is making a new start under the leadership of a new president. Going forward, Circle K Sunkus will accelerate reforms to significantly improve quality while striving to become an organization that provides a sense of excitement (WAKU WAKU) to all stakeholders.*



## New President Appointed

I am Motohiko Nakamura, Circle K Sunkus' new president. Ever since I joined this Company 25 years ago, I have devoted my entire career to driving growth in the convenience store industry. At the time, the convenience store business was still in its infancy in Japan. It went on to achieve sustained growth by bringing a steady stream of revolutionary advances to Japan's retail industry. More recently, however, the business environment surrounding convenience stores and customer needs has undergone dramatic change. Consequently, Circle K Sunkus faces an increasingly challenging operating climate.

In this context, I believe the next two to three years will be crucial in determining whether Circle K Sunkus can assert its presence to become a truly powerful enterprise in the convenience store industry. Now is the time for us to turn outward our energies that have so far been focused internally on integration. Just as Japan's first convenience store operators revolutionized the retail industry many years ago, we too must reaffirm our commitment to dramatically transforming the convenience store business.

## Fiscal 2007 in Review (Consolidated Basis)

In fiscal 2007, the year ended February 28, 2007, one key priority for Circle K Sunkus was to strengthen its sales capabilities. However, our performance in fiscal 2007 undoubtedly left a number of unresolved quantitative and qualitative issues. In store development, we opened 328 stores, 51 fewer than planned due to difficulties in signing up franchisees. Furthermore, average daily sales at new stores (on a non-consolidated basis) fell below the ¥400,000 mark to ¥394,000. Circle K Sunkus reported weak existing store sales in the first half, reflecting generally poor weather from early spring onwards, a long rainy season, and the termination of sales of prepaid highway toll cards. However, existing store sales improved in the second half, benefiting from the year's warm winter and aggressive sales promotion initiatives. Despite this, the shortfall in the number of stores opened relative to plans and weaker average daily sales at new stores weighed heavily, reducing total store sales at Circle K Sunkus by 0.9% year on year to ¥911.2 billion. In addition, Circle K Sunkus spent aggressively on sales





promotions to improve sales at franchised stores. Expenditures also increased as a result of closing 67 more stores than in fiscal 2006, centering on unprofitable stores. Consequently, operating income decreased 10.4% year on year to ¥23.1 billion and net income fell 11.0% to ¥10.2 billion.

Despite this lackluster performance, we were able to make headway toward our next stage of growth. Integration of product vendors and logistics networks in the fast food and perishable food categories was implemented on schedule. Furthermore, we made progress in addressing the needs of future customers by opening 99 *Ichiba* small fresh food supermarkets ahead of schedule, unveiling the experimental *Fork Talk* store, and expanding the installation of ATMs to stores in four prefectures in the Kanto region.

### **Moving Forward on Three Fronts**

As I said, Circle K Sunkus continues to face a challenging business environment. In response, we have prioritized measures to strengthen sales capabilities, but we have yet to deliver satisfactory results in terms of year-on-year existing store sales, new store openings, average daily sales per new store, and product innovation. In this climate, Circle K Sunkus has defined two priorities as its management vision: “Become a Truly Exciting (*WAKU WAKU*) Enterprise” and “Improve Quality.” To satisfy customer needs and expectations as convenience stores enter a new era, we will provide a sense of excitement (*WAKU WAKU*) to all stakeholders, while driving far-reaching improvements in quality so that we can continue to prevail in a fiercely competitive environment. We will move forward on the following three fronts to realize this management vision:

- (1) *Prioritize growth in operating income as a percentage of sales over growth in total store sales;*
- (2) *Prioritize quality improvements at individual stores over simply expanding the store network; and,*
- (3) *Prioritize winning a larger market share in prefectures where Circle K and Sunkus currently have stores, to become the market-share leader in more prefectures.*



Accordingly, our management strategies are to promote regional strategies; improve quality at each store; reinforce support for franchised stores; realize marketing innovation; and develop and nurture new businesses and business formats. By realizing stronger sales capabilities through these strategies, we aim to transform Circle K and Sunkus into more powerful convenience store chains.





### **Shifting to an “Intensive, Quality-driven Growth Path” in Fiscal 2008**

Circle K Sunkus’ management policy is to shift to an “intensive, quality-driven growth path” to move forward on the previously mentioned three fronts. In line with this policy, we will implement a broad range of reforms and improvements to strengthen sales capabilities.

One of our most urgent priorities for fiscal 2008 is to close more unprofitable stores while stepping up store relocations. We plan to take bold steps to close 450 stores, 93 more than in the previous fiscal year.

In store development, a crucial issue for Circle K Sunkus, the Company will prioritize raising quality and profitability in opening new stores, and review its strategies for opening new stores in each region. Through these initiatives, Circle K Sunkus aims to increase the overall profitability of both its convenience store chains. In addition, Circle K Sunkus is making steady progress on the franchisee recruitment front with the “Venture Employee System” launched in September 2006, and plans to continue using this system to develop





promising franchisee candidates. Furthermore, we will step up sales promotions and other forms of support for franchised stores even more than before to achieve better sales.

The integration of product vendors and logistics networks under way since the merger is due for completion in all product categories in summer 2007. Going forward, we will unify original product brands and standardize food ingredients to generate more integration benefits, offer even better-tasting products and implement more proactive merchandising initiatives.

In the second half of fiscal 2008, we will begin to roll out a new store support system that will be indispensable to maintaining our competitiveness and launching new services. This means we will put in place store infrastructure capable of processing large data volumes over broadband networks by establishing fiber-optic links to stores. The rationale for this system is based on my belief that services hold the key to taking the convenience store business to its next stage of growth. By deploying this next-generation system, we plan to offer new services that enhance customer convenience through such means as installing in-store multimedia kiosk (MMK) terminals on a trial basis and accepting new forms of electronic money.

Furthermore, Circle K Sunkus will continue to take steps to develop new business formats and new-concept stores to satisfy the needs of future customers. Going forward, Circle K Sunkus will select a range of best practices from these initiatives and apply them to existing convenience stores to reinforce their operations. New business formats and new-concept stores will also be used to win customers whose needs have yet to be fully met by existing convenience stores.

Because these initiatives will require significant upfront costs and investment, we are forecasting a decline in earnings in fiscal 2008. However, I believe these actions are essential for Circle K Sunkus to compete effectively going forward.

### **Returning Profits to Shareholders**

Circle K Sunkus considers the maintenance of stable dividends as its first priority and aims to pay out 25% of consolidated net income in the form of dividends. In addition to conducting a program to buy back up to ¥5.0 billion in shares in fiscal 2007, Circle K Sunkus paid



an annual dividend for fiscal 2007 of ¥38 per share. Although the earnings outlook remains difficult, we plan to return profits to shareholders in many different ways as we gauge progress with measures under way to strengthen sales capabilities and improve quality, as well as our financial position.

### **Long-term Reforms to Make Circle K Sunkus Stronger**

Looking ahead, the convenience store industry is expected to continue facing a challenging operating climate. For instance, convenience store operators must rise above competition with traditional industry outsiders and stay on top of diversifying customer needs accompanying changes in Japan's social structure. In this climate, I believe that no significant improvement in quality can be achieved with only short-term measures. I am therefore determined to reform Circle K Sunkus over longer periods of time of 5 to 10 years so that we constantly implement far-reaching changes and improvements at the frontline to outperform the competition.

I am currently Circle K Sunkus' youngest director at 47 years old. I pride myself above all on my relative youth and energy. I am ready to squarely face adversity with a fast and action-oriented leadership style to make Circle K Sunkus a powerful organization and enhance operating results.

We ask for your continued support and understanding as we work to achieve our goals.

July 2007

*Motohiko Nakamura*

Motohiko Nakamura, President

# Aiming to Improve Quality





# Aiming to Improve Quality

*In a challenging business environment, Circle K Sunkus aims to drive improvements in all aspects of quality to become an enterprise that can prevail against the competition.*



## New Management Vision

Circle K Sunkus established the following management philosophy at the time of its formation through a merger in September 2004: “We aim to be a company that achieves steady, sustainable growth, while earning the trust of society.” Guided by this philosophy, Circle K Sunkus has worked to realize its vision of “steady, sustainable growth” since the merger. The overriding goal has been to become an enterprise that can deliver “steady, sustainable growth” so as to earn the trust and respect of all Circle K Sunkus stakeholders.

However, the convenience store industry faces an increasingly difficult operating climate characterized by increasing competition from traditional industry outsiders and diversifying customer needs accompanying changes in Japan’s social structure.

To satisfy customer needs and expectations as convenience stores enter a new era and to become an enterprise that can rise above fierce competition, Circle K Sunkus has defined two priorities as its management vision:



- \* “Become a Truly Exciting (WAKU WAKU) Enterprise”
- \* “Improve Quality”

Furthermore, Circle K Sunkus has established two management targets to quantitatively gauge progress toward realizing its new management vision: increase average daily sales per store to at least ¥500,000 on an all-store basis; and generate operating income of at least 3% of total store sales.





## Moving Forward on Three Fronts

Circle K Sunkus will move forward on the following three fronts to realize its new management vision:



- (1) Prioritize growth in operating income as a percentage of sales over growth in total store sales;
- (2) Prioritize quality improvements at individual stores over simply expanding the store network; and,
- (3) Prioritize winning a larger market share in prefectures where Circle K and Sunkus currently have stores, to become the market-share leader in more prefectures.



Accordingly, the Company will boldly implement various reforms and improvements based on the following key management strategies over the medium and long terms:

### Step up tracking of progress toward earnings targets by region

- ◆ Realize “steady, sustainable growth” through management practices focused on cash flows and return on equity (ROE) to ensure returns commensurate with investments and low-cost operations

### Improve quality of stores

- ◆ Increase the overall quality (average daily sales per store) of both convenience store chains by developing stores based on a store opening strategy specific to each region

### Offer stronger support for franchised stores

- ◆ Establish relationships built on trust between Head Office and franchised stores by offering stronger support for franchised stores by investing more in revitalizing stores, and recruiting and training store staff

### Achieve marketing innovation

- ◆ Develop products based on customer needs and research product lineups tailored to location that are unprecedented at either Circle K or Sunkus by utilizing data mining techniques

### Conduct management focused on compliance

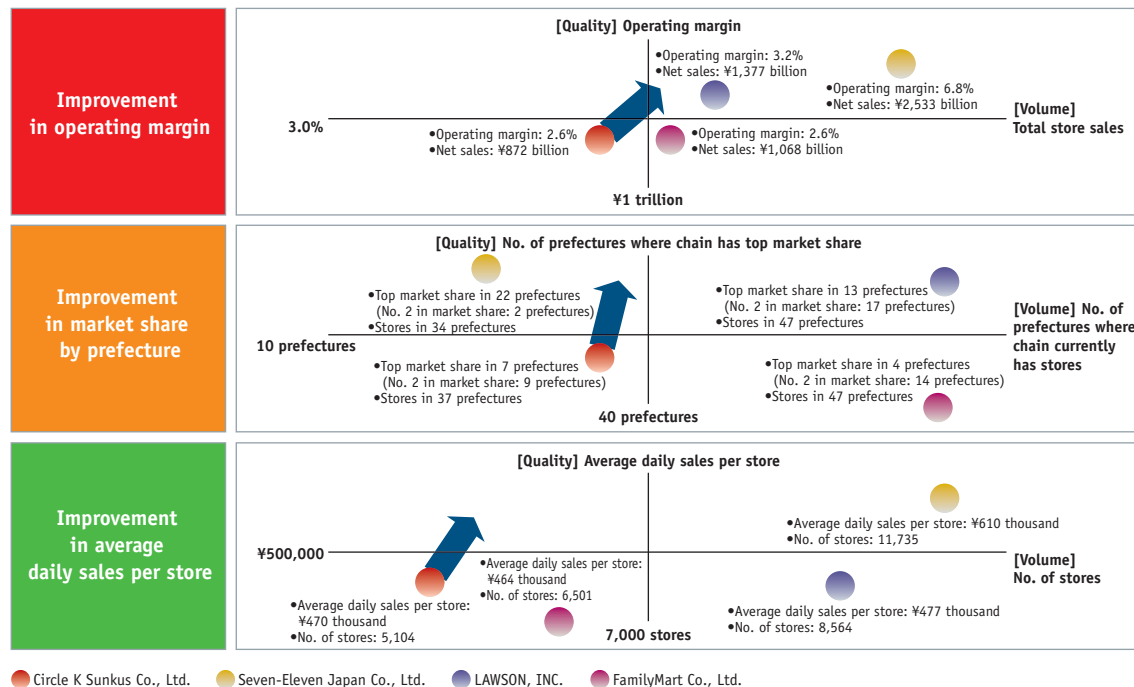
- ◆ Step up efforts to establish an internal control system and corporate governance structure

### Develop and nurture new businesses and formats

- ◆ Explore the possibilities of revitalizing new stores by selecting a range of best practices from new-concept stores and other new formats and applying them to convenience stores



## Circle K Sunkus' Position in Japan's Convenience Store Industry



Notes: 1. Figures in the charts on improvement in operating margin and average daily sales per store are shown on a non-consolidated basis.

2. The number of stores in the chart on improvement in market share by prefecture includes area franchisers of Circle K Sunkus and NATURAL LAWSON and LAWSON STORE 100 stores of LAWSON, INC.

Source: Financial reports issued by each company and other related documents for the fiscal year ended February 28, 2007, and the April 2007 edition of a monthly convenience store industry newsletter.

## Driving Far-reaching Improvements in Quality in Fiscal 2008

In fiscal 2008, Circle K Sunkus' management policy is to shift to an "intensive, quality-driven growth path." In line with this policy, the Company aims to transform Circle K and Sunkus into more powerful convenience store chains by taking steps to mitigate future risks associated with unprofitable stores and other issues, while achieving stronger sales capabilities across all divisions.

## Organizational Changes Implemented

In the beginning of fiscal 2008, Circle K Sunkus implemented organizational changes to establish stronger ties between operating divisions. First, Circle K Sunkus incorporated the Store Development Division into the General Operations Headquarters, which previously comprised only the



Store Operations Division and Marketing, Services & Merchandising Division. Circle K Sunkus President Motohiko Nakamura has concurrently been appointed Head of the General Operations Headquarters. With this step, the Company has put in place a system under the president's leadership that encourages store operations, store development and product divisions to cooperate on strengthening sales capabilities. Furthermore, the Store Operations Division and Store Development Division will be reorganized into four regions to integrate the management of operations and development initiatives for both Circle K and Sunkus stores in each region. Through this measure, Circle K Sunkus aims to reinforce its regional competitiveness, while raising management efficiency by reorganizing and reassigning redundant personnel in regions where Circle K and Sunkus stores overlap. Furthermore, the Central Japan Regional Product Department was established to better develop products tailored to regional characteristics.

### **Taking Bold Steps to Close Unprofitable Stores**

The percentage of Company-owned stores has been increasing due to weak existing store sales arising from intensifying competition. In fiscal 2008, Circle K Sunkus plans to take bold steps to close 450 stores, 93 more than in the previous fiscal year. Incidentally, of the 450 stores to be closed, the Company plans to relocate and reopen 150 stores.

Circle K Sunkus is stepping up the relocation of stores to sites that promise generally higher average daily sales compared with newly opened stores. The Company plans to take bold steps to close 450 stores while promoting store relocations based on stronger ties between the Store Development Division and Store Operations Division. The goal is to increase the overall profitability of both convenience store chains.

### **Store Development Prioritizing Quality and Profitability**

In store development, Circle K Sunkus has been facing crucial issues in recent years, including shortfalls in the number of stores opened relative to plans, and weaker average daily sales at new stores. In fiscal 2008, the Company will prioritize raising quality, improving average daily sales per store, and profitability in opening new stores. Additionally, plans call for stepping up franchisee recruitment using the "Venture Employee System." By steadily implementing the following measures, Circle K Sunkus is targeting average daily sales at new stores of ¥435,000 in fiscal 2008.



### (1) Review strategies for opening new stores by region

Circle K Sunkus will invest heavily in opening new stores in the mainstay Chubu and Kanto regions, which both offer strong prospects for high average daily sales. Plans call for achieving a net increase in stores in each region, primarily by opening new stores, but also through some relocations. Meanwhile, in regions with weak sales, namely Hokkaido and the Tohoku region, the Company will put a stronger emphasis on relocations rather than opening new stores. In doing so, Circle K Sunkus will work to move unprofitable stores back into the black and improve overall regional profitability. As shown in the table, plans call for opening different numbers of stores in fiscal 2008 in each region. Through this review of its medium-term strategy for opening new stores, Circle K Sunkus aims to increase the overall quality and profitability of both its convenience store chains.

### (2) Aiming for better average daily sales at new stores

Circle K Sunkus will open new stores with an emphasis on low-cost, ROI-intensive operations as it gives top priority to the quality and profitability of stores. The Company will also utilize its proprietary Circle K Sunkus Research (CSR) location assessment system that was upgraded in October 2006. CSR analyzes the size of the local market, traffic volume and rival convenience stores at prospective sites for opening new stores, and makes detailed predictions of customer footfall and spending per customer by type of store location based on past data from existing

**Strategies for Opening Stores by Region**

Region	Medium-term plans for opening stores	Percentage of stores to be opened in fiscal 2008 (%)	Including percentage of relocations (%)
Chubu and Kanto	Open significant numbers of new stores ↓ Net increase in stores	70	40
Kansai and Chugoku	Maintain current level of store openings ↓ Slight increase in stores	20	50
Hokkaido and Tohoku	Basically focused on relocations and "scrap & build" program ↓ Maintain or slightly reduce current number of stores	10	70





stores. Furthermore, as part of the aforementioned organizational changes, Circle K Sunkus has reinforced its two-tier checking system for prospective store locations involving the Store Operations Division and Store Development Division on an unprecedented scale.

### (3) Nurturing promising franchisee candidates

Circle K Sunkus will use the “Venture Employee System” to address difficulties in signing up franchisee candidates, an issue that has been responsible for recent shortfalls in opening new stores relative to plans. This system enables Circle K Sunkus to employ prospective franchisees on temporary contracts premised on future franchise membership. Prospective franchisees spend one year acquiring management expertise at Company-owned stores before opening their own stores. Participants are exempted from paying store preparation fees and training expenses, and receive other benefits designed to encourage them to open their own stores, such as access to a special reserve for supporting independent franchisees. In addition, the Store Development Division and Store Operations Division jointly offer training and educational programs to ensure ample follow-up support for franchisees seeking to become independent. Circle K Sunkus has been making significant headway with the “Venture Employee System.” Since the system got under way in September 2006, Circle K Sunkus has signed up 45 prospective franchisees as of May 31, 2007. In fiscal 2008, Circle K Sunkus aims to sign up 120 prospective franchisees.

### Measures to Offer Stronger Support for Franchised Stores

In fiscal 2008, Circle K Sunkus aims to offer stronger support than before to franchised stores, with the aim of building stronger relationships of trust between franchisees and Head Office and increase sales.

#### (1) Implemented sales promotions to increase sales

From December 2006 to January 2007, Circle K Sunkus implemented its first campaign involving the collection of incentive point stickers as a means of boosting sales during the New Year’s holidays. This type of sales promotion involves giving away prizes such as original mugs and plates to every customer who collects stickers worth a total of 30 points on eligible fast food products such as mainstay boxed lunches and rice balls. One incentive point is awarded for every ¥100 in purchase value. Despite overall weakness



Prizes for incentive point collection campaigns feature illustrations based on popular animation characters that are widely supported by customers of all ages.



in fast food sales, Circle K Sunkus benefited from an approximate three percentage point boost in the year-on-year change in fast food sales during the campaign period. Above all, the campaign had the effect of increasing morale at franchised stores and was strongly supported by customers.

Despite the higher cost burden for Head Office, Circle K Sunkus will continue to implement similar incentive point collection campaigns and other sales promotions that help to boost sales going forward.

### **(2) Support the recruitment of store staff**

Circle K Sunkus is facing difficulties in recruiting store staff, mainly because of a stronger employment market accompanying Japan's improving economy. Securing a certain number of employees is crucial to achieving high-quality store operations. Because many franchise stores are currently struggling to recruit new staff, Circle K Sunkus will offer stronger support to help them resolve this issue.

Ordinarily, expenses related to the recruitment of store staff are shouldered by franchised stores. However, Head Office has purchased job advertising space on PC and mobile phone-based recruitment websites on behalf of franchised stores. Furthermore, Circle K Sunkus has taken other steps to facilitate recruitment, including incorporating QR codes into recruitment posters at stores so that job applicants can use their mobile phones to immediately access relevant recruitment websites.

### **(3) Increase investment in revitalizing existing stores**

Circle K Sunkus plans to make larger investments in existing stores, mainly in store fixtures such as open showcases and gondola shelving, to maintain the competitiveness of these stores and further revitalize their operations.

## **Measures to Enhance Products and Services**

The process of integrating product vendors and logistics networks, under way since the merger, is due for completion in all product categories in summer 2007. Having ensured great-tasting products as a matter of course while staying on top of changing customer needs, Circle K Sunkus is finally ready to move merchandising initiatives onto the offensive. Plans also call for rolling out new services indispensable to the future growth of convenience stores, as part of efforts to enhance convenience for customers.



### (1) Integration in fast food and perishable food categories completed

As just mentioned, the integration of product vendors and logistics networks successively under way since the merger of 2004 is due for completion in all product categories in summer 2007.

More specifically, in the fast food and perishable food categories, Circle K Sunkus has put in place infrastructure such as dedicated food processing centers and deployed cutting-edge cooking technologies at each center in conjunction with the integration process. This move has set the stage for developing even more better-tasting products. In fiscal 2008, the Company will unify original product brands and standardize food ingredients in products offered at both Circle K and Sunkus. By using the same ingredients in pursuit of economies of scale, Circle K Sunkus will strive to enhance the quality of ingredients and realize other integration benefits, such as more effectively conducting sales promotion and advertising through TV commercials and other media.

Integration in all product categories and unifying product brands and food ingredients is expected to have the beneficial effect of increasing gross profit by ¥1.0 billion in fiscal 2008 and ¥3.0 billion on a cumulative basis since the merger, compared with gross profit before integration.



Circle K Sunkus has integrated original baked goods so far developed independently by Circle K and Sunkus under a single brand. By using the same ingredients and taking other steps in pursuit of economies of scale, Circle K Sunkus has realized a higher quality of ingredients to offer even better tasting original baked goods.

### (2) Responding to diversifying customer needs

Customer needs with respect to convenience stores continue to diversify beyond the Company's expectations due to changes in Japan's social structure. In fiscal 2008, Circle K Sunkus will put a strong emphasis on keeping pace with the polarization of consumption patterns, responding to Japan's aging population with fewer births, and offering discounts on daily necessities in response to customer price sensitivity.

The Company will assemble a broad lineup of both reasonably priced products that offer good value and highly priced premium products to address polarization in consumption patterns. Targeting Japan's aging population, Circle K Sunkus is strengthening its lineups of Japanese-style boxed lunches and general merchandise for senior citizens. The goal is to better satisfy the needs of senior citizens, a demographic segment that is expected to grow in the years ahead. Furthermore, there is a price difference of more than 20% in daily necessities such as food seasonings and



Circle K Sunkus is providing customers with products that offer balanced nutrition without compromising on taste at neighborhood convenience stores. These products also satisfy customer needs arising from growing health consciousness.



general merchandise sold at convenience stores compared with volume retailers and drug stores. This has led to the widespread public perception that products and services offered at convenience stores are generally expensive. In response, effective from June 2007, Circle K Sunkus will discount 20 to 30 items in the daily necessities category for a limited period of one year, with the Head Office shouldering the cost burden. These discounts may be extended after one year subject to trials and analysis.

Circle K Sunkus will augment the functions of regional product departments to accommodate regional characteristics, as it develops products featuring authentic regional tastes and ingredients to satisfy different customer preferences in each region.

Going forward, the Company will step up the detailed analysis of POS data and marketing surveys even more than before so as to better understand changes in Japan's social structure and customer needs. This process will help Circle K Sunkus to introduce more innovative marketing.

### **(3) New services launched**

The total value of electronic money transactions in Japan is projected to surpass ¥5,570 billion in fiscal 2010 according to the ePayment 2006 survey. These transactions can be expected to continue to expand going forward, as prominent retailers such as Seven & i Holdings Co., Ltd. and the Aeon Group have successively unveiled their own forms of electronic money since the beginning of 2007. However, Circle K Sunkus has a competitive edge in this field because it was the first major convenience store chain operator to begin accepting Edy electronic money at all its stores. The Company plans to further enhance its services in this area and use its accumulated expertise to create a unique service lineup. In addition to Edy, Circle K Sunkus is scheduled to begin accepting new post payment-based electronic money formats, specifically QUICPay and Smartplus. NTT DoCoMo, Inc.'s iD credit payment service using mobile phones is also scheduled to be accepted at Circle K and Sunkus stores from spring 2008. With plans to also accept the electronic money formats of railway companies in the near future, Circle K Sunkus aims to further improve convenience for customers.

The mail-order sales business is a ¥3 trillion industry that has been steadily expanding over a number of years. Mail-order sales payments now account for around 25% of all funds handled by Circle K Sunkus as an agent for the payment of customers' bills. There is growing demand from mail-order sales customers for the collection of products at convenience stores rather than





having them delivered to their homes. In response, in May 2007, the Company launched a pickup service at Circle K and Sunkus stores for products purchased via mail order.

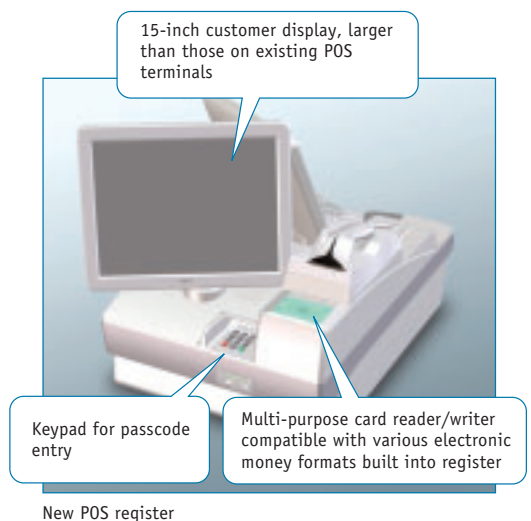
Furthermore, Circle K Sunkus will install multimedia kiosk (MMK) terminals at stores on a trial basis in fall 2007. These terminals will help to enhance customer convenience by providing new services with attractive content. Another objective is to simplify the operations of franchised stores.

### Launch of Next-generation Store System to Start

From September 2007 to February 2009, Circle K Sunkus will upgrade the store support system currently in use at all Circle K and Sunkus stores. This upgrade will involve the construction of a fiber-optic interactive broadband communications system and the replacement of primary devices such as POS registers and store communications servers (SCS). The Company has earmarked investment of around ¥27.0 billion for this system.

In a persistently challenging operating climate for convenience stores, Circle K Sunkus must rise above intensifying competition not only with rival convenience store chains but also traditional industry outsiders. Developing the next-generation store system will therefore involve adding new functions and improving existing systems based on an analysis of the requirements of frontline staff such as franchisees and store supervisors. The objectives are to ensure that the launch of new products and services leads to steady sales growth and to implement quality personnel development programs.

Circle K Sunkus will build a fiber-optic broadband communications system to serve as crucial infrastructure for delivering new services and enhanced functions, both of which are increasingly key to its vision for next-generation convenience stores. By augmenting its store network with this system in conjunction with establishing wireless LAN access points at each store, Circle K Sunkus will significantly enhance all aspects of store operations, through such means as facilitating the exchange of various information and data with stores, offering stronger support for ordering, and introducing paperless ledgers.





## Develop and Nurture New Business Formats and New-concept Stores

The functions, products and services customers want from convenience stores are shifting in step with changes in lifestyles and Japan's social structure. To stay on top of these diversifying customer needs, in February 2006, Circle K Sunkus opened its first store based on the new *99 Ichiba* format, which is a small supermarket selling fresh foods mainly priced at ¥99. In September 2006, the Company opened a new-concept store called *Fork Talk*, targeting working women as its primary customer base.

*99 Ichiba* offers an extensive lineup of some 125 fresh food items. Leveraging this strength, Circle K Sunkus has been steadily increasing the number of these supermarkets and growing sales. There were 28 such supermarkets as of May 31, 2007 and plans call for expanding the network to 50 supermarkets by February 29, 2008. Circle K Sunkus aims to develop the *99 Ichiba* format into a second pillar of operations going forward.

Meanwhile, *Fork Talk* is noteworthy for its great-tasting pasta, soups, baked goods and other foods freshly prepared onsite, and its in-store dining area. Furthermore, the product lineup includes items popular with women such as imported confectionery and general merchandise. Positioning *Fork Talk* as an experimental store, Circle K Sunkus aims to use this format to uncover the needs of Japan's fast-growing ranks of working women.

Furthermore, Circle K Sunkus will use these new stores to conduct research into next-generation convenience stores, while conducting various trials and studies to assess product lineups and services corresponding to store location and customer needs. The results of these studies will be fed back to existing Circle K and Sunkus stores to reinforce their operations.



The experimental *Fork Talk* store explores the needs of working women.

## Outlook for Medium-term Growth

Circle K Sunkus will continue to emphasize quality over quantity in opening new stores. Meanwhile, the Company plans to close a substantial 450 stores in fiscal 2008, but store closures should return to a normal pace of around 300 stores in subsequent fiscal years. Circle K Sunkus projects decreases in existing store sales through fiscal 2009 on expectations of fierce competition, but expects to achieve flat growth in fiscal 2010 by steadily improving sales capabilities. Furthermore, the Company aims to improve the average product markup by implementing a



second round of logistics reforms and stepping up merchandising activities across the UNY Group.

Capital expenditures are expected to peak at more than ¥40.0 billion in fiscal 2009 due to the roll out of the next-generation store system over two years from fiscal 2008. However, plans call for capital expenditures to return to a normal level of around ¥25.0 billion in fiscal 2010.

Initiatives to strengthen sales capabilities, roll out the new store support system and achieve other goals are indispensable to maintaining Circle K Sunkus' competitiveness, but will require significant investment and upfront costs. However, the Company believes these actions are essential to transform Circle K and Sunkus into truly powerful convenience store chains and compete effectively going forward.

#### Outlook for Medium-term Growth

	FY2008/2	FY2009/2	FY2010/2	FY2011/2	FY2012/2
Store openings (stores)	320	350	350	350	350
Store closures (stores)	450	300	300	300	300
YoY change in existing store sales	-0.8%	-0.2%	0.0%	0.0%	0.0%
Average daily sales per store (¥ thousand; all store basis)	474	482	490	497	504
Average product markup	29.11%	29.26%	29.41%	29.41%	29.41%
Capital expenditure budget (¥ billion)	<ul style="list-style-type: none"> <li>• Begin installing new POS registers and establishing fiber-optic links in second half</li> </ul>	<ul style="list-style-type: none"> <li>• Begin installing store communication servers (SCS) in second half</li> </ul>			
• Investment	19.6	27.2	19.4	18.4	18.4
• Lease	11.2	13.8	6.1	6.1	6.1
• Total	30.8	41.0	25.5	24.5	24.5

Note: The above table represents Circle K Sunkus' outlook for medium-term growth as announced with earnings for fiscal 2007. Accordingly, the figures in the table may be revised due to a number of factors.



### **Basic Approach to Corporate Governance**

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

### **Implementation Status of Corporate Governance Measures**

#### **(1) Description of Main Corporate Governance Bodies**

Circle K Sunkus' main corporate governance bodies are the annual general meeting of shareholders, Board of Directors, Board of Corporate Auditors, and Internal Control Committee.

Circle K Sunkus' policy is to limit its Board of Directors to a size deemed appropriate for focusing decision making on overall management issues. An executive officer system has been introduced to delegate primary decision-making authority for the management of day-to-day operations to executive officers in order to expedite the execution of business operations. Circle K Sunkus' governance structure is further underpinned by audits conducted by corporate auditors. As part of their audits, corporate auditors attend important internal meetings, such as Board of Directors meetings, to receive reports on the Company's management plans, the status of its overall compliance and risk management systems, and other matters. Based on these reports, the corporate auditors offer their opinions from an impartial perspective, and rigorously audit the performance of directors and executive officers. Circle K Sunkus has also appointed two outside auditors to enhance transparency.

The Internal Control Committee, which was established on March 1, 2007, comprises directors and executive officers. The committee regularly receives reports on the establishment of the internal control system from the Internal Control & Environmental Management Office to manage Company-wide progress on putting in place this system.

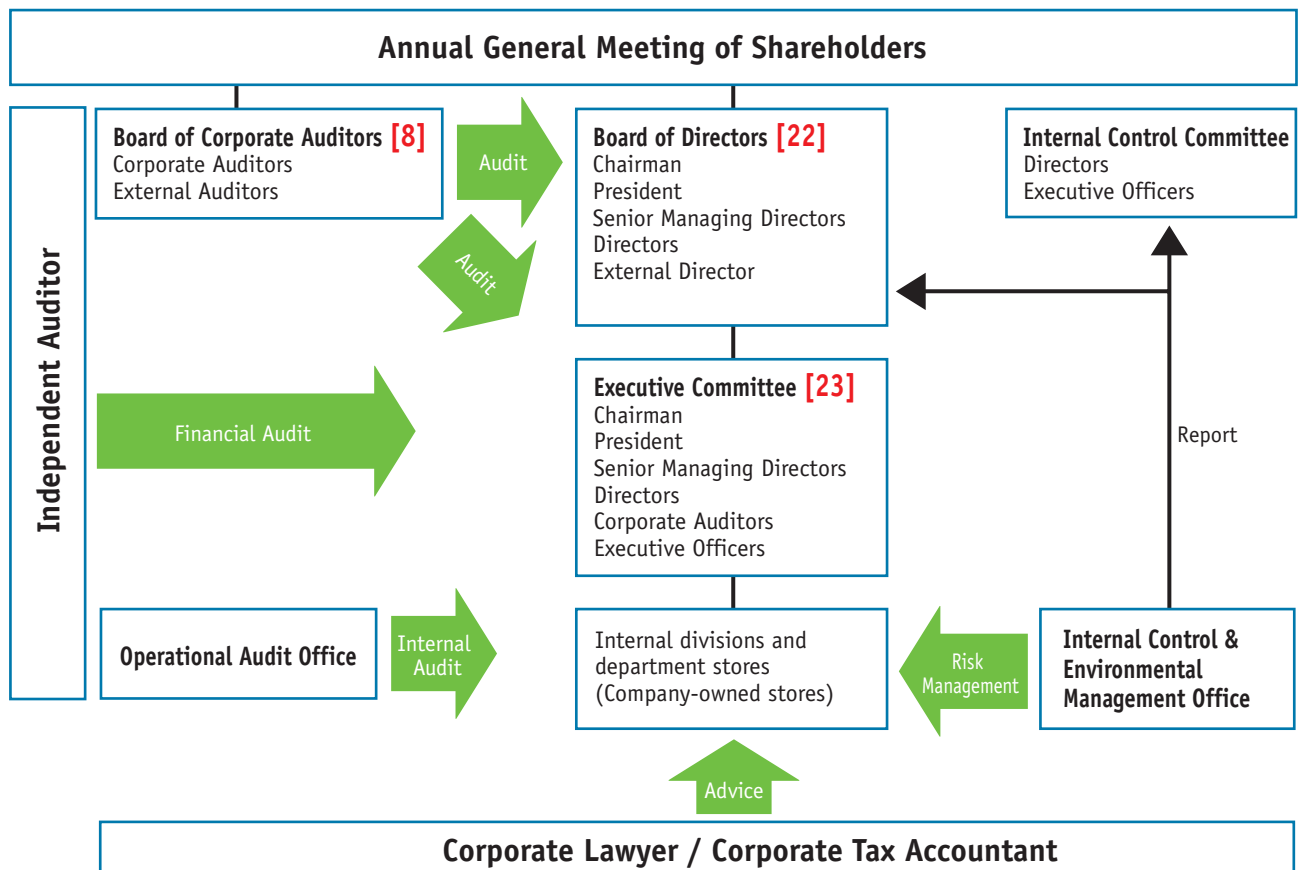




## (2) Establishment of Internal Control System

Circle K Sunkus has established a system for monitoring management based on supervision of business execution by the Board of Directors, and audits conducted by individual corporate auditors and the Board of Corporate Auditors. Furthermore, the Company has established the Operational Audit Office to serve as an internal auditing division and the Legal Affairs Office as a division for investigating issues from a legal perspective, thus improving document management. In addition, the Company works to enhance its internal management framework by

### Corporate Governance Structure (As of May 23, 2007)



Notes: 1. The figures in brackets represent the respective number of Board of Directors, Board of Corporate Auditors and Executive Committee meetings held in the fiscal year ended February 28, 2007. The Internal Control Committee began holding meetings once every two months in the fiscal year ending February 29, 2008.

2. Please see page 64 for Circle K Sunkus' organizational chart.



regularly and consistently auditing and investigating the appropriateness, legality and efficacy of business activities in light of guidelines on occupational authority and delegation, as well as other internal rules and regulations. Additionally, the Company has established the Internal Control & Environmental Management Office, which is overseen by a director, to coordinate internal control and compliance activities across the Company and implement concrete measures to reinforce the internal management structure.

### (3) Establishment of Risk Management System

Circle K Sunkus considers its primary risks to be associated with food safety, information systems, lawsuits, the financial condition of area franchisers, and natural disasters. Circle K Sunkus puts specific departments in charge of each risk and requires each department to continuously monitor and endeavor to prevent each risk from materializing. In the event that risks materialize, the Company takes rapid and appropriate responses to minimize any damages or losses. The Internal Control & Environmental Management Office, which oversees risks across the Company, identifies primary risks, and establishes rapid and appropriate lines of communication and emergency response systems, in the event that a contingency materializes in each primary risk category. At the same time, this office is responsible for monitoring risk management in cooperation with various departments, and coordinating and supervising risk management at each department. Directors and executive officers in charge of each risk or relevant risk-management department regularly report on risk management-related issues to the Board of Directors and Internal Control Committee.

### Remuneration for Directors and Corporate Auditors

Remuneration for directors is reviewed every year in line with each director's accomplishments and contributions to the Company's performance during the fiscal year. Remuneration for directors and corporate auditors in the fiscal year ended February 28, 2007 is outlined in the table below.

(¥ millions)

• Remuneration	Directors	¥200 (Incl. external directors: 3)
	Auditors	40 (Incl. external auditors: 4)
• Appropriations for directors' and corporate auditors' bonuses	Directors	52 (Incl. external directors: 0)
	Auditors	6 (Incl. external auditors: 0)



## BOARDS OF DIRECTORS AND CORPORATE AUDITORS



Kiyoshi Hijikata



Motohiko Nakamura



Akira Ishihara



Yasuhiko Fuma



Toshifumi Hirano



Teruyasu Ando



Kazuo Takahashi



Koji Sasaki



Kunio Takasu



Tsutomu Yamaguchi



Akira Katsuragawa



Yoshiaki Tsuzuki

### CHAIRMAN

**Kiyoshi Hijikata**

### PRESIDENT

**Motohiko Nakamura**

Head of General Operations Headquarters

### SENIOR MANAGING DIRECTORS

**Akira Ishihara**

Head of General Administration Headquarters,  
Information Systems Division  
and Store Infrastructure Promotion Office

**Yasuhiko Fuma**

Head of Area Franchise & Affiliated Company  
Administration Headquarters

### DIRECTORS

**Toshifumi Hirano**

Head of Area Franchise Division

**Teruyasu Ando**

Head of Store Operations Division

**Kazuo Takahashi**

Head of Strategic Planning Office, Customer  
& Franchisee Relations Office and Internal  
Control & Environmental Management Office

### DIRECTOR (External Director)

**Koji Sasaki**

Chairman of UNY CO., LTD.

### CORPORATE AUDITORS

**Kunio Takasu**

**Tsutomu Yamaguchi**

### CORPORATE AUDITORS (External Auditors)

**Akira Katsuragawa**

**Yoshiaki Tsuzuki**

Senior Managing Director of UNY CO., LTD.

### EXECUTIVE OFFICERS

**Toshitaka Yamaguchi**

Head of Finance & Accounting Division

**Katsumi Yamada**

Head of Marketing, Services & Merchandising  
Division

**Kozo Matsuda**

Head of Store Development Division

**Katsuji Sato**

Deputy Head of Store Operations Division

**Mikio Kanamori**

Deputy Head of Store Operations Division

**Yasutoshi Saito**

Deputy Head of Store Operations Division

**Kiyoshi Aida**

Deputy Head of Store Development Division

**Kazuyoshi Morikawa**

General Manager of Store Development  
Promotion Department of Store Development  
Division

(As of June 21, 2007)



*Guided by our mission statement of aiming “to be a company that achieves steady, sustainable growth, while earning the trust of society,” the Circle K Sunkus Group regularly conducts environmental programs and socially beneficial activities at its nationwide network of more than 6,300 Circle K and Sunkus stores, leveraging its ties with local communities.*

### Environmental Activities

Because Circle K and Sunkus stores are closely tied to communities 24 hours per day, Circle K Sunkus implements many environmentally considerate initiatives behind the scenes. For example, we have been working to reduce our environmental impact by installing energy-efficient equipment in stores, including lighting, freezer and refrigeration, and air conditioning equipment, and by recycling fluorescent lights. By constantly installing state-of-the-art, energy-efficient equipment, Circle K Sunkus has reduced annual average electricity use per store by 12% compared with 10 years ago, despite an increase in the size of stores and the installation of more equipment and devices.

In June 2006, Circle K Sunkus opened the Circle K Amaike store in Aichi Prefecture to commemorate the former Circle K Aichi World Expo store. The Circle K Amaike store reuses various materials from the Aichi World Expo store, including the original building’s steel frame and construction hardware, its lighting, store signs and freezer and refrigeration equipment. In addition, Circle K Sunkus has installed parking-lot lighting powered by CO<sub>2</sub> emission-free wind and solar energy at the Circle K Amaike store as part of efforts to reduce its environmental impact.

### 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 2007, Circle K Sunkus once again contributed to an emergency relief fund in an overseas region affected by an unforeseeable natural disaster, specifically an earthquake.



	Collection period	Organization receiving donations	Donations
Circle K	April to July 2006	The National Federation of All Japan Guide Dog Training Institutions "Nationwide Guide Dog Campaign"	¥10,183,732
	August to November 2006	Japanese Red Cross Society "Relief Fund for Overseas Disaster Victims"	¥ 9,827,343
	December 2006 to March 2007	Japan Environmental Action Network (JEAN) "Environmental Preservation Fund"	¥10,890,879
Sunkus	March 2006 to February 2007	Japan UNICEF	¥22,585,033
Circle K Sunkus Total			¥53,486,987

	Collection period	Organization receiving donations	Contributions
Circle K Sunkus	May 30 to June 18, 2006	Emergency relief for survivors of the Java earthquake	¥ 15,942,838

## NPO Support Activities

### NPO Kokkyo naki Kodomotachi (KnK) ~Children without Borders~

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.

#### Supporting the Opening of the Fourth "Everyone's Dream School" for Children in Cambodia

JHP has built its fourth school in Cambodia nicknamed "Everyone's Dream School" at Ang Run Secondary School, using donations collected by Circle K Sunkus. Of the school's five preexisting buildings, two aging wooden buildings were heavily worn down. JHP therefore replaced them with two one-story concrete buildings with five classrooms each. Currently, roughly 1,000 students are studying at this school on a daily basis.

### NPO Family House

Family House provides lodging for families of children from all over Japan who are battling serious illnesses such as cancer, to help ease the economic burden on these families.



Fourth "Everyone's Dream School" constructed



Students learning at the new school





# FINANCIAL SECTION



This graphic indicates that further details are available in the Circle K Sunkus Investors' Guide (IG) 2007. Certain figures in this annual report differ from corresponding figures in the IG due to differences in rounding methods.



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL POSITION


(As of February 28, 2007) Note: Unless stated otherwise, figures for store results on pages 29 to 36 of the MD&A are shown on a non-consolidated basis.

### BUSINESS ENVIRONMENT

In fiscal 2007, the year ended February 28, 2007, the Japanese economy continued to stage a gradual recovery, underpinned by strong corporate earnings. However, overall improvement in consumer spending remains to be seen. For instance, in the retail sector, sales of winter apparel slowed at department stores and supermarkets partly because of weather-related factors such as the warm winter.

Meanwhile, in the convenience store industry, customer needs continued to diversify due to changes in Japan's social structure, such as a shrinking population in an aging society with fewer births. Circle K Sunkus continues to face a challenging business environment characterized by intensifying competition transcending industry lines, involving not only rival convenience store chains but also traditional industry outsiders such as restaurants, supermarkets, drug stores, and discount retailers. Against this background, the convenience store industry as a whole saw a year-on-year decrease in existing store sales.

### STORE RESULTS

 P.14-15/P.19/P.25-27

#### Sales and Existing Store Sales (YoY Comparisons)

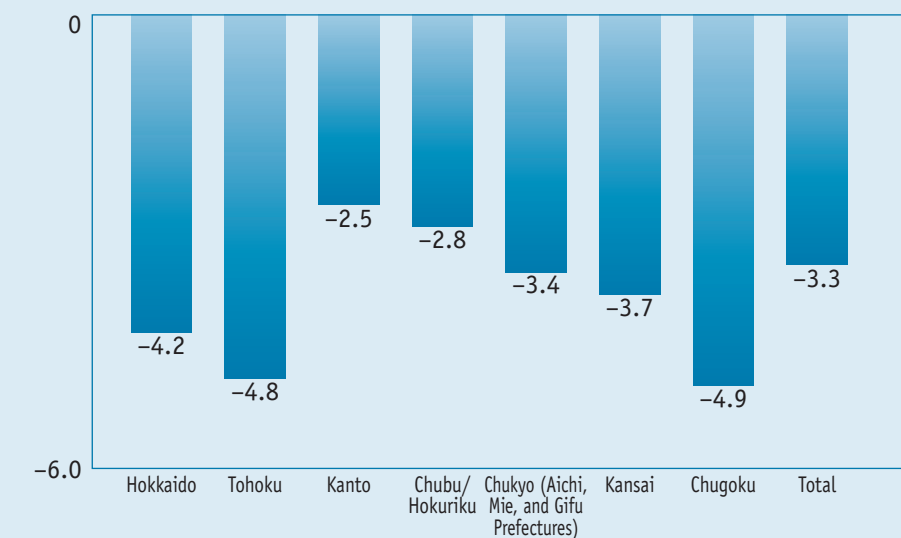
In the first half of fiscal 2007, Circle K Sunkus posted a year-on-year drop of 4.7% in existing store sales, partly reflecting a slowdown in holiday-related demand due to generally poor weather from early spring onwards, a long rainy season and the termination of sales of prepaid highway toll cards in September 2005. However, existing store sales improved in the second half, declining only 1.8% year on year, partly benefiting from aggressive sales promotion initiatives, such as Circle K Sunkus' first campaign involving the collection of incentive point stickers. (Original prizes were given away to every customer who collected stickers on fast food products worth

30 points.) Other contributing factors included the fact that the termination of sales of prepaid highway toll cards had no impact on sales in the second half and the mild winter. Overall, existing store sales at Circle K Sunkus for fiscal 2007 decreased 3.3% year on year, or 0.1 of a percentage point less than revised plans. The termination of sales of prepaid highway toll cards lowered existing store sales by 1.1 percentage point.

Sales at Circle K and Sunkus proper, including franchised stores, decreased 2.9% year on year to ¥872,844 million. Sales were significantly affected by the opening of 45 fewer stores than planned and the closure of 48 more stores than in the previous fiscal year.

In fiscal 2007, total store sales for the Circle K Sunkus Group,

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



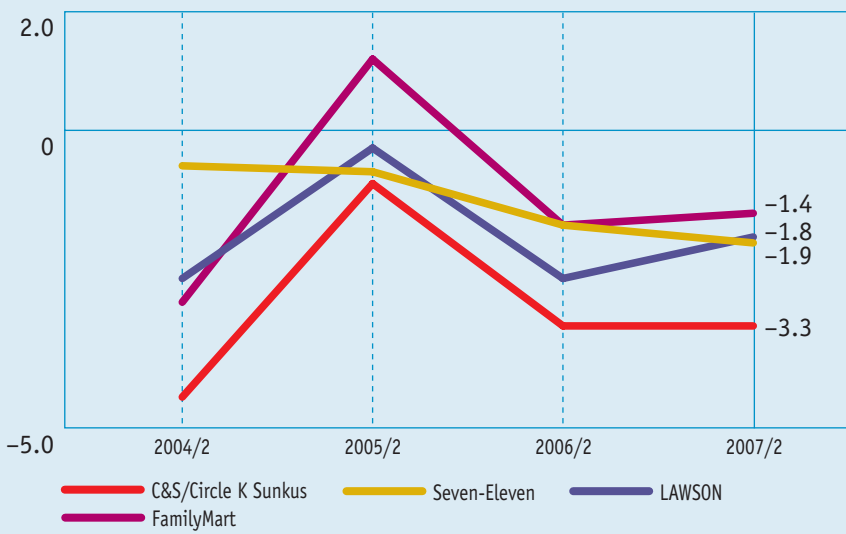
including non-consolidated entities comprising 13 area franchisers, as well as subsidiaries and affiliates were ¥1,068,585 million, a decrease of 2.8% year on year.

The outlook for fiscal 2008 is for Japan's economy to remain on a gradual recovery course, supported by strong corporate earnings. However, a genuine turnaround in consumer spending is still expected to require more time, mainly due to concerns in the household sector over possible increases in social insurance premiums and taxes. Furthermore, Circle K Sunkus will continue to face an increasingly challenging business environment. The Company faces a fiercer level of competition transcending business

and industry lines. Customer needs with respect to convenience stores are expected to change significantly in step with Japan's shifting social structure driven by a shrinking population. Factoring these trends into forecasts, Circle K Sunkus is projecting a year-on-year decline of 0.8% in existing store sales for fiscal 2008, once again decreasing from the previous fiscal year, despite signs of improving existing store sales. Circle K Sunkus expects sales at Circle K and Sunkus proper, including franchised stores, to decrease 0.4% year on year to ¥869,780 million, mainly due to the planned closure of 450 stores, 93 more than in fiscal 2007.

Looking at the convenience store industry as a whole, all the major chains posted weaker existing store sales. This was mainly because consumer spending has yet to fully improve, as well as intensifying competition from traditional industry outsiders, and the impact of unsettled weather. Furthermore, all major convenience store chains except Seven-Eleven were adversely affected by the termination of sales of prepaid highway toll cards. This development had a particularly big impact on Circle K Sunkus, where prepaid highway toll cards represented a comparatively high percentage of sales.

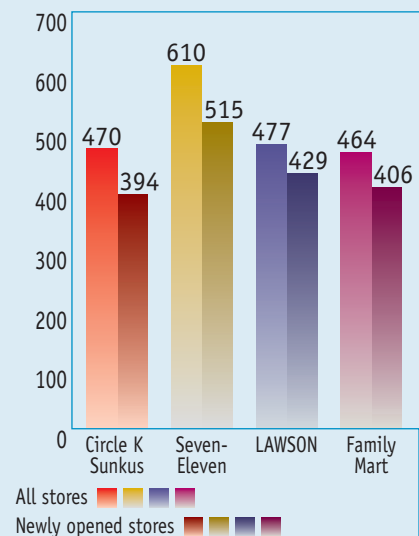
**Existing Store Sales of Major Convenience Store Chains**  
(%)



Source: Financial reports prepared by each company.

Note: All major convenience store chains except Seven-Eleven were adversely affected by the termination of sales of prepaid highway toll cards in denominations of ¥30,000 and ¥50,000 in the February 2004 fiscal year, and ¥10,000 from the second half of fiscal 2006 to the first half of fiscal 2007.

**Average Daily Sales at Major Convenience Store Chains (Fiscal 2007)**  
(¥ thousand)



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

## OVERVIEW OF STORES

Investors' Guide P.14-15/P.27

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

Despite Japan's ongoing economic recovery, consumer spending has yet to fully improve. Further impacted by the termination of sales of prepaid highway toll cards, average daily sales per store decreased ¥12,000 from the previous fiscal year on an all-store basis.

Looking at the number of customers visiting stores, customer footfall saw a large decline in the first half, impacted by the Aichi World Expo in fiscal 2006 and particularly fierce competition, despite improving in the fourth

quarter. Circle K Sunkus aims to curb the decline in customer footfall by steadily keeping pace with diversifying customer needs by reinforcing products and services. Meanwhile, there was a smaller drop in the average purchase per customer compared with the previous fiscal year partly because the termination of sales of prepaid highway toll cards affected results only in the first half.

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

In fiscal 2007, Circle K Sunkus opened stores in Gunma Prefecture for the first time. However, the Company's overall performance in

terms of opening new stores left a number of unresolved issues in terms of both quantity and quality.

During fiscal 2007, Circle K Sunkus struggled to open new stores, finishing the year with just 307 new stores opened, 45 fewer than its revised plans announced with interim earnings. The main reason was difficulties in signing up prospective franchisees. This in turn reflected external factors such as better employment conditions accompanying Japan's improving economy, and a negative image associated with weaker existing store sales throughout the convenience store industry and other factors. In response, Circle K Sunkus actively took steps in fiscal 2007 to

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

	Fiscal 2006						Fiscal 2007					
	Circle K Sunkus		Circle K		Sunkus		Circle K Sunkus		Circle K		Sunkus	
		Change		Change		Change		Change		Change		Change
Existing stores												
Average daily sales per store	¥485,000	-2.2%	¥487,000	-1.4%	¥483,000	-3.4%	¥476,000	-1.9%	¥478,000	-1.8%	¥473,000	-2.1%
Average number of daily customers per store	821	-0.6%	776	0.1%	878	-1.6%	811	-1.2%	768	-1.0%	867	-1.3%
Average purchase per customer	¥ 591	-1.7%	¥ 628	-1.6%	¥ 550	-1.8%	¥ 586	-0.8%	¥ 622	-1.0%	¥ 546	-0.7%
Average daily sales at all stores	¥482,000	-2.2%	¥485,000	-1.6%	¥479,000	-3.2%	¥470,000	-2.5%	¥473,000	-2.5%	¥466,000	-2.7%
Average daily sales at newly opened stores	¥424,000	-3.0%	¥446,000	1.6%	¥390,000	-10.3%	¥394,000	-7.1%	¥413,000	-7.4%	¥366,000	-6.2%

sign up franchisees through such means as unveiling the “Venture Employee System” and offering special benefits for switching from management consignment to franchisee agreements. However, these steps were unable to adequately contribute to results because they were launched in the second half of the fiscal year. Responding to changes in the neighborhoods surrounding some stores, Circle K Sunkus opened new stores by relocating existing ones to better locations in the same regions. This involved relocating 103 stores, 21 more than in the previous fiscal year, but fewer than planned.

Average daily sales per new store were ¥394,000, ¥30,000 less than in the previous fiscal year. Although partly attributable to the termination of sales of prepaid highway toll cards, the main factors in this decline were a large shortfall in opening new stores in the Kanto region, where high average daily sales are expected; delays in relocating Sunkus stores; and low average daily sales per new store in the Tohoku, Hokkaido and Kansai regions.

Circle K Sunkus closed 357 stores, 48 more than in the previous fiscal year, focusing on Company-owned stores and unprofitable stores unlikely to remain competitive in the future. This included 136 Company-owned stores. However, the number of Company-owned

stores had increased by 69 on a net basis as of the fiscal year-end, reflecting the conversion of franchised stores into Company-owned stores due to weak existing store sales.

As of February 28, 2007, Circle K Sunkus had a total of 5,104 stores, a net decrease of 50 stores.

In fiscal 2008, Circle K Sunkus will prioritize raising quality when opening new stores, with the aim of improving average daily sales per store at new stores. Furthermore, the Company will review its strategies for opening new stores in each region. In profitable regions, the Company will reestablish a dominant presence by significantly investing in new stores. Elsewhere, Circle K Sunkus will step up relocations in regions with weak sales rather than opening new stores. On the franchisee recruitment front, Circle K Sunkus is making steady progress

with the “Venture Employee System” launched in September 2006, which is projected to start contributing to results in the second half of fiscal 2008. Furthermore, the number of outstanding contracts to be signed for new stores was 236 at the beginning of the fiscal year. As for improving average daily sales per new store, Circle K Sunkus expects to avoid opening stores with low average daily sales by raising the accuracy of its scoring system for assessing the feasibility of opening new stores in specific locations. This will be accomplished by bringing the new Circle K Sunkus Research (CSR) location assessment system fully on stream in fiscal 2008. This system first became operational in October 2006. Furthermore, with initiatives to promote the relocation of stores to sites promising generally higher average daily sales

### Stores Opened/Closed

	Fiscal 2006			Fiscal 2007		
	Circle K Sunkus	Circle K	Sunkus	Circle K Sunkus	Circle K	Sunkus
Stores opened	335	196	139	307	187	119
Stores relocated	82	63	19	103	77	26
Stores closed	309	160	149	357	180	177
Net increase (decrease)	26	36	-10	-50	7	-58
<b>Fiscal year-end</b>	<b>5,154</b>	<b>2,891</b>	<b>2,263</b>	<b>5,104</b>	<b>2,898</b>	<b>2,205</b>

Notes: 1. In fiscal 2007, Circle K Sunkus totals for stores opened and total stores at the fiscal year-end include one new-concept store called *Fork Talk*. The sum of the corresponding figures for Circle K and Sunkus therefore do not match these figures.

2. As of February 28, 2007, Circle K Sunkus had 5,369 stores on a consolidated basis, representing a net decrease of 58 stores after opening 328 stores and closing 386.



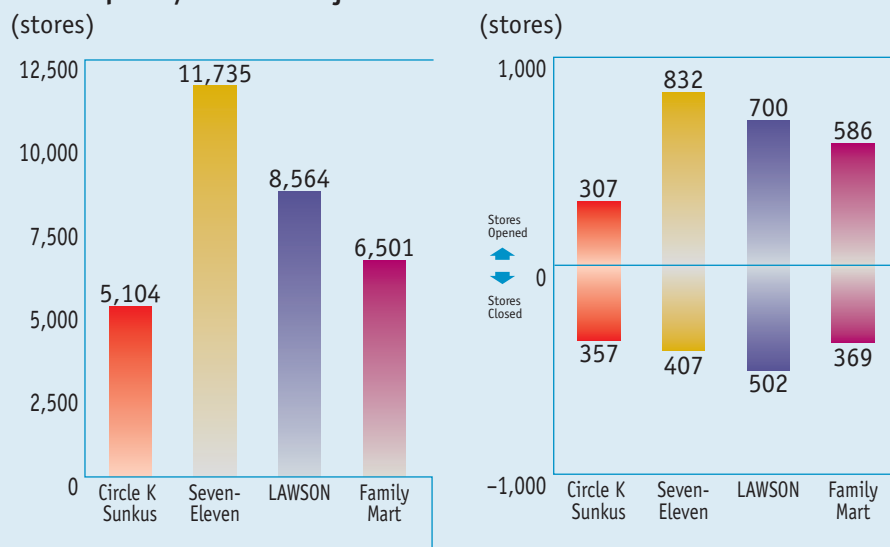
underway since the second half of fiscal 2007, Circle K Sunkus aims to relocate 150 stores in fiscal 2008, 47 more than in fiscal 2007, and increase average daily sales per new store to around ¥430,000.

One major initiative in fiscal 2008 will be to step up relocations, while boldly moving forward with realigning unprofitable stores. The plan is to close 450 stores in fiscal 2008, 93 more than in the previous

fiscal year, resulting in a net decrease of 130 stores for the year. Consequently, Circle K Sunkus expects to have 4,974 stores as of February 28, 2008.

In fiscal 2007, the major convenience store chains opened fewer stores than in the previous fiscal year, but closed more stores. The convenience store industry as a whole is facing difficulties opening new stores, as reflected in net decreases in the number of stores at Circle K Sunkus and smaller net increases at various other major convenience store chains.

### Stores Opened/Closed of Major Convenience Store Chains



Note: Figures for each convenience store chain represent stores in Japan only, excluding those of consolidated subsidiaries.

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

Investors' Guide P.16-17

### Product Details and Markup Rates

**Fast food:** Rice dishes, baked goods, noodles, delicatessen items, and countertop fast foods

### Stores by Geographic Region

	Fiscal 2007					
	Circle K Sunkus		Circle K		Sunkus	
	Stores	Share	Stores	Share	Stores	Share
Hokkaido	211	4.1%	-	-	211	9.6%
Tohoku	515	10.1%	151	5.2%	364	16.5%
Kanto	1,158	22.7%	210	7.2%	947	42.9%
Chubu/Hokuriku	725	14.2%	725	25.0%	-	-
Chukyo (Aichi, Mie, and Gifu prefectures)	1,466	28.7%	1,274	44.0%	192	8.7%
Kansai	846	16.6%	445	15.4%	401	18.2%
Chugoku	183	3.6%	93	3.2%	90	4.1%
Total	5,104	100.0%	2,898	100.0%	2,205	100.0%
No. of prefectures covered	30	-	21	-	19	-

Note: In fiscal 2007, the total number of stores on a Group total basis, including Circle K Sunkus' 13 area franchisers, was 6,336 as of the fiscal year-end and new stores were opened in 37 prefectures in Japan.

By making certain mainstay fast food products eligible for incentive point collection campaigns implemented in the second half, Circle K Sunkus was able to improve fast food sales to the previous year's level during campaign periods. However, the Company posted weaker sales of not only boxed lunches but also rice balls, which had been the driving force behind sales. This partly reflected external factors, such as falling unit prices due to a growing consumer preference for smaller servings, particularly as regards rice dishes, and a shift of demand away

from rice. Sales in the baked goods category were down due partly to weak sandwich sales and sales of delicatessen items also fell, reflecting strong-selling soups with generous ingredients in the previous fiscal year. Sales of countertop fast foods surpassed the previous year mainly on strong sales of fried chicken and other products, although *oden* (stewed meat, fish and vegetables) and Chinese steamed buns struggled due to this year's mild winter. As a result, overall fast food sales decreased 4.9% year on year.

**Perishable food:** *Milk, chilled beverages, pastries, desserts and fresh food items*

Sales of desserts, centering on a large lineup of original products, helped to boost perishable food sales. Circle K Sunkus posted higher sales in the chilled beverage category, supported by premium coffee drinks packaged in cups. Bread sales decreased due to fewer popular offerings, as products in this category were unable to fully meet customer needs. Consequently, perishable food sales decreased 0.4% from the previous year.

**Processed food:** *Alcoholic beverages, soft drinks, snacks, instant noodles, ice cream, and dried food*

Overall sales in the snack category declined. In addition, Circle K Sunkus posted lower sales of soft drinks due to weak sales of tea-based beverages in 500ml PET bottles, despite some improvement in the second half. Furthermore, Circle K Sunkus posted sluggish sales of ice cream due to low temperatures from the onset of spring and a long rainy season. In addition, sales of alcoholic beverages continued to struggle due to intensifying competition fueled by increases in the number of stores selling alcohol following alcohol licensing deregulation. Consequently, overall processed food sales were sluggish, declining 4.1% year on year.

**Non-food items:** *Magazines, newspapers, tobacco, cosmetics, general merchandise*

Circle K Sunkus once again recorded weak sales of general merchandise, cosmetics products and daily necessities in fiscal 2007 due to the impact of discount sales by traditional industry outsiders such as ¥100 discount shops and drug stores. In addition, the publishing industry as a whole has experienced declines in sales of weekly magazines and other periodicals for the tenth straight year, largely due to Japan's aging society with fewer children and the Internet. Against this backdrop, sales of newspapers and magazines

also declined at Circle K and Sunkus stores. However, tobacco sales continued to hold firm, increasing 4.5% year on year despite an increase in tobacco-related taxes in July 2006. Tobacco sales represented 19% of overall sales, up 1.4 percentage point from the previous fiscal year. As a result, sales in the non-food items category increased 0.3% year on year.

**Services:** *Prepaid highway toll cards, tickets, stamps and parcel delivery*

Circle K Sunkus was able to minimize the impact of strong sales of tickets for the Aichi World Expo 2005 in fiscal 2006 owing to several factors. These included exclusive sales of advance tickets for concerts by popular artists from Japan and abroad, which was made possible by offering tickets via Ticket Pia at all stores, and strong sales of tickets to professional baseball games. Sales from the Net Preca service, which was rolled out in fiscal 2006, were also strong. However, the termination of sales of relatively highly priced prepaid highway toll cards weighed heavily on sales. Consequently, the service category saw a decrease of 10.1% in overall sales from the previous fiscal year.

As a result, total product sales decreased 2.9% year on year.

### Product Markups

In fiscal 2007, Circle K Sunkus finally began integrating product vendors and logistics operations in the mainstay fast food and perishable food categories. Progress was made on schedule in regions centering on western Japan. As a result, product markups in both the fast

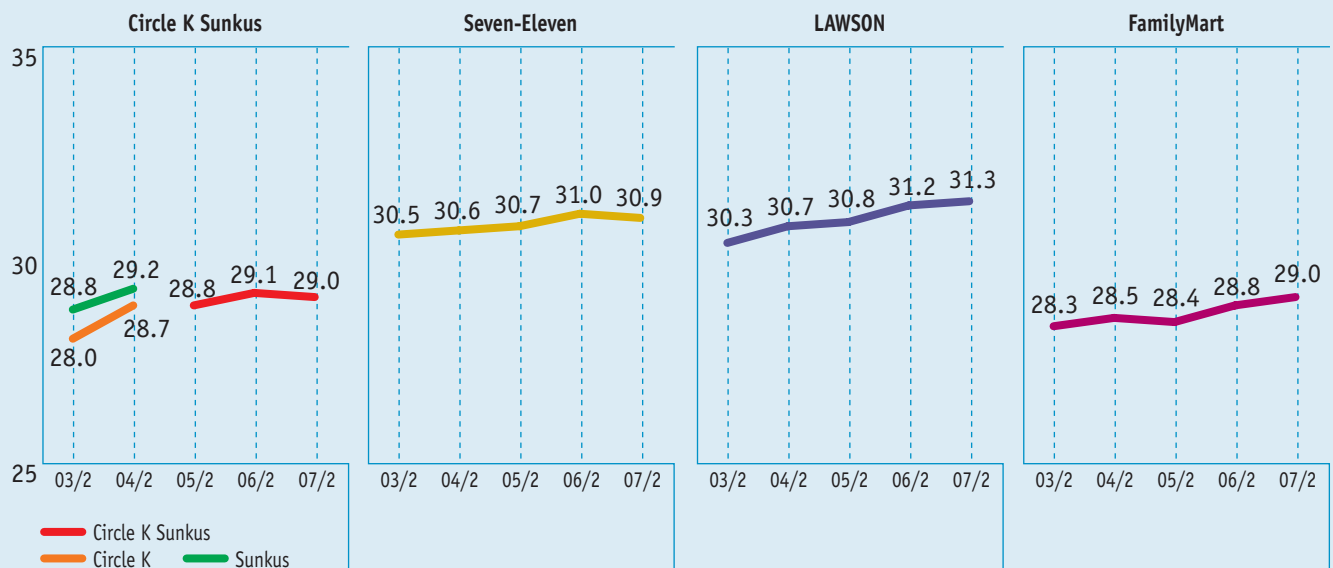
food and perishable food categories improved, following on from improvement in categories where integration had been completed by fiscal 2006, namely processed food, general merchandise and frozen food. Specifically, this integration has helped to improve the average product markup by 0.14 of a

percentage point. Furthermore, the termination of sales of prepaid highway toll cards, which have low markups, also had the effect of improving the average product markup. These gains, however, were outweighed by the impact of Circle K Sunkus' product mix, specifically a 4.5% year-on-year increase in sales

### Sales by Product and Product Markups

	Fiscal 2006				Fiscal 2007			
	Sales Growth	Share	Markup		Sales Growth	Share	Markup	
				Change				Change
Fast food	0.0%	20.4%	35.3%	0.4%	-4.9%	20.0%	35.7%	0.4%
Perishable food	-0.9%	12.5%	33.5%	0.3%	-0.4%	12.8%	33.7%	0.2%
Processed food	-3.6%	32.1%	35.4%	0.7%	-4.1%	31.7%	35.6%	0.2%
Non-food items	0.9%	29.3%	19.2%	-0.2%	0.3%	30.2%	18.5%	-0.7%
Services	-6.5%	5.7%	7.7%	-0.1%	-10.1%	5.3%	7.7%	0.0%
Total	-1.0%	100.0%	29.05%	0.26%	-2.9%	100.0%	28.97%	-0.08%

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



Source: Financial reports prepared by each company.

of tobacco, where markups are low, and growth in low-margin ticket sales, as well as weaker sales of higher-margin products such as fast food, processed food, and cosmetics and other general merchandise. Consequently, the average product markup for fiscal 2007 decreased 0.08 of a percentage point to 28.97%, 0.26 of a percentage point lower than forecast.

In fiscal 2008, integration in the fast food and perishable food categories is expected to begin contributing to product markups on a full-year basis. Additionally, the

higher tobacco prices accompanying tax increases will not affect the average product markup in the second half of fiscal 2008. As a result, Circle K Sunkus is targeting an improvement in the average product markup in fiscal 2008 of 0.14 of a percentage point to 29.11%.

#### AREA FRANCHISERS

 P.20-21

Circle K Sunkus and its area franchisers each develop store networks. The Company establishes area franchisers as joint venture companies with prominent local

firms to operate franchised stores in specific regions. Area franchisers receive expertise and guidance from the Company on their respective convenience store chains. The Company provides guidance to area franchisers on topics such as store development, operating and accounting, while at the same time supplying them with products, information systems and other items. Fees from area franchisers are paid to the Company in return. The Circle K Sunkus Group maximizes scale merits across the Group, including at area franchisers,

#### Area Franchisers

Company	Equity interest	Date of agreement	2007/2		Sales (¥ million)	Area license fees (¥ million)
			Number of stores (Stores)	Change		
Sunkus Aomori Co., Ltd.*	100.0%	1994. 3. 1	70	3	¥ 9,260	-3.3%
Sunkus Nishi-Saitama Co., Ltd.*	100.0%	1987. 2.28	75	-4	11,565	0.5%
SUNKUS KITAKANTO Co., Ltd.*	100.0%	1997. 3.12	32	-1	4,920	-10.7%
Sunkus Nishi-Shikoku Co., Ltd.*(Note 1)	100.0%	1992. 8.27	88	-6	12,691	-7.3%
Circle K Shikoku Co., Ltd.	35.0%	1996. 5.14	159	15	23,005	7.9%
Sunkus Higashi-Saitama Co., Ltd.	19.0%	1988. 7.19	66	-1	9,326	-8.1%
Sunkus Tokai Co., Ltd.	19.0%	1989. 9. 6	99	1	15,144	3.8%
Sunkus Keihanna Co., Ltd.	19.0%	1989.10.26	113	-6	18,294	-5.3%
Sunkus and Associates Higashi-Shikoku Co., Ltd.	19.0%	1995. 1.12	135	3	20,806	-7.8%
Sunkus Hokulia Corporation	19.0%	1995. 1.24	90	1	15,825	2.5%
Sunkus and Associates Toyama Co., Ltd.	19.0%	1996. 7. 2	82	2	13,683	0.8%
Minami-Kyushu Sunkus Co., Ltd.	19.0%	1998. 8.21	92	7	13,666	7.6%
CVS Bay Area Inc.	2.4%	1997. 1.14	131	0	27,549	0.2%
<b>Total</b>			<b>1,232</b>	<b>14</b>	<b>¥195,741</b>	<b>-2.6%</b>

Notes: 1. On March 1, 2006, the Company acquired all shares of Sunkus Nishi-Shikoku Co., Ltd. for conversion into a wholly owned subsidiary.

2. SUNKUS KITAKANTO Co., Ltd. and Sunkus Nishi-Shikoku Co., Ltd. became consolidated subsidiaries of Circle K Sunkus Co., Ltd. in the fiscal year ended February 28, 2007.

\* Consolidated subsidiaries

with regard to product policies and developing its store network.

Circle K Sunkus respects the autonomy of management at area franchisers. While carefully considering returns on investments from a Group-wide perspective, the Company provides personnel and funding support for area franchisers as necessary.

In fiscal 2007, Circle K Sunkus established the Area Franchise & Affiliated Company Administration Headquarters to offer even stronger management guidance to area franchisers. Going forward, the Circle K Sunkus Group will work to capture group-wide synergies by deepening collaboration with area franchisers, while further strengthening management guidance.

As of February 28, 2007, the Circle K Sunkus Group had 13 area franchisers who operated 1,232 stores in 20 prefectures. In fiscal 2007, area franchisers posted sales of ¥195,741 million, down 2.6% year on year. In fiscal 2007, SUNKUS KITAKANTO Co., Ltd. and Sunkus Nishi-Shikoku Co., Ltd. became consolidated subsidiaries of Circle K Sunkus Co., Ltd., bringing the total number of area franchisers who are consolidated subsidiaries to 4.

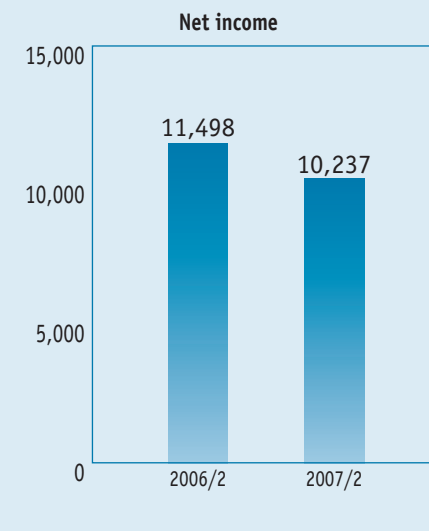
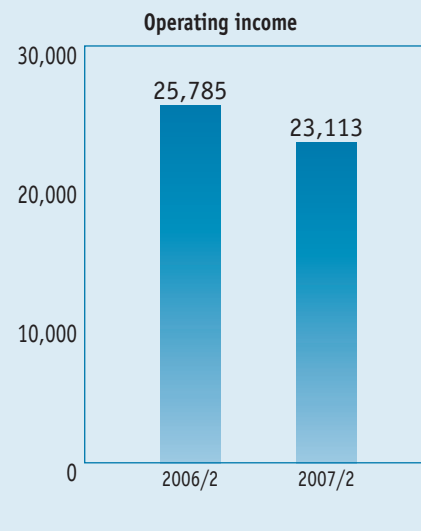
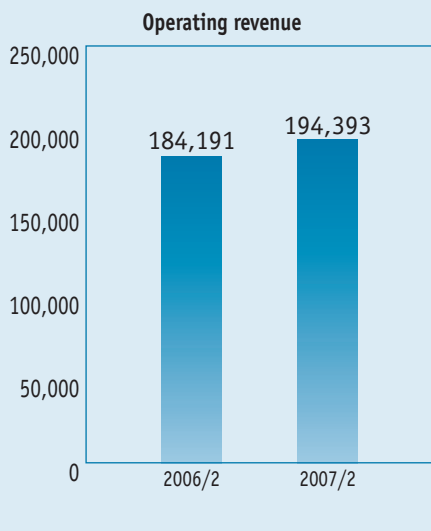
#### CONSOLIDATED OPERATING RESULTS FOR FISCAL 2007

 P.22-23

In fiscal 2007, Circle K Sunkus had 5 consolidated subsidiaries, due to the addition of 3 consolidated subsidiaries.

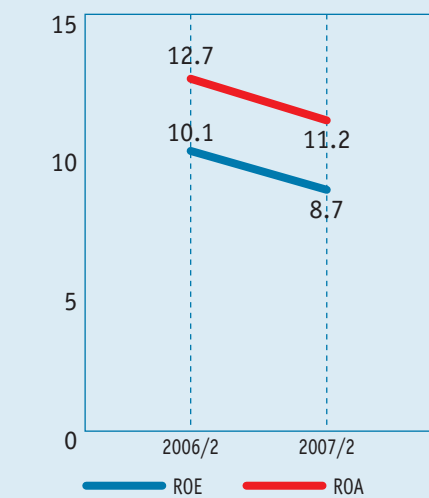
Sales at Circle K and Sunkus proper, including franchised stores, decreased ¥8,543 million to ¥911,282 million, despite contributions from newly consolidated subsidiaries. Sales were hit particularly hard by the opening of 51 fewer stores than planned and weaker average daily sales at new stores. Franchise commissions from franchised stores declined ¥1,706 million to ¥102,710 million as a result of sluggish sales growth and worsening product markups. Despite this, net sales of Company-owned stores rose ¥11,878 million year on year to ¥79,246 million, reflecting an increase in the number of such stores in response to slowing sales, and the inclusion of operating revenue of ¥4,015 million from ZERO

#### Consolidated Operating Results (¥ million)





### 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 / Total equity (Yearly average) x 100

NETWORKS Co., Ltd., which became a consolidated subsidiary in fiscal 2007. Consequently, operating revenue increased 5.5% year on year to ¥194,393 million.

Consolidated selling, general and administrative (SG&A) expenses increased 3.2% year on year to ¥110,921 million mainly because of aggressive spending on sales promotions to increase sales at franchised stores and the increase in consolidated subsidiaries. The main changes in SG&A expenses were as follows. Sales promotion and advertising expenses rose 3.5% year on year, but depreciation and amortization were down 8.9% due to lower amortization of software. However, rental and lease expenses increased 3.6% year on year due to rising rents and the need to increase parking space in conjunction with

upgrading store functions, outweighing the beneficial impact of the end of the lease period for the store information system currently in use. As a result, consolidated operating income decreased 10.4% to ¥23,113 million.

In fiscal 2007, Circle K Sunkus closed 67 more stores than in the previous fiscal year on a consolidated basis. As a result, the loss on sales or disposal of property and equipment increased 6.9% to ¥902 million, and the loss on cancellation of lease contracts rose 19.5% to ¥2,164 million. Meanwhile, the Company booked an impairment loss on fixed assets of ¥3,170 million, down 36.4% year on year. Consequently, income before income taxes and minority interests decreased 7.4% to ¥18,387 million and net income fell 11.0% to ¥10,237 million.

In fiscal 2008, the Circle K Sunkus Group will have 6 consolidated subsidiaries, following the consolidation of 99 Ichiba Co., Ltd. For fiscal 2008, the Company is forecasting sales at Circle K and Sunkus proper, including franchised stores, of ¥913,570 million, up 0.3% year on year, and operating revenue of ¥198,400 million, up 2.1%. These forecasts factor in the newly consolidated subsidiaries and improving existing store sales. Circle K Sunkus also expects operating income to edge up 0.8% to ¥23,300 million, despite a projected 2.3%

### Consolidated Subsidiaries' Performance in Fiscal 2007 (stores; ¥ million)

	Four area franchisers total	ZERO NETWORKS	Eliminations on consolidation
Stores opened	21	-	-
Stores closed	29	-	-
Fiscal year-end	265	-	-
Total store sales	¥38,437	-	-
Operating revenue	7,733	¥4,015	¥-878
Operating income	90	140	-53

Note: Circle K Sunkus' consolidated subsidiaries are listed below. 99 Ichiba Co., Ltd. will become a consolidated subsidiary in fiscal 2008, bringing the number of consolidated subsidiaries to 6.

- Sunkus Aomori Co., Ltd. (Area franchiser)
- SUNKUS KITAKANTO Co., Ltd. (Area franchiser)
- ZERO NETWORKS Co., Ltd. (Outsourced ATM Operations)
- 99 Ichiba Co., Ltd. (Mini supermarkets that specialize in fresh foods)
- Sunkus Nishi-Saitama Co., Ltd. (Area franchiser)
- Sunkus Nishi-Shikoku Co., Ltd. (Area franchiser)

rise in SG&A expenses. However, the Company expects to close a substantial 450 stores in fiscal 2008, 97 more than in the previous fiscal year, resulting in higher expenses related to store closures. Consequently, net income for fiscal 2008 is projected to decrease 25.8% to ¥7,600 million.

### CONSOLIDATED SUBSIDIARIES

In fiscal 2007, Circle K Sunkus had 5 consolidated subsidiaries comprising 4 area franchisers and ZERO NETWORKS Co., Ltd., which is contracted to conduct “Zero Bank” ATM operations.

Sales of the above 4 area franchisers were down 4.6% year on year due to intensifying competition, but their operating income surpassed forecasts. Furthermore, ZERO NETWORKS began installing “Zero Bank” ATMs at stores in Mie Prefecture and 4 prefectures in the Kanto region in fiscal 2007, bringing the number of “Zero Bank” ATMs installed at stores to 2,487 as of February 28, 2007. With steadily growing usage of these ATMs in Aichi and Gifu prefectures, where installation was completed in fiscal 2006, ZERO NETWORKS achieved profitability in terms of operating income in fiscal 2007.

Looking ahead to fiscal 2008, the four area franchisers are projecting an operating loss of ¥172 million, because they plan to take active

steps to bolster sales capabilities while restructuring unprofitable stores. ZERO NETWORKS is projecting an operating loss of ¥300 million as it will strengthen sales promotion and advertising initiatives in the Kanto region, where ATMs were installed in fiscal 2007. 99 Ichiba Co., Ltd., an operator of small fresh foods supermarkets, will become a consolidated subsidiary in fiscal 2008. 99 Ichiba has been steadily increasing the number of such supermarkets in line with plans to have a network of 50 supermarkets by February 29, 2008. However, the company has yet to break even, and is forecasting an operating loss of ¥391 million in fiscal 2008.

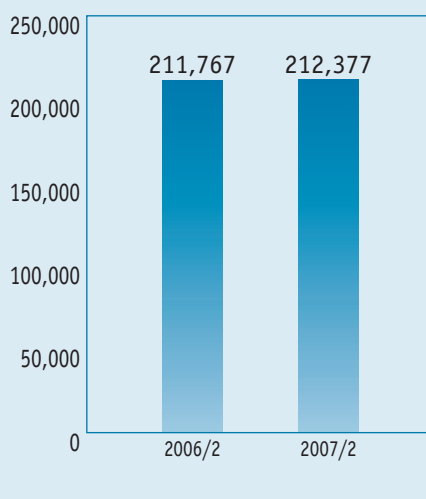
### CONSOLIDATED FINANCIAL POSITION

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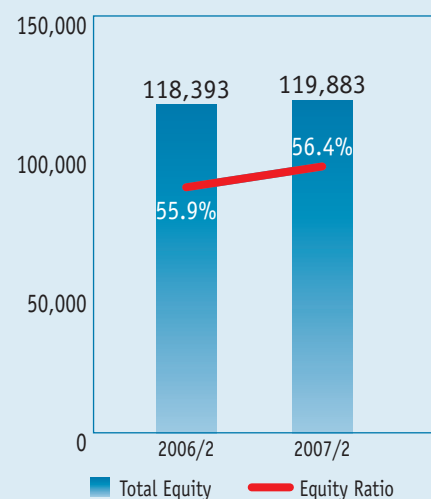
Total current assets decreased ¥3,534 million from the previous fiscal year-end to ¥88,511 million as of February 28, 2007. This mainly reflected a decrease of ¥3,846 million in cash and cash equivalents, a component of liquidity on hand, due to a share buyback program to purchase up to ¥5,000 million in shares.

Net property and equipment rose ¥3,869 million to ¥46,320 million. This mainly reflects an increase of ¥3,063 million in buildings and structures associated with an increase in the opening of stores under Type C franchise agreements, where Circle K Sunkus supplies new stores for franchisees.

**Total Liabilities and Equity**  
(¥ million)



**Total Equity/Equity Ratio**  
(¥ million) (%)



Investments and other assets increased ¥275 million from the previous fiscal year to ¥77,546 million. Long-term leasehold deposits rose ¥643 million, but investments in and long-term loans to unconsolidated subsidiaries and affiliates fell ¥1,151 million from the previous fiscal year.

Total current liabilities were ¥76,086 million, down ¥619 million from a year earlier. Due to franchised stores decreased ¥382 million from a year earlier. Income taxes payable were down ¥2,457 million, following a temporary increase accompanying the merger in the previous fiscal year. Furthermore, money held as agent increased ¥2,305 million in line with higher transaction volume. This includes payments from customers for utility and other bills that are accepted at

convenience stores and proceeds from customers recharging their Edy electronic money cards.

Turning to other accounts, of the impairment losses of ¥3,170 million booked by Circle K Sunkus in fiscal 2007, ¥1,206 million represented impairment on lease assets. Of this amount, outstanding liabilities corresponding to the remaining lease periods as of February 28, 2007 are presented on the balance sheet as impairment of lease assets of ¥1,150 million.

Total equity increased ¥1,490 million to ¥119,883 million. This change was attributable to an increase of ¥6,709 million in retained earnings from a year earlier, which reflected net income of ¥10,237 million, despite payments of ¥5,007 million for treasury stock and ¥3,274 million for dividends.

Consequently, the equity ratio was 56.4% and total equity per share were ¥1,431.27.

## CAPITAL EXPENDITURES

 P.22

In fiscal 2007, total investments rose ¥5,553 million to ¥27,240 million. Investments in new stores were ¥2,013 million higher than in the previous fiscal year due to an increase in store leases in process accompanying a rise in properties held in preparation for opening stores, despite fewer store openings. Furthermore, investments in systems increased ¥650 million from the previous fiscal year, mainly reflecting investments in an ordering system in conjunction with the integration of product logistics operations.

In fiscal 2008, Circle K Sunkus is projecting a year-on-year increase of around ¥2,200 billion in system investments to reflect plans to roll out a next-generation store information system successively from fall 2007. Accordingly, the Company is budgeting for total capital expenditures of ¥33,870 million, ¥6,630 million more than in fiscal 2007.

## CASH FLOWS

In fiscal 2007, operating activities provided net cash of ¥19,701 million, ¥7,509 million less than in the previous fiscal year. This was mainly attributable to decreases of

### Capital expenditures (¥ million)

	2006/2	2007/2
New store investments	¥12,977	¥14,990
Existing store investments	2,014	2,339
System investments	1,742	2,392
Head office investments	733	1,498
Capital expenditures < 1 >	17,466	21,219
Leasing expenditures < 2 >	4,221	6,021
Total investments < 1+2 >	21,687	27,240
Depreciation and amortization	7,426	6,694

Note: Capital expenditures represent the sum of increases in property and equipment, intangible fixed assets, long-term prepaid expenses, and leasehold deposits. Investments treated as operating expenses are excluded from capital expenditures.

¥1,471 million in income before income taxes and minority interests; ¥1,815 million in impairment losses; and ¥1,696 million in money held as agent for payments of utility and other bills that are accepted at convenience stores.

Net cash used in investing activities was ¥15,209 million, ¥1,980 million more than in the previous fiscal year. This was mainly attributable to an increase of ¥2,401 million in payments for purchases of property and equipment, chiefly to open new stores and improve the functions of existing ones; and an increase of ¥627 million in the payment of long-term leasehold deposits for new stores.

Consequently, free cash flow, which is net cash provided by operating activities minus net cash used in investing activities, amounted to

¥4,492 million, ¥9,489 million less than in the previous fiscal year.

Financing activities used net cash of ¥9,857 million, ¥5,859 million more than in the previous fiscal year, mainly reflecting dividends paid of ¥3,274 million, and the payment of ¥5,007 million for treasury stock.

Consequently, as of February 28, 2007, cash and cash equivalents were ¥64,957 million, a drop of ¥3,846 million, or 5.6%, from a year earlier.

#### RETURNING PROFITS TO SHAREHOLDERS

 P.24

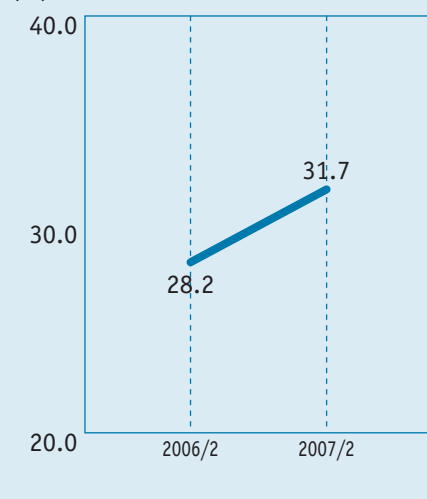
Circle K Sunkus' basic policy is to return profits to shareholders based on earnings growth, while building up retained earnings to bolster the operating base as necessary to

sustain business growth into the future. More specifically, Circle K Sunkus considers the maintenance of stable dividends its first priority and aims to pay out 25% of consolidated net income in the form of dividends. The Company intends to raise the dividend payout ratio to 30% in the future.

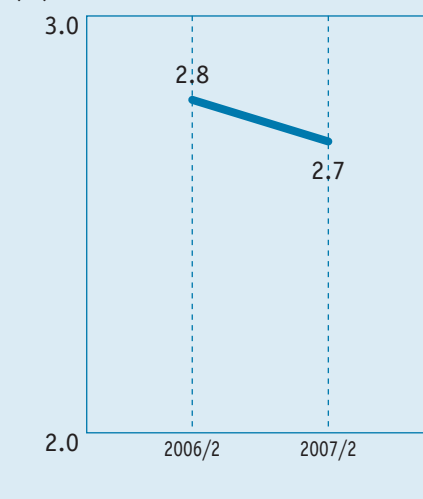
In fiscal 2007, Circle K Sunkus declared interim and year-end dividends of ¥19 per share. As a result, the annual dividend for fiscal 2007 is ¥38 per share, representing a dividend payout ratio of 31.7% and a ratio of dividends to total equity of 2.7%. Furthermore, Circle K Sunkus conducted share buybacks pursuant to a resolution on October 10, 2006 to buy back up to ¥5,000 million in shares, with the aim of returning earnings to shareholders. As a result, the Company bought back 2,387,600 shares valued at ¥4,999,969,300 from October 11 to December 19, 2006.

Incidentally, retained earnings will be earmarked for investments related to the next-generation store information system due to be deployed in fiscal 2008, and for investments in developing new stores, revitalizing existing ones, and procuring product displays and other equipment for new products.

**Dividend Payout Ratio (%)**



**Ratio of Dividends to Total Equity (%)**



## BUSINESS RISKS

Risks related to the Circle K Sunkus Group's business and other activities may have a significant impact on investment decisions. Some of these are listed below. Forward-looking statements contained in this document are based on management's assumptions in light of information available as of February 28, 2007.

### [1] Economic Trends, Natural Disasters and Other Factors

The Group believes that convenience stores have an important role to play in society in the event of a disaster, through the provision of vital support to affected communities. However, an unexpected disaster, unforeseen accident or similar event could halt the Group's logistics system, leading to opportunity losses. Additionally, the Group's operating results and financial position could be impacted by shifts in consumer spending due to domestic economic trends, or changes in the natural environment such as unseasonable weather.

### [2] Food Product Safety

The Circle K Sunkus Group gives the highest priority to food safety. The Group has already eliminated the use of preservatives and artificial coloring from mainstay products such as rice balls and boxed lunches. Circle K Sunkus also develops new products to consistently

offer items that provide customers with peace of mind. Food safety is also ensured using an inspection and control system that involves the implementation of food safety and other inspections at stores. However, the food industry has faced a range of issues in recent years, including BSE, bird flu and genetically modified food products. Although Circle K Sunkus takes steps to identify and take preventive measures to deal with these and other risks, an unforeseen event could impact the Group's operating results and financial position.

### [3] Information Systems

The Group holds franchise store information through its franchise business, and personal information on customers and other individuals gained from sales promotion campaigns and purchases made with Edy electronic money-enabled KARUWAZA CLUB cards. To prevent the leak or corruption of this information, Circle K Sunkus takes appropriate security measures in information management, including computer systems.

However, there is a risk that unforeseen events such as unauthorized access, casualty or infection by computer viruses could result in the leak of internal information, which could prevent the Group from carrying out its operations and other activities.

### [4] Litigation

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

### [5] Area Franchisers

The Group grants permission to third parties to operate stores through area franchises. In area franchiser operations, the characteristics of each region are respected and importance is given to profitability through synergies with other parts of the Group and results-driven business development in each area. Nonetheless, deteriorating operating



performance in some areas due to a long-term economic downturn is a cause for concern. In dealing with this situation, the Group's policy is to provide the necessary personnel and financial support to area franchisers. However, an unforeseen situation could impact the Group's operating results and financial position.

## OUTLOOK

Circle K Sunkus has decided to strategically shift to an "intensive quality-driven growth path" in fiscal 2008 to compete effectively in a challenging business environment. To this end, while bolstering efforts to mitigate future risks associated with unprofitable stores, the Company will transform Circle K and Sunkus into more powerful convenience store chains by realizing stronger sales capabilities in store operations, and in store and product development.

Circle K Sunkus will prioritize raising quality in opening new stores, with the aim of improving average daily sales per store at new stores. Furthermore, the Company will review its strategies for opening new stores in each region. In profitable regions, the Company will reestablish a dominant presence by significantly investing in new stores. In other regions, Circle K Sunkus will step up relocations. Through these initiatives, Circle K

Sunkus aims to increase the overall profitability of both its convenience store chains.

The integration of vendor and logistics networks in each product category underway since the merger is due to be completed in all categories in summer 2007. More specifically, in the fast food category, a core product category for convenience stores, Circle K Sunkus has put in place infrastructure such as dedicated food processing centers and deployed cutting-edge cooking technologies at each center. This move has set the stage for further enhancing the quality of fast foods. Furthermore, Circle K Sunkus plans to satisfy diversifying customer needs. This will be achieved through such means as reinforcing regional products, offering both reasonably priced and high value-added products, and reducing the prices of daily necessities according to store location and targeted customer segments.

Building on past efforts to enhance services, Circle K Sunkus plans to offer new services such as a pickup service at stores for products purchased via Internet mail-order sites and conduct trials of in-store multimedia kiosk (MMK) terminals. In fall 2007, Circle K Sunkus will begin accepting post payment-based electronic money to further enhance convenience for customers. Furthermore, the next-generation store

information system due to be rolled out successively from fall 2007 will see Circle K Sunkus reinforce data communications functions by simultaneously establishing fiber-optic cable links to stores, with the aim of facilitating the launch of next-generation services.

Circle K Sunkus' new business formats, such as the new *99 Ichiba* supermarket and the new concept store *Fork Talk*, will take steps to satisfy customer needs that are not fully met by existing convenience stores. Circle K Sunkus will also apply some best practices from the new business formats to existing stores with the aim of revitalizing their operations and increasing their sales.

Although the business environment remains challenging, Circle K Sunkus will work to align its entire organization towards improving quality and strengthen sales capabilities. The overriding goal is to drive growth in performance in terms of sales and earnings.

## CONSOLIDATED BALANCE SHEETS

Circle K Sunkus Co., Ltd.  
February 28, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
<b>Current assets:</b>			
Cash and cash equivalents	¥ 64,957	¥ 68,803	\$ 550,483
Short-term investments (Note 4)	–	701	–
Accounts receivable:			
Due from franchised stores (Note 5)	3,404	3,337	28,847
Other	9,300	9,139	78,814
	<b>12,704</b>	12,476	<b>107,661</b>
Inventories	2,490	2,123	21,102
Deferred tax assets (Note 15)	867	1,137	7,347
Prepaid expenses and other current assets	7,889	7,266	66,856
Allowance for doubtful accounts	(396)	(461)	(3,356)
Total current assets	<b>88,511</b>	92,045	<b>750,093</b>
<b>Property and equipment, at cost</b>	<b>81,118</b>	75,715	<b>687,440</b>
Less, accumulated depreciation	<b>(34,798)</b>	(33,264)	<b>(294,898)</b>
Net property and equipment (Note 6)	<b>46,320</b>	42,451	<b>392,542</b>
<b>Investments and other assets:</b>			
Investment securities (Note 4)	4,554	4,903	38,593
Investments in and long-term loans to unconsolidated subsidiaries and affiliates (Note 7)	1,328	2,479	11,254
Long-term leasehold deposits	55,781	55,138	472,720
Software	3,047	3,203	25,822
Goodwill	144	366	1,221
Deferred tax assets (Note 15)	3,645	3,372	30,890
Other (Note 10)	10,501	9,280	88,992
Allowance for doubtful accounts	(1,454)	(1,470)	(12,322)
Total investments and other assets	<b>77,546</b>	77,271	<b>657,170</b>
Total assets	<b>¥212,377</b>	¥211,767	<b>\$1,799,805</b>

See accompanying Notes to Consolidated Financial Statements.

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
<b>Current liabilities:</b>			
Short-term borrowings (Note 9)	¥ –	¥ 100	\$ –
Current maturities of long-term debt (Note 9)	–	14	–
Accounts payable:			
Trade	36,470	36,552	309,068
Due to franchised stores (Note 8)	2,672	3,054	22,644
Other	5,739	5,489	48,636
	44,881	45,095	380,348
Income taxes payable	3,618	6,075	30,661
Money held as agent	23,641	21,336	200,347
Other current liabilities	3,946	4,085	33,441
<b>Total current liabilities</b>	<b>76,086</b>	<b>76,705</b>	<b>644,797</b>
<b>Long-term debt</b> (Note 9)	–	28	–
<b>Guarantee deposits received</b>	<b>11,753</b>	<b>12,386</b>	<b>99,602</b>
<b>Employee retirement benefit liability</b> (Note 10)	<b>2,380</b>	<b>2,400</b>	<b>20,169</b>
<b>Other long-term liabilities</b>	<b>2,275</b>	<b>1,855</b>	<b>19,279</b>
<b>Equity</b> (Note 11):			
Common stock	8,380	–	71,017
Capital surplus	36,094	–	305,881
Retained earnings	79,617	–	674,721
Less, treasury stock, at cost	(5,021)	–	(42,551)
<b>Total shareholders' equity</b>	<b>119,070</b>	<b>–</b>	<b>1,009,068</b>
Other components of equity	813	–	6,890
Minority interests	0	–	0
<b>Total equity</b>	<b>119,883</b>	<b>–</b>	<b>1,015,958</b>
<b>Total liabilities and equity</b>	<b>¥212,377</b>	<b>–</b>	<b>\$1,799,805</b>
<b>Minority interests in consolidated subsidiaries</b>	–	0	–
<b>Shareholders' equity:</b>			
Common stock	–	8,380	–
Capital surplus	–	36,094	–
Retained earnings	–	72,908	–
Net unrealized gains on available-for-sale securities	–	1,026	–
Less, treasury stock, at cost	–	(15)	–
<b>Total shareholders' equity</b>	<b>–</b>	<b>118,393</b>	<b>–</b>
<b>Total liabilities, minority interests and shareholders' equity</b>	<b>–</b>	<b>¥211,767</b>	<b>–</b>

## CONSOLIDATED STATEMENTS OF INCOME

Circle K Sunkus Co., Ltd.  
For the Years Ended February 28, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
<b>Operating revenue:</b>			
Franchise commission from franchised stores	¥102,710	¥104,416	\$ 870,424
Net sales of Company-owned stores	79,246	67,368	671,576
Other operating revenue	12,437	12,407	105,398
	<b>194,393</b>	184,191	<b>1,647,398</b>
<b>Operating costs and expenses</b> (Note 16):			
Cost of goods sold	60,359	50,932	511,517
Selling, general and administrative expenses	110,921	107,474	940,008
	<b>171,280</b>	158,406	<b>1,451,525</b>
Operating income	<b>23,113</b>	25,785	<b>195,873</b>
<b>Other income (expenses):</b>			
Interest and dividend income	557	443	4,720
Interest expenses	(42)	(29)	(356)
Loss on sales or disposal of property and equipment	(902)	(844)	(7,644)
Loss on cancellation of lease contracts	(2,164)	(1,811)	(18,339)
Gain on returning of substitutional portion of Employee Pension Fund (Note 2 (l))	–	2,152	–
Impairment loss on fixed assets (Note 2 (k))	(3,170)	(4,985)	(26,864)
Miscellaneous, net (Note 4)	995	(853)	8,432
	<b>(4,726)</b>	(5,927)	<b>(40,051)</b>
Income before income taxes and minority interests	<b>18,387</b>	19,858	<b>155,822</b>
<b>Income taxes</b> (Note 15)	<b>8,150</b>	8,360	<b>69,068</b>
<b>Minority interests in (losses) income of consolidated subsidiary</b>	<b>(0)</b>	0	<b>(0)</b>
Net income	<b>¥ 10,237</b>	¥ 11,498	<b>\$ 86,754</b>

	Yen	U.S. Dollars
<b>Per share:</b>		
Net income	¥119.92	¥132.77
Cash dividends	38.00	38.00

See accompanying Notes to Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Circle K Sunkus Co., Ltd.  
For the Years Ended February 28, 2007 and 2006

	Millions of Yen						
	Number of common shares issued	Common stock	Capital surplus	Retained earnings	Net unrealized gains on available-for-sale securities	Treasury stock	Total shareholders' equity
<b>Balance at February 28, 2005</b>	86,183,226	¥8,380	¥36,092	¥64,829	¥ 748	¥ (5)	¥110,044
Net income	-	-	-	11,498	-	-	11,498
Cash dividends	-	-	-	(3,359)	-	-	(3,359)
Bonuses to directors and corporate auditors	-	-	-	(60)	-	-	(60)
Net changes in unrealized gains on available-for-sale securities, net of applicable income taxes	-	-	-	-	278	-	278
Net changes in fractional shares	-	-	2	-	-	(10)	(8)
<b>Balance at February 28, 2006</b>	86,183,226	¥8,380	¥36,094	¥72,908	¥1,026	¥(15)	¥118,393

	Millions of Yen										
	Number of common shares issued	Shareholders' equity					Other components of equity				Total equity
		Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on available-for-sale securities	Total other components of equity	Minority interests		
<b>Balance at February 28, 2006</b>	86,183,226	¥ 8,380	¥ 36,094	¥ 72,908	¥ (15)	¥ 117,367	¥1,026	¥1,026	¥0	¥ 118,393	
Net income	-	-	-	10,237	-	10,237	-	-	-	10,237	
Cash dividends	-	-	-	(3,274)	-	(3,274)	-	-	-	(3,274)	
Bonuses to directors and corporate auditors	-	-	-	(60)	-	(60)	-	-	-	(60)	
Decrease in retained earnings through inclusion of additional subsidiaries on consolidation	-	-	-	(194)	-	(194)	-	-	-	(194)	
Net change in treasury stock	-	-	-	-	(5,006)	(5,006)	-	-	-	(5,006)	
Changes other than shareholders' equity for the year	-	-	-	-	-	-	(213)	(213)	-	(213)	
<b>Balance at February 28, 2007</b>	86,183,226	¥8,380	¥36,094	¥79,617	¥(5,021)	¥119,070	¥ 813	¥ 813	¥0	¥119,883	

	Thousands of U.S. Dollars									
<b>Balance at February 28, 2006</b>	\$ 71,017	\$ 305,881	\$ 617,865	\$ (127)	\$ 994,636	\$ 8,695	\$ 8,695	\$0	\$ 1,003,331	
Net income	-	-	86,754	-	86,754	-	-	-	86,754	
Cash dividends	-	-	(27,746)	-	(27,746)	-	-	-	(27,746)	
Bonuses to directors and corporate auditors	-	-	(508)	-	(508)	-	-	-	(508)	
Decrease in retained earnings through inclusion of additional subsidiaries on consolidation	-	-	(1,644)	-	(1,644)	-	-	-	(1,644)	
Net change in treasury stock	-	-	-	(42,424)	(42,424)	-	-	-	(42,424)	
Changes other than shareholders' equity for the year	-	-	-	-	-	(1,805)	(1,805)	-	(1,805)	
<b>Balance at February 28, 2007</b>	\$71,017	\$305,881	\$674,721	\$(42,551)	\$1,009,068	\$ 6,890	\$ 6,890	\$0	\$1,015,958	

See accompanying Notes to Consolidated Financial Statements.



## CONSOLIDATED STATEMENTS OF CASH FLOWS

Circle K Sunkus Co., Ltd.  
For the Years Ended February 28, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests	¥ 18,387	¥ 19,858	\$ 155,822
Adjustments for:			
Depreciation and amortization	7,889	8,388	66,856
Impairment loss on fixed assets	3,170	4,985	26,864
Loss on sales or disposal of property and equipment	902	844	7,644
Loss on cancellation of lease contracts	986	898	8,356
Increase in trade receivables	(348)	(394)	(2,949)
(Increase) decrease in inventories	(305)	91	(2,585)
Decrease in trade payables	(1,357)	(2,613)	(11,500)
Decrease in other accounts payable and accrued expenses	(398)	(276)	(3,373)
Increase in money held as agent	2,166	3,862	18,356
Other, net	(1,530)	(2,493)	(12,966)
Subtotal	29,562	33,150	250,525
Interest and dividends received	344	268	2,915
Interest paid	(3)	(2)	(25)
Income taxes paid	(10,202)	(6,206)	(86,457)
Net cash provided by operating activities	19,701	27,210	166,958
<b>Cash flows from investing activities:</b>			
Increase in property and equipment	(10,468)	(8,067)	(88,712)
Increase in long-term leasehold deposits	(7,318)	(6,691)	(62,017)
Increase in long-term investments and other assets	(6,972)	(7,098)	(59,085)
Decrease in property, long-term investments and other assets	8,711	7,883	73,822
Increase in cash through acquisition of a consolidated subsidiary (Note 3)	116	-	983
Net decrease in short-term investments	700	700	5,932
Other	22	44	187
Net cash used in investing activities	(15,209)	(13,229)	(128,890)
<b>Cash flows from financing activities:</b>			
Repayment of long-term debt	(227)	(14)	(1,924)
Net decrease in short-term borrowings	(218)	(55)	(1,847)
Increase in guarantee deposits received	815	1,188	6,907
Decrease in guarantee deposits received	(1,942)	(1,751)	(16,458)
Dividends paid	(3,274)	(3,359)	(27,746)
Increase in treasury stock	(5,007)	(9)	(42,432)
Other	(4)	2	(34)
Net cash used in financing activities	(9,857)	(3,998)	(83,534)
Net (decrease) increase in cash and cash equivalents	(5,365)	9,983	(45,466)
Cash and cash equivalents at beginning of year	68,803	58,820	583,076
Increase in cash and cash equivalents upon inclusion of additional subsidiaries on consolidation	1,519	-	12,873
Cash and cash equivalents at end of year	¥ 64,957	¥ 68,803	\$ 550,483

See accompanying Notes to Consolidated Financial Statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Circle K Sunkus Co., Ltd.  
For the Years Ended February 28, 2007 and 2006

### 1. Basis of Consolidated Financial Statements

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

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

The primary business of the Circle K Sunkus Group is to conduct management of stores and franchise operations in respect to the Circle K and Sunkus convenience store chains. Segment information is not shown because the Circle K Sunkus Group operated predominantly in a single industry during the years ended February 28, 2007 and 2006.

#### (b) Principal shareholder

UNY CO., LTD. ("UNY") directly owned 40,746 thousand shares of common stock of the Company at February 28, 2007, which represented 48.8% of the total voting interest of the Company at the balance sheet date. UNY has also significant influence to the Company. Accordingly, the Company is a subsidiary of UNY.

#### (c) 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 ¥118 to US\$1, the approximate rate of exchange at February 28, 2007. 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 ¥118 to US\$1 or at any other rate.

#### (d) Reclassification

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

### 2. Summary of Significant Accounting Policies

#### (a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. Investments in 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 as goodwill 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 years ended February 28, 2007 and 2006 was as follows:

	2007	2006
Consolidated subsidiaries	5	2
Unconsolidated subsidiaries, stated at cost	7	10
Affiliates, stated at cost	9	11

### (b) Franchise agreement and basis of recognizing franchise commission

The Company is an exclusive franchiser 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 franchiser. 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 franchiser, 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.

For the years ended February 28, 2007 and 2006, net sales, which were reported by franchised stores as a calculation basis for franchise commission, were ¥835,868 million (\$7,083,627 thousand) and ¥852,456 million, respectively.

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 leases them as lessee under the long-term noncancelable lease agreements (See Note 12). 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 sheets.

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.

### (c) Area franchise agreement

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

### (d) 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.

### (e) Inventories

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

#### (f) Investments and marketable securities

The Circle K Sunkus Group classifies certain investments in debt and equity securities as “held-to-maturity”, “trading” or “available-for-sale”, 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 net unrealized gains or losses on these securities are reported as a component of equity, net of applicable income taxes. Gains and losses on disposition of 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.

#### (g) 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.

#### (h) 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.

#### (i) Leases

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

#### (j) Software

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

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

On August 9, 2002, BADC issued “Accounting Standard for Impairment of Fixed Assets”, which is effective for the fiscal years beginning on and after April 1, 2005. The Accounting Standards Board of Japan (“ASBJ”) issued related practical guidance on October 31, 2003. The Circle K Sunkus Group has adopted this new accounting standard and related practical guidance from the year ended February 28, 2006. The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of the asset’s net selling price or value in use. Fixed assets include land, buildings and structures, and equipment and fixtures as well as intangible assets and are to be grouped at the lowest level for which there are identifiable cash flows from other groups of assets.

For the purpose of recognition and measurement of an impairment loss, fixed assets of the Circle K Sunkus Group are principally grouped into cash-generating units, such as stores. The Circle K Sunkus Group determines if assets are impaired based on the analysis of significant downfalls of the fair value of lands, the schedules of closing stores and ongoing operating losses of stores. An impairment loss is recognized if undiscounted expected cash flows are less than the carrying amount of the asset. Recoverable amounts of the assets were measured based on their net selling prices primarily for appraisal valuations or amounts of operating cash flows discounted by interest rates of 6.3% and 8.0% for the years ended February 28, 2007 and 2006, respectively.

For the years ended February 28, 2007 and 2006, the Circle K Sunkus Group recognized an impairment loss on fixed assets of ¥3,170 million (\$26,864 thousand) and ¥4,985 million as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Convenience stores:			
Land	¥ 348	¥ 766	\$ 2,949
Buildings and structures	1,202	2,115	10,186
Furniture, fixtures and equipment	113	161	958
Leased property and equipment	1,206	995	10,220
Other	301	948	2,551
Total	¥3,170	¥4,985	\$26,864

As a result of adoption of this new accounting standard, for the year ended February 28, 2006, operating income increased by ¥896 million and income before income taxes and minority interests decreased by ¥3,696 million, as compared with the previous accounting method.

#### (l) Employee retirement benefit liability

Employees who terminate their service with the Circle K Sunkus Group are entitled to retirement and severance benefits determined by 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 pension plan organized by UNY, its subsidiaries and affiliates ("UNY" Group) including the Company and the employees taken in from SUNKUS & ASSOCIATES INC. ("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. Consolidated subsidiaries have lump-sum retirement benefit plans.

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 costs are 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, the Company, 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 welfare pension fund on February 17, 2003 and received an approval for returning the assets relating to the substituted portion of the employee welfare pension fund on January 1, 2006, and then recognized an extinguishment of the retirement benefit obligation with respect to such substituted portion during the year ended February 28, 2006. As a result, the Company recorded this effect of ¥2,152 million as other income on the consolidated statements of income for the year ended February 28, 2006. The Company, as a member of the noncontributory welfare pension plan of UNY Group, also received an approval from the Minister of Health, Labor and Welfare of Japan on January 1, 2006 to transfer from the employee welfare pension fund plan to the corporate pension fund plan.

In addition, the Company received an approval from the Minister of Health, Labor and Welfare of Japan, for exemption from payment of future benefit regarding the substituted portion of the employee welfare pension fund organized by SUNKUS on July 29, 2005. As of February 28, 2007, pension plan assets equivalent to the amount to be returned to the Japanese government amounted to ¥1,532 million (\$12,983 thousand). As the Company has not elected to apply for the transitional accounting treatment specified in paragraph 47-2 of the "Practical Guidelines of Accounting for Retirement Benefits (Interim Report)" (Accounting Committee Report No.13 issued by JICPA), the Company has not recognized an extinguishment of retirement benefit obligation with respect to such substituted portion as of the date of the approval. If the Company had applied for the transitional treatment as of the fiscal year ended February 28, 2007, an income of ¥897 million (\$7,602 thousand) for an extinguishment of the retirement benefit obligation would have been recognized on the accompanying consolidated statements of income.

#### (m) Severance benefits for officers

Until May 2005, the Circle K Sunkus Group paid severance benefits to directors and corporate auditors, which were subject to the approval of the shareholders. The Circle K Sunkus Group provided for this liability at the amount which would be payable assuming all directors and corporate auditors terminate their service at the balance sheet date. On May 25, 2005, the Circle K Sunkus Group terminated the severance benefits plan for directors and corporate auditors and the shareholders approved to pay the severance benefits granted prior to the termination date of the severance benefits plan. At February 28, 2007 and 2006, the unpaid portion of such severance indemnity benefits were included in other long-term liabilities in the accompanying consolidated balance sheets.

#### (n) 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.

#### (o) Enterprise taxes

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

#### (p) 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 revenue and operating costs and expenses, respectively, in the accompanying consolidated statements of income.

#### (q) Accounting standard for directors' bonuses

From the year ended February 28, 2007, the Circle K Sunkus Group has adopted "Accounting Standard for Directors' Bonuses (ASBJ Statement No.4)" issued by ASBJ on November 29, 2005. The standard requires that the directors' bonuses, including those for corporate auditors, shall be accounted for as an expense of the accounting period in which such bonuses are accrued. Until the year ended February 28, 2006, bonuses to directors and corporate auditors were recorded as a part of the appropriation of retained earnings in the fiscal year when a proposed appropriation of retained earnings for directors and corporate auditors' bonuses was approved by the Board of Directors and/or shareholders. As a result, as the Circle K Sunkus Group has accrued such bonuses, operating income and income before income taxes and minority interests decreased by ¥47 million (\$398 thousand) for the year ended February 28, 2007, respectively, as compared with the previous accounting method.



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

ASBJ issued "Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Statement No.5)" and Implementation Guidance "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Guidance No.8)" on December 9, 2005, which are applied for the year ending on and after May 1, 2006. The standard requires presenting the equity section in the balance sheet as similar to International Financial Reporting Standards. The Circle K Sunkus Group has adopted these new accounting standards from the year ended February 28, 2007. If the previous accounting method had been applied for the consolidated balance sheet at February 28, 2007, equity would have amounted to ¥119,883 million (\$1,015,958 thousand).

#### (s) Appropriation of retained earnings

Cash dividends and bonuses to directors and corporate auditors are recorded in the fiscal year when a proposed appropriation of retained earnings is approved by the Board of Directors and/or shareholders. See Note 2 (q) for the accounting for bonuses to directors and corporate auditors.

#### (t) Per share data

Net income per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the respective years. Diluted net income per share is not disclosed, as the Circle K Sunkus Group had no diluted common shares for the years ended February 28, 2007 and 2006. Cash dividends per share shown for each fiscal year in the accompanying consolidated statements of income represent dividends declared as applicable to the respective years.

### 3. Acquisition

In March 2006, the Company acquired a 100% interest in the issued and outstanding shares of common stock of Sunkus Nishi-Shikoku Co., Ltd. for an aggregate amount of ¥603 million (\$5,110 thousand.) Sunkus Nishi-Shikoku is a certain area franchiser for SUNKUS stores in the Nishi-Shikoku region of Japan. A summary of the assets and liabilities of Sunkus Nishi-Shikoku is as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥ 906	\$ 7,678
Noncurrent assets	1,650	13,983
Goodwill	97	822
Current liabilities	(1,590)	(13,475)
Noncurrent liabilities	(450)	(3,813)
Common stock owned by the Company	(10)	(85)
Acquisition cost	603	5,110
Cash and cash equivalents held by Sunkus Nishi-Shikoku	(719)	(6,093)
Increase in cash presented on the accompanying consolidated statements of cash flows	¥ (116)	\$ (983)

#### 4. Investments

At February 28, 2006, short-term investments consisted of marketable debt securities.

At February 28, 2007 and 2006, investments securities consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Marketable securities:			
Equity securities	<b>¥2,401</b>	¥2,776	<b>\$20,347</b>
Bonds	<b>1,905</b>	1,875	<b>16,144</b>
Total marketable securities	<b>4,306</b>	4,651	<b>36,491</b>
Other nonmarketable securities	<b>248</b>	252	<b>2,102</b>
	<b>¥4,554</b>	¥4,903	<b>\$38,593</b>

During the years ended February 28, 2007 and 2006, the Circle K Sunkus Group recorded a loss on write-down of available-for-sale securities and investments in unconsolidated subsidiaries and affiliates due to a permanent diminution in value in the amounts of ¥228 million (\$1,932 thousand) and ¥127 million, respectively, on the accompanying consolidated statements of income.

Marketable securities are classified as available-for-sale and are stated at fair value with unrealized gains and losses excluded from the current earnings and reported as a net amount within the equity account until realized. At February 28, 2007 and 2006, gross unrealized gains and losses for marketable securities are summarized as follows:

	Cost	Gross	Gross	Fair and carrying value
		unrealized gains	unrealized losses	
Millions of Yen				
At February 28, 2007:				
Marketable securities:				
Equity securities	¥ 945	¥1,466	¥ (10)	¥2,401
Bonds	2,000	-	(95)	1,905
	<b>¥2,945</b>	<b>¥1,466</b>	<b>¥(105)</b>	<b>¥4,306</b>

At February 28, 2006:

Marketable securities:				
Equity securities	¥ 933	¥ 1,848	¥ (5)	¥ 2,776
Bonds	2,700	1	(125)	2,576
	<b>¥ 3,633</b>	<b>¥ 1,849</b>	<b>¥ (130)</b>	<b>¥ 5,352</b>

Thousands of U.S. Dollars

At February 28, 2007:

Marketable securities:				
Equity securities	<b>\$ 8,008</b>	<b>\$12,424</b>	<b>\$ (85)</b>	<b>\$20,347</b>
Bonds	<b>16,949</b>	-	<b>(805)</b>	<b>16,144</b>
	<b>\$24,957</b>	<b>\$12,424</b>	<b>\$(890)</b>	<b>\$36,491</b>

Expected maturities of debt securities classified as available-for-sale of ¥1,905 million (\$16,144 thousand) at February 28, 2007 were due after five years through ten years.

## 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, 2007 and 2006, property and equipment consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Land	¥ 8,945	¥ 8,864	\$ 75,805
Buildings and structures	55,109	50,245	467,025
Machinery, equipment and vehicles	197	246	1,669
Furniture and fixtures	16,023	15,894	135,788
Construction in progress	844	466	7,153
	81,118	75,715	687,440
Less, accumulated depreciation	(34,798)	(33,264)	(294,898)
	¥ 46,320	¥ 42,451	\$ 392,542

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

At February 28, 2007 and 2006, investments in and long-term loans to unconsolidated subsidiaries and affiliates consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Investments in:			
Unconsolidated subsidiaries and affiliates, stated at cost	¥1,281	¥2,417	\$10,856
Interest-bearing long-term loans	47	62	398
	¥1,328	¥2,479	\$11,254

## 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

No short-term borrowings and long-term debt were recorded at February 28, 2007, while there were short-term borrowings represented as unsecured bank loans bearing interest rates of 1.9% per annum at February 28, 2006. Long-term debt of ¥42 million, including a current portion of ¥14 million, at February 28, 2006 was fully repaid as an early redemption during the year ended February 28, 2007.

## 10. Employee Retirement Benefits

The following table reconciles the benefit obligation and net periodic retirement benefit expense as at or for the years ended February 28, 2007 and 2006:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Projected benefit obligation	¥13,327	¥12,478	\$112,941
Fair value of pension plan assets at end of year	(9,949)	(8,728)	(84,314)
Project benefit obligation in excess of pension plan assets	3,378	3,750	28,627
Less, unrecognized actuarial differences (loss)	(1,980)	(2,339)	(16,780)
Unrecognized past service costs	869	989	7,365
	2,267	2,400	19,212
Prepaid pension cost	113	-	957
Total amounts of employee retirement benefit liability recognized on the consolidated balance sheets	¥ 2,380	¥ 2,400	\$ 20,169

Note: Prepaid pension cost was included in "Other" of investments and other assets in the accompanying balance sheets.

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Component of net periodic retirement benefit expense:			
Service cost	¥ 621	¥ 717	\$ 5,263
Interest cost	248	313	2,102
Expected return on pension plan assets	(347)	(319)	(2,941)
Amortization of actuarial differences	445	634	3,771
Amortization of past service costs	(120)	(120)	(1,017)
Net periodic retirement benefit expense	¥ 847	¥1,225	\$ 7,178

Major assumptions used in calculation of the above information for the years ended February 28, 2007 and 2006 were as follows:

	2007	2006
Method attributing the projected benefits to periods of services	<b>Straight-line method</b>	Straight-line method
Discount rate	<b>2.0%</b>	2.0%
Expected rate of return on pension plan assets	<b>4.0%</b>	4.0%
Amortization of unrecognized actuarial differences	<b>8 to 10 years</b>	8 to 10 years
Amortization of unrecognized past service costs	<b>10 years</b>	10 years

## 11. Equity

The authorized number of shares of common stock without par value is 180 million. At February 28, 2007 and 2006, respectively, the number of shares of common stock issued was 86,183,226 shares. During the year ended February 28, 2007, the Company acquired 2,386,700 shares of treasury stock on the market based on the resolution of the Board of Directors. At February 28, 2007 and 2006, respectively, the number of treasury stock was 2,423,589 and 34,296 shares.

At February 28, 2007 and 2006, 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 (\$5,831 thousand) at February 28, 2007 and 2006, respectively. The Corporate Law of Japan (formerly the Commercial Code of Japan) provides that an amount equivalent to 10% of cash dividends as an appropriation of retained earnings shall be appropriated as legal reserve until a total amount of additional paid-in capital and such legal reserve equals 25% of common stock. The reduction of legal reserve is restricted under the certain circumstances by proper actions of shareholders of the Company.

On May 23, 2007, the appropriations of retained earnings were approved at the annual general meeting of shareholders of the Company as follows:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends	<b>¥1,591</b>	<b>\$13,483</b>

## 12. Lease Commitments

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

As disclosed in Note 2 (i), the leased property for noncancelable financing leases of the Circle K Sunkus Group is not capitalized as permitted by the accounting standard for leases of Japan. If the leased property of the Company had been capitalized, the related accounts would have been increased/(decreased) at February 28, 2007 and 2006, as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Property and equipment, net of accumulated depreciation *1	<b>¥20,791</b>	¥19,782	<b>\$176,195</b>
Lease obligations as liabilities *2	<b>22,455</b>	20,890	<b>190,296</b>
Allowance for impairment loss on leased property	<b>(1,151)</b>	(615)	<b>(9,754)</b>
Net effect on retained earnings at year-end	<b>¥ (513)</b>	¥ (493)	<b>\$ (4,347)</b>

Additionally, for the years ended February 28, 2007 and 2006, income before income taxes and minority interests would have been increased by ¥20 million (\$169 thousand) and ¥76 million, respectively.

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 finance leases, excluding the imputed interest, and operating leases at February 28, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Finance leases:			
Due within one year	¥ 7,263	¥ 7,566	\$ 61,551
Due after one year	15,192	13,324	128,745
	<b>¥22,455</b>	<b>¥20,890</b>	<b>\$190,296</b>
Operating leases:			
Due within one year	¥ 1,018	¥ 1,085	\$ 8,627
Due after one year	699	1,099	5,924
	<b>¥ 1,717</b>	<b>¥ 2,184</b>	<b>\$ 14,551</b>

### 13. Contingent Liabilities

At February 28, 2007 and 2006, contingent liabilities in respect of guarantees of indebtedness of unconsolidated subsidiaries, affiliates, franchisees and others amounted to ¥3,771 million (\$31,958 thousand) and ¥4,244 million, respectively.

### 14. Derivative Instruments

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

### 15. Income Taxes

Income taxes for the years ended February 28, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Income taxes:			
Current	¥7,933	¥9,061	\$67,229
Deferred	217	(701)	1,839
	<b>¥8,150</b>	<b>¥8,360</b>	<b>\$69,068</b>



The tax effects on temporary differences that give rise to a significant portion of deferred tax assets at February 28, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Deferred tax assets:			
Enterprise tax accruals	¥ 296	¥ 479	\$ 2,508
Allowance for doubtful accounts	610	666	5,170
Employee retirement benefit liability	959	968	8,127
Long-term deferred credit	524	540	4,441
Accrued bonus	346	344	2,932
Write-down of investment securities	407	408	3,449
Impairment loss on fixed assets	1,970	1,490	16,695
Other	755	668	6,398
Less, valuation allowance	(807)	(361)	(6,839)
	<b>5,060</b>	<b>5,202</b>	<b>42,881</b>
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(548)	(693)	(4,644)
	<b>(548)</b>	<b>(693)</b>	<b>(4,644)</b>
Net deferred tax assets	<b>¥4,512</b>	<b>¥4,509</b>	<b>\$38,237</b>

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, 2007 and 2006, 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 reconciliation of the difference between the Japanese statutory effective tax rate and the effective income tax rate on pre-tax income reflected in the accompanying consolidated statements of income for the year ended February 28, 2007 was as follows:

	Percentage of pre-tax income
Japanese statutory effective tax rate	<b>40.28%</b>
Increase (decrease) due to:	
Permanently nondeductible expenses	0.74
Tax exempt income	(0.11)
Local minimum taxes-per capita levy	1.22
Change in valuation allowance	2.75
Other	(0.56)
Effective income tax rate	<b>44.32%</b>

Such difference for the year ended February 28, 2006 was not material.

## 16. Additional Income Statement Information

Additional income statement information for the years ended February 28, 2007 and 2006 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Payroll and remuneration expenses	¥20,675	¥21,093	\$175,212
Advertising expenses	10,859	10,496	92,025
Depreciation	6,695	7,350	56,737
Utility expenses	2,314	2,240	19,610
Rental and lease expenses	47,656	45,983	403,864
Amortization of goodwill	123	240	1,042

## 17. Related Party Transactions

During the years ended February 28, 2007 and 2006, the Circle K Sunkus Group had operational transactions with unconsolidated subsidiaries, an affiliate and a UNY group company. A summary of the significant transactions with such related parties for the years ended February 28, 2007 and 2006 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Cost on termination of area franchise agreement	¥ -	¥271	\$ -
Cost on disposal of store equipment	16	-	136
Cost on disposal of leased equipment	15	-	127
Acceptance of commercial paper	5,999	-	50,839

## REPORT OF INDEPENDENT AUDITORS

MISUZU Audit Corporation

A network firm of 

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

### Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of Circle K Sunkus Co., Ltd. and its consolidated subsidiaries as of February 28, 2007 and 2006, and the related consolidated statements of income, changes in equity, and cash flows for the years 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, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 2 (k), effective from the year ended February 28, 2006, Circle K Sunkus Co., Ltd. and its consolidated subsidiaries adopted a new accounting standard for impairment of fixed assets.

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

Misuzu Audit Corporation  
(formerly ChuoAoyama Pricewaterhouse Coopers)  
Nagoya, Japan  
May 23, 2007

## 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:

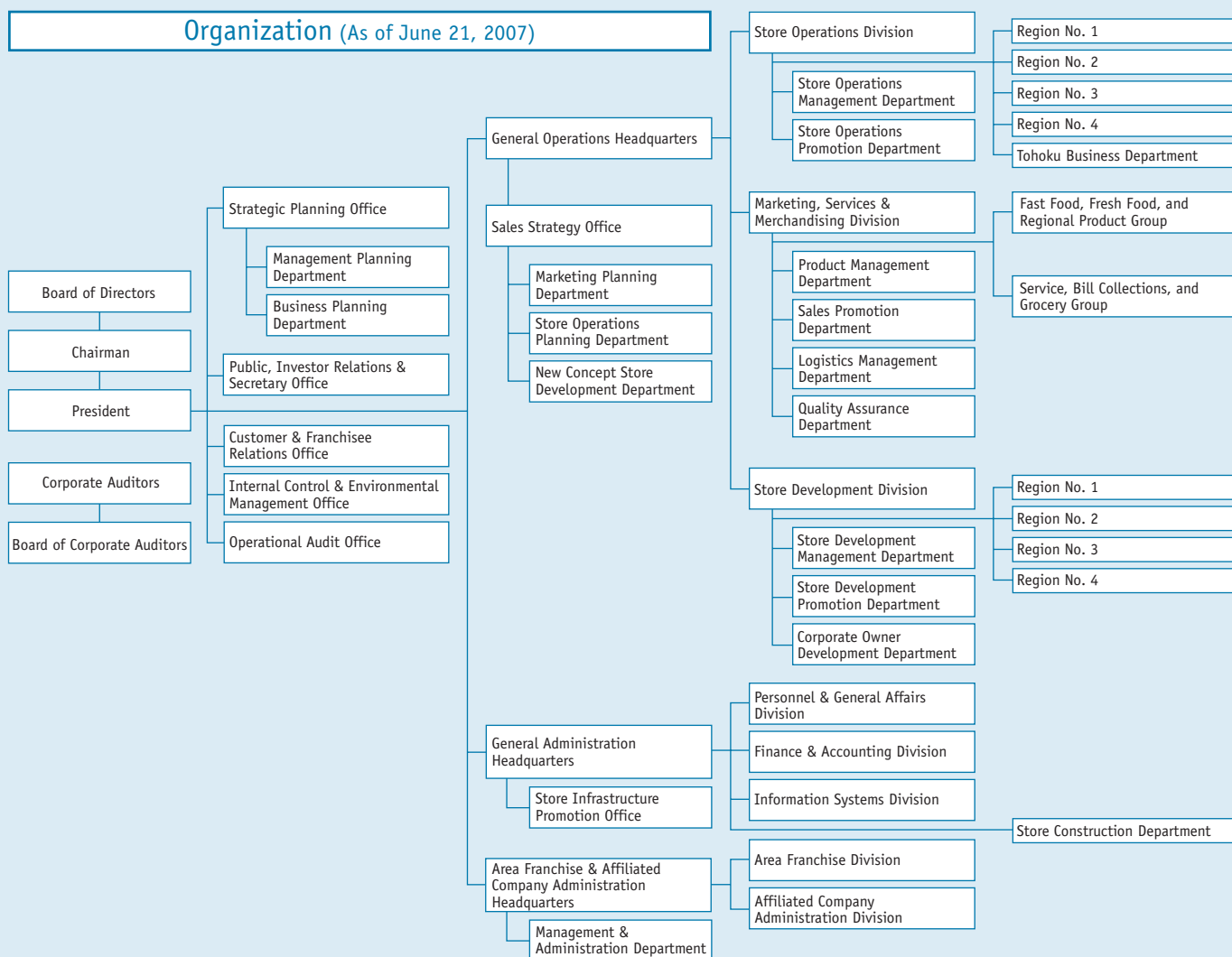
### Consolidated Subsidiaries\*

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

\* In addition to the companies listed above, the UNY Group includes five Sagami subsidiaries and two Suzutan subsidiaries.

(As of February 20, 2007)

## ORGANIZATION



## 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

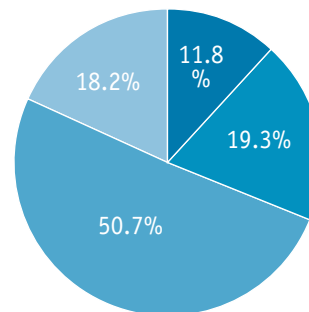
The Sumitomo Trust and Banking Co., Ltd.

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

### Number of shareholders

19,582

### Breakdown by type of investors



- Individuals and others
- Financial institutions
- Other Japanese corporations
- Foreign investors and others

(As of February 28, 2007)

## CORPORATE DATA

**Corporate name**

Circle K Sunkus Co., Ltd.

**Registered head office**

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

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

+81-3-6220-9000 (main)

**URL**<http://www.circleksunkus.jp/english/index.html>**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**

1,778 (non-consolidated)

**Business activities**

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

**Total store sales**

¥1,068,585 million (Figures include area franchisers.)

**Number of stores**

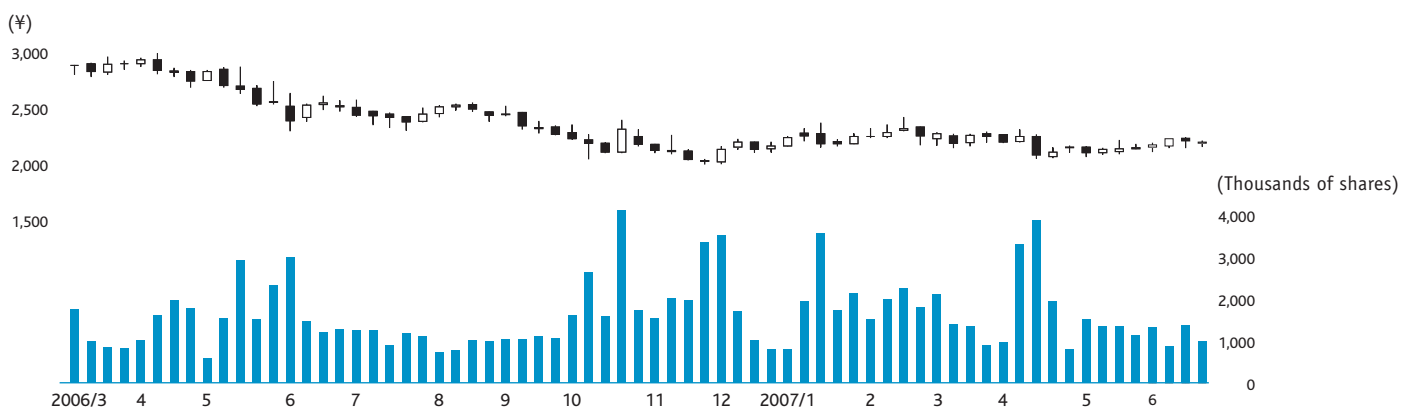
6,336 (Figures include area franchisers.)

**Consolidated subsidiaries**

Sunkus Aomori Co., Ltd.  
Sunkus Nishi-Saitama Co., Ltd.  
SUNKUS KITAKANTO Co., Ltd.  
Sunkus Nishi-Shikoku Co., Ltd.  
ZERO NETWORKS Co., Ltd.

(As of February 28, 2007)

## Stock price/Turnover





# Circle K Sunkus Co., Ltd.

Harumi Center Bldg., 2-5-24 Harumi, Chuo-ku,  
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<http://www.circleksunkus.jp/english/index.html>



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