

CircleK Sunkus



OFFERING “TRUE VALUE TO CUSTOMERS”



Annual Report 2008

For the year ended February 29, 2008

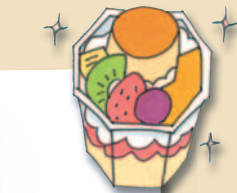
Embracing Change to Reinvent Convenience Stores



Cherie Dolce

Cherie Dolce

Cherie Dolce, "my favorite dessert," is a premium original dessert brand that transcends what is offered by conventional convenience stores. Since its launch in November 2007, Cherie Dolce has been well received by numerous customers, and is growing into a hallmark Circle K Sunkus product brand. By settling for nothing less than the quality on offer at specialty pastry and confectionery shops, we make it enjoyable (WAKU WAKU) for customers to choose from a range of the very best desserts.



Original Baked Goods Brand Magokoro Jikomi Oishii Pan Seikatsu

In May 2007, Circle K Sunkus' lineup of original baked goods was reborn under a new brand. The concept is to offer an attractive lineup of baked goods that recasts Circle K and Sunkus as neighborhood bakeries indispensable to daily life. The lineup is very popular with customers, featuring both reasonably priced and high-value-added products. To meet the expectations and anticipation (WAKU WAKU) of our customers, we are focused on offering a lineup rich in variety by using seasonal ingredients and through other means, and ensuring the highest standard of quality.



食事とからだの
ベストバランス



THINK BODY Project

This unique Circle K Sunkus project gives customers an opportunity to think about their health and offers support in this respect. In addition to providing convenience, we also propose ways for customers to obtain a balanced diet through convenience-store boxed lunches and advice on simple exercise routines. THINK BODY products are offered in a variety of product categories.



Expanding ATM Services

To encourage customers to visit our shops more frequently and bolster services, Circle K Sunkus is working to install ATMs in more stores. Following the Chukyo and Kanto regions, we had rolled out ATMs at approximately 840 Kansai region stores by July 2008. With this move, we have now installed ATMs at "just over" 60% of the Circle K Sunkus Group's stores. Through these initiatives, we will continuously pursue higher customer satisfaction as part of efforts to make Circle K and Sunkus the convenience stores of choice for our customers.

PROFILE

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

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Cautionary Statement With Respect to Forward-looking Statements

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

CONSOLIDATED FINANCIAL HIGHLIGHTS

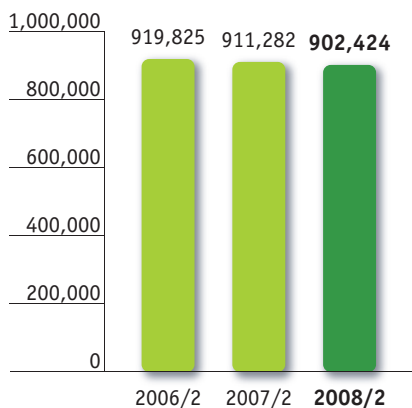
Circle K Sunkus Co., Ltd. and its subsidiaries
Years ended February 29, 2008 and February 28, 2007 and 2006.

	Millions of Yen			Thousands of U.S. Dollars
	2008	2007	2006	2008
For the year:				
Total store sales	¥902,424	¥911,282	¥919,825	\$8,677,144
Operating revenue	206,373	194,393	184,191	1,984,356
Operating income	21,096	23,113	25,785	202,846
Income before income taxes and minority interests	15,240	18,387	19,858	146,538
Net income	8,580	10,237	11,498	82,500
At year-end:				
Total liabilities and equity	218,821	212,377	211,767	2,104,048
Total equity	124,632	119,883	118,393	1,198,385
		Yen		U.S. Dollars
Financial indicators:				
Return on equity (ROE)	7.0%	8.7%	10.1%	—
Shareholders' equity ratio	57.0%	56.4%	55.9%	—
Net income per share	102.43	119.92	132.77	0.98
Dividends per share	40.00	38.00	38.00	0.38
Dividend payout ratio	39.1%	31.7%	28.2%	—
Shareholders' equity per share	1,487.72	1,431.27	1,373.59	14.30
Number of stores:				
Circle K	2,809	2,898	2,891	
Sunkus	2,119	2,205	2,263	
Consolidated four area franchisers	257	265	146	
99 Ichiba	52	—	—	
Total	5,238	5,369	5,300	

- 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 ¥104 to U.S.\$1, the rate of exchange at February 29, 2008.
2. Circle K Sunkus Co., Ltd. had two consolidated subsidiaries in the fiscal year ended February 28, 2006, five consolidated subsidiaries in the fiscal year ended February 28, 2007 and six consolidated subsidiaries in the fiscal year ended February 29, 2008.
3. The total number of stores for the fiscal years ended February 28, 2007 and February 29, 2008 includes 1 new-concept store.

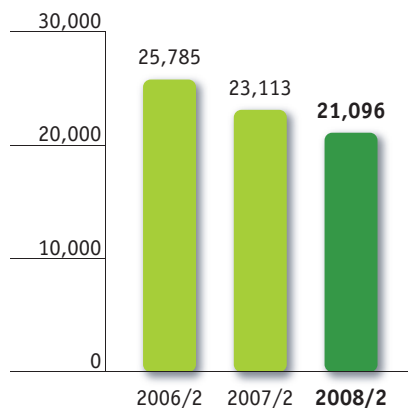
Total Store Sales

(Millions of Yen)



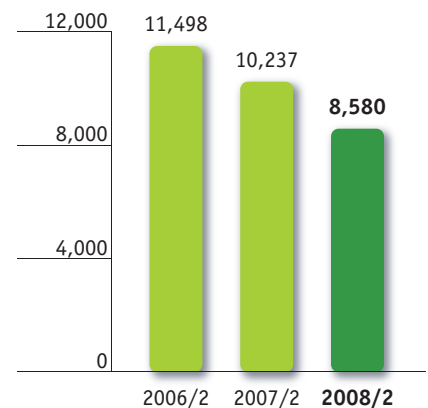
Operating Income

(Millions of Yen)



Net Income

(Millions of Yen)





**Embracing Change
to Reinvent
Convenience Stores**

Motohiko Nakamura
President

The convenience store industry faces an increasingly challenging business environment and Japanese society is experiencing constant change. Circle K Sunkus must now come up with new ideas to meet the challenges before it, and break from past ways of thinking about and doing things so as to reinvent convenience stores. By transforming its earnings structure, Circle K Sunkus aims to restore earnings growth in fiscal 2011, the final year of its Three-year Plan.

Fiscal 2008 in Review

Since my appointment as President in May 2007, I've overseen Circle K Sunkus' efforts to bolster sales capabilities based on a management strategy premised on an "intensive focus on quality." I've done so as both President and Head of the General Operations Headquarters, a post that gives me a strong grounding in frontline operations.

In fiscal 2008, the year ended February 29, 2008, total operating revenue rose 6.2% year on year to ¥206,373 million. However, operating income decreased 8.7% year on year to ¥21,096 million mainly due to a decrease in revenues from franchised stores and higher selling, general and administrative (SG&A) expenses. As a major initiative for fiscal 2008, Circle K Sunkus closed unprofitable stores and Company-owned stores on schedule, resulting in a large increase in spending on store closure expenses. Consequently, net income decreased 16.2% year on year to ¥8,580 million.

In terms of business performance, we regrettably posted lower earnings. However, as a result of reviewing our strategies for opening new stores in each region, we achieved a measure of success with our emphasis on quality, improving average daily sales at newly opened stores by ¥15,000 from the previous fiscal year. In fiscal 2008, Circle K Sunkus completed vendor and logistics integration in all product categories. Leveraging this integration, Circle K Sunkus has taken aggressive merchandising initiatives, developing new original product brands. Of these, the *Cherie Dolce* brand of original desserts is growing into a hallmark Circle K Sunkus product brand. *Cherie Dolce* has garnered a strong customer response thanks to an exceptionally high standard of quality that has revolutionized the image of conventional convenience-store desserts.

We are making a degree of progress in these fields, but we are still far from seeing satisfactory results. Going forward, we are determined to resolutely strengthen sales capabilities in all divisions, with the aim of realizing an even higher standard of quality.

Achieving Our Three-year Plan

Circle K Sunkus formulated a new medium-term management plan called the Three-year Plan beginning in fiscal 2009.

The convenience store industry is facing an increasingly challenging operating climate. Pressing issues faced by Circle K Sunkus include lackluster sales due to lower customer footfall and changes in its earnings structure. In this climate, nothing new can be created nor can we expect growth unless we change how we think about and do things. Our efforts will be focused on transforming our earnings structure. By boldly developing new products and services, and investing heavily in driving future sales and earnings growth, we will take an aggressive stance to moving forward, even as we fortify our defenses through rigorous low-cost operations and the pursuit of greater cost effectiveness. By ensuring that we implement these measures, I want to reaffirm my commitment to restoring earnings growth from fiscal 2011.

I look forward to your continued understanding and support for Circle K Sunkus, as we work to achieve our strategic goal of medium-term growth.

August 2008

Motohiko Nakamura

Motohiko Nakamura, President

INTERVIEW WITH THE PRESIDENT



Q1

How would you describe Circle K Sunkus' business environment and what pressing issues do you face?

The convenience store industry faces an increasingly challenging business environment. Besides intensifying competition transcending traditional business boundaries, soaring raw materials prices are putting pressure on manufacturers to raise prices and consumer sentiment is weakening due to concerns over an economic slowdown. In addition, with the number of convenience stores in Japan now exceeding 40,000, the industry as a whole has reached a saturation point and is said to have matured. In fact, Japan's major convenience stores are all seeing net decreases in the number of their stores. Although the numbers clearly point to a difficult environment, this does not tell the full story—I believe that the industry still harbors opportunities for growth. This thinking has guided me in taking various initiatives since my appointment as President.

Despite this outlook, Circle K Sunkus' earnings structure is changing in various ways. While Type A stores have been declining, the increase in Type C stores is leading to higher investments and operating expenses. Royalty revenues are falling and the number of Company-owned stores is increasing. In addition, sales are declining due to a drop in customer footfall. Therefore, our top priorities are to bolster sales capabilities while responding to changes in our earnings and cost structures.

Q2

What are your medium-term management policies?

I've repeatedly urged employees and franchisees to think about and do things differently than in the past. With Japanese society undergoing so much change, we cannot grow as a company unless we embrace new challenges. That is why we need to go back to the drawing board and come up with new ideas to meet the challenges before us.

Our medium-term management policies are to offer "true value to customers," boldly develop new products and services, promote regional strategies, transform our

earnings structure, and enhance and optimize operating efficiency. We will take an aggressive stance where necessary, such as in developing new services and products and investing heavily in future sales and earnings growth, even as we fortify our defenses through rigorous low-cost operations and the pursuit of greater returns on investments. In this manner, we aim to transform our earnings structure.

Q3

Could you please elaborate on your Three-year Plan?

During the Three-year Plan, Circle K Sunkus will make large investments as part of a more aggressive approach to management. The largest investments will be made in fiscal 2009. We are budgeting for total investments of ¥42.8 billion that fiscal year, including leasing expenditures. Earnings are projected to decrease in the first and second fiscal years of the Three-year Plan because of increased spending accompanying this large investment. Some shareholders and other investors have questioned the necessity of going as far as to reduce earnings to

make such heavy capital investments. However, these investments centered on our new store information system are essential to realizing new services and generating higher sales and earnings into the future. I'm convinced that these early investments are crucial to surmounting the competition in the coming years. I will do my utmost to lead Circle K Sunkus to restored earnings growth in fiscal 2011, the plan's final year, by transforming our earnings structure.

Consolidated Three-year Plan

(stores, percent, millions of yen)

	Fiscal 2009	Fiscal 2010	Fiscal 2011
Store openings	355	399	444
Store closures	282	300	315
Total stores at period-end	5,311	5,410	5,539
YoY change in existing store sales	-1.0%	+0.5%	+0.5%
Average product markup	29.04%	29.04%	29.09%
Total store sales	898,280	924,290	959,360
Total operating revenue	206,160	216,480	233,280
Operating income	17,000	16,090	17,500
Net income	6,620	6,430	7,360

Note: The Three-year Plan does not reflect the impact of growth in tobacco sales due to the introduction of "age verifying cigarette vending machines" compatible with taspo cards from fiscal 2009.

Q4**What initiatives will Circle K Sunkus take in fiscal 2009, the first year of its medium-term management plan?**

Our first step in fiscal 2009 was a bold reorganization looking out to three years from now. Because we believe that a stronger focus on regions and individual stores is crucial to rising above the increasingly intense competition, we newly established regional divisions. We have clarified the roles and responsibilities of the heads of regional divisions, all of whom are executive officers, and have handed authority to them, with the aim of promoting speedy execution of regional strategies and managing earnings by region.

As part of efforts to offer “true value to customers,” we launched the *Yume WAKU2* project in March to develop stores that are better appreciated by customers. On the product development front, Circle K Sunkus plans to develop and foster new flagship products from scratch, while continuing to provide reliable, safe and great-tasting products. We will also work even harder than before to

capture synergies with the UNY Group, with the aim of enhancing profitability. Furthermore, Circle K Sunkus will begin making the aforementioned large investments in advanced services. Beginning with the full-scale launch of ATM services in the Kansai region, the Company will successively install multi-use copy machines and in-store multi-media terminals, among other initiatives.



With the roll out of “Bank Time” ATMs at approximately 900 Kansai region stores, ATM services will be available at over 60% of the Company’s stores as of July 31, 2008.

Q5**Could you please tell us more about the new *Yume WAKU2* project?**

Never has it been more important for us to have a project that allows all members of our organization to share a common goal and work as one to achieve it. The *Yume WAKU2* project is designed to bring all Circle K Sunkus employees and franchised stores together to develop stores that are better appreciated by customers. The project is also part of efforts to deliver a real sense of excitement (*WAKU WAKU*) to customers.

The first step of the project was to launch a newly designed joint uniform for Circle K and Sunkus stores in June. To ensure that we welcome customers to stores with a higher level of customer service and optimal product lineups, besides just new uniforms, we held forums in various locations nationwide from April to encourage Circle K Sunkus employees and franchised storeowners to share a

common vision for enhancing customer satisfaction. We also began an initiative where we develop products based on ideas submitted by franchised stores. Through this project, we will continue striving to maximize “true customer value” by taking on new challenges.



To develop stores that are better appreciated by customers, we aim to enhance store operations that allow us to welcome customers to optimal stores in every respect, including customer service and product lineup.

Q6**What is your vision for Circle K Sunkus?**

I constantly encourage employees and franchisees to hold high aspirations on the job. My own aspiration—and aim—is to break from past ways of doing things to reinvent convenience stores. I want to realize one aspect of Circle K Sunkus' vision—"Becoming a Truly Exciting (*WAKU WAKU*) Enterprise" so that customers come to feel that there is something different and exciting about Circle K and Sunkus stores. We will do this by offering better products and services, and conducting various campaigns that convey a sense of excitement (*WAKU WAKU*). In the process, we must not forget the willingness to embrace new challenges as a company. I'm convinced that this will lead to higher customer footfall and improved sales and earnings.



Our new uniforms feature a red, white and blue mosaic pattern, and embody the sense of excitement that we are trying to create at stores. Red is our corporate color, while white and blue express cleanliness and sincerity, respectively.

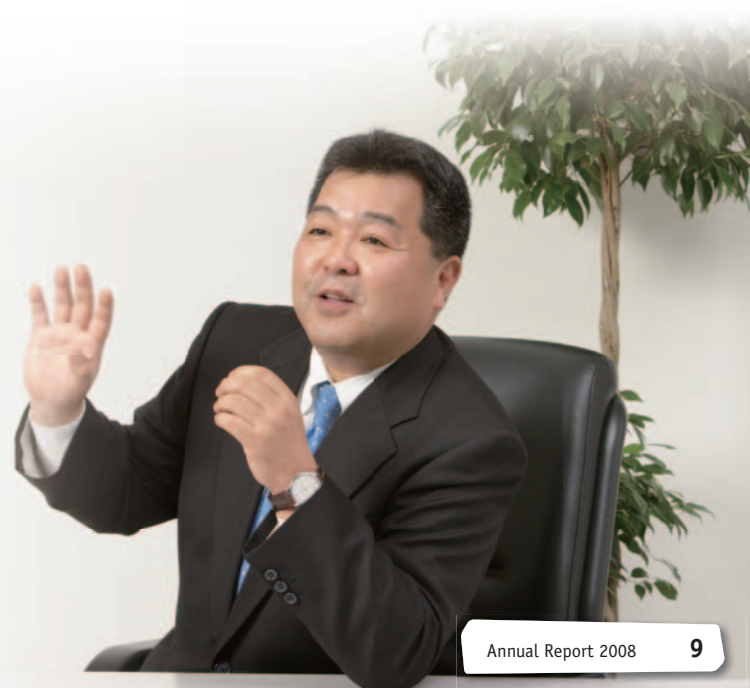
Q7**Finally, please explain your approach to shareholder returns.**

I regard shareholder returns as an important management priority for Circle K Sunkus.

Our basic policy is to maintain stable dividends, while carefully monitoring our medium-term earnings outlook, capital expenditure plans and financial position, with the aim of paying out at least 30% of net income as dividends. Despite lower earnings in fiscal 2008, we raised the annual dividend per share to ¥40, ¥2 higher than in fiscal 2007. As a result, the dividend payout ratio was 39.1%, surpassing our target.

As mentioned earlier, we are projecting lower earnings for fiscal 2009 because we will bear a considerable cost burden as investments in information systems get fully under way. However, we will not reduce our dividend for fiscal 2009. Because we view shareholder returns as an important management priority, we plan to maintain the annual dividend per share at ¥40 based on the aforementioned basic policy.

Going forward, we will continue to decide on shareholder returns while keeping a close eye on our medium-term earnings outlook and financial position.



Special Feature

Aiming to Transform Our Earnings Structure



Circle K Sunkus will aggressively move forward by boldly developing new products and services and investing heavily in driving future sales and earnings growth, even as it fortifies its defenses through rigorous low-cost operations and the pursuit of greater cost effectiveness. The overriding goal is to transform our earnings structure.

Formulated Medium-term Management Policies

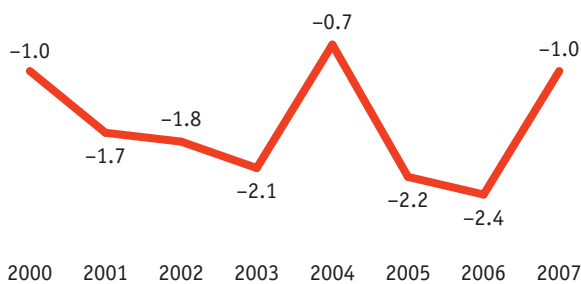
Existing store sales in the convenience store industry continue to decline year on year due to intensifying competition transcending traditional business boundaries. From the beginning of fiscal 2009, concerns over a potential slowdown in the Japanese economy are emerging along with weakening consumer sentiment due to soaring crude oil prices and successive increases in food prices. Meanwhile, Circle K Sunkus' earnings structure is changing in many ways. For example, royalties from franchised stores are down, and operating expenses are rising in step with increases in the number of Company-owned stores. In addition, sales are declining due to a drop in customer footfall. Against this backdrop, we will work to transform our earnings structure by ensuring that we bolster sales capabilities in all divisions while responding steadily and effectively to changes in our earnings and cost structures. These efforts will be guided by the following five medium-term management policies:

Medium-term Management Policies

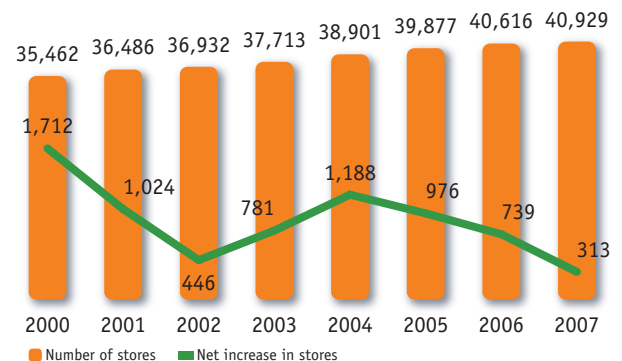
1. Offer "true value to customers" and develop stores that are better appreciated by customers
2. Boldly develop new products and services
3. Promote regional strategies and monitor progress toward earnings by region
4. Transform our earnings structure
5. Enhance and optimize operating efficiency

Average Existing Store Sales at 11 Convenience Store Operators and Net Increase in the Number of Stores

Y-o-Y Change in Existing Store Sales
(%)



Number of Stores/Net Increase in Stores
(stores)



Source: Convenience store industry statistics compiled by the Japan Franchise Association

Note: The "11 convenience stores" refer to the 11 convenience store operators who are official members of the Japan Franchise Association.



Reorganization With a Three-year Horizon

In fiscal 2009, Circle K Sunkus reorganized its operations looking ahead to three years from now, as a step to realize its medium-term management policies. Based on our belief that a stronger focus on regions and individual stores is crucial to surmounting fiercer competition, the main goal of this reorganization was to newly establish regional divisions. Having divided Japan into four regions, we assigned executive officers to head each regional division. By clarifying their roles and responsibilities and handing authority to them, we will promote speedy execution of regional strategies and management of earnings by region.

Integrated management of both Circle K and Sunkus store brands will be initiated at the departmental level of store operations and development. Plans also call for unifying franchise agreements for new stores in autumn 2008. In three years from now, we plan to expand this unification process by allowing the same store supervisors and store developers to oversee both Circle K and Sunkus stores. Boosting operating efficiency is our goal.

(Note: Please refer to the organizational chart on page 61)

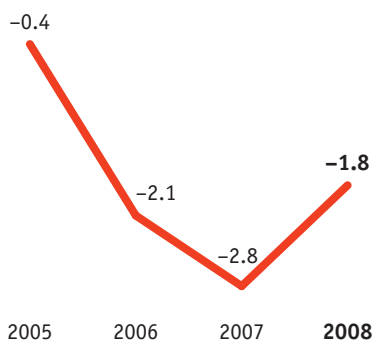
Company-wide Project to Realize "True Customer Value"

Circle K Sunkus is pursuing the *Yume WAKU2* project to bring all Circle K Sunkus employees and franchised stores together to enhance customer satisfaction, with the aim of developing stores that are better appreciated by customers. As shown in the graph below, with customer footfall at existing stores declining for the past four fiscal years, sales growth is being hindered by fewer customers visiting stores. To reestablish Circle K and Sunkus as the convenience store chains of first choice for customers, and endear each store to customers, we aim to create stores that provide a sense of excitement (*WAKU WAKU*) through this project.


From April 2008, we held customer satisfaction enhancement forums for franchised storeowners and store staff in various locations nationwide. This was part of efforts to encourage Head Office employees and franchised storeowners to share a common vision for enhancing customer satisfaction. This was followed in June this year by the launch of a newly designed joint uniform for Circle K and Sunkus store staff. We also used this opportunity to create stores that would allow us to welcome customers

Y-o-Y Change in Customer Footfall at Existing Stores

(%)



Customer satisfaction enhancement forums were held to encourage Circle K Sunkus employees and franchised storeowners to share a common vision for developing stores that are better appreciated by customers.




with a higher level of customer service and optimal product lineups. Furthermore, we launched a new initiative where we develop products based on ideas submitted by franchised stores. The first of these was an original dessert developed under Circle K Sunkus' hallmark *Cherie Dolce* original dessert brand. We plan to invite franchised stores to submit ideas for original snacks and many more product categories going forward.

By continuing to boldly take new initiatives through the *Yume WAKU2* project, Circle K Sunkus aims to maximize "true customer value."

Improving Average Daily Sales at New Stores by Opening Stores With an Emphasis on Quality

On the store development front, we aim to open as many new stores as needed to achieve a net increase in stores, while continuing to open stores with an emphasis on quality and profitability.

To this end, Circle K Sunkus will increase investments in opening stores in the Kanto and Chukyo regions as it works to reestablish a dominant store presence through strategies for opening new stores in each region. In fiscal 2009, Circle K Sunkus plans to open around 70% of the 280 new stores planned for fiscal 2009 on a non-consolidated basis in the highly profitable Kanto and Chukyo regions. In addition, by taking advantage of the new Geographical Information System (GIS) scheduled to come online in the autumn of 2008, we will be able to predict and locate promising sites for opening new stores with higher accuracy. We will also continue to step up store relocations in a bid to enhance quality.



In recent years, it has been difficult to sign up franchisee candidates. In response, Circle K Sunkus has introduced the "Venture Employee System" for signing up and developing outstanding franchisee candidates from 2006. Under this system, Circle K Sunkus employs franchisee candidates on a contractual basis on the premise that they will obtain management expertise at Company-owned stores with the aim of opening their own franchised stores in one year. One advantage of the system is that it allows "venture employees" to open and operate stores at a high standard from day one. Our goal is to steadily sign up franchisee candidates by actively utilizing this system. In fiscal 2009, we expect to 75 "venture employee" candidates to join Circle K Sunkus and 33 to open their own franchised stores.

By carrying out these measures, Circle K Sunkus aims to restore average daily sales at new stores to ¥450,000 in fiscal 2011 and maintain the current pace of net increases in stores.

Bolstering the Competitiveness of Company-owned Stores and Minimizing Further Increases in Their Number

The number of Company-owned stores is increasing due to lackluster sales at existing stores amid intensifying competition. And more and more franchised stores whose contracts are expiring are opting out of renewing franchise agreements because of the aging of franchised storeowners, the lack of successors, and difficulty in recruiting store staff. In fiscal 2008, we managed to reduce the number of Company-owned stores to a degree by closing 188 of these stores. We have always sought to convert the growing

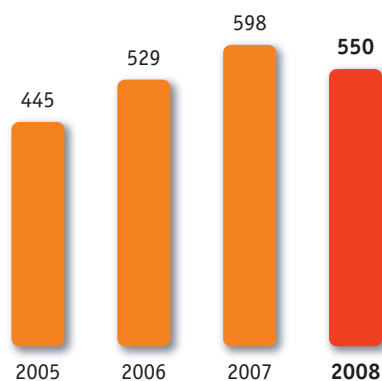


numbers of Company-owned stores into franchised stores. To this end, in fiscal 2009, we rolled out the “Operations Management Employee” system to manage competitive Company-owned stores. This “Operations Management Employee” system employs candidates on renewable one-year contracts for up to three years. By utilizing this system, we will raise the bar in terms of operations and boost sales of Company-owned stores, with an eye to subsequently converting them into franchised stores.

For franchise storeowners managing at least three stores with excellent operations, Circle K Sunkus will offer an incentive plan for managing multiple stores—a 3% royalty benefit will be provided for the third store. The aforementioned “Venture Employee System” will also be utilized to promote the conversion of Company-owned stores into franchised stores. These and other measures will help us to minimize any further increase in the number of Company-owned stores.

Number of Company-owned Stores

(stores)



Tackling the Challenge of Developing New Products

Vendor and logistics network integration has been under way ever since the 2004 merger that formed Circle K Sunkus Co., Ltd. In July 2007, integration was completed in all product categories. Cumulative integration benefits from vendor and logistics network integration and unifying food ingredients over the three years from the start of the integration process are approximately ¥3.4 billion.

(1) Bolstering and Nurturing Mainstay Product Categories

By leveraging the completion of vendor and logistics network integration, Circle K Sunkus is taking aggressive product development initiatives. In fiscal 2008, we worked to create great-tasting products by redeveloping products from scratch, insisting on only the finest ingredients and preparation methods. These efforts culminated in the launch of two new brands, namely *Oishii Pan Seikatsu*, an original baked goods brand and *Cherie Dolce*, an original dessert brand. Both brands continue to sell strongly at this time. Notably, *Cherie Dolce* is growing into a hallmark Circle K Sunkus brand.

Aiming to develop its second and third hallmark products, Circle K Sunkus will strengthen its pasta lineup in the autumn of 2008. It will rebuild brand concepts from scratch in order to develop even better-tasting products. By successively enhancing our main product categories in this manner, we aim to boost overall sales.



Insisting on only the finest ingredients and preparation methods, we have launched two brands that epitomize high-quality product development—original dessert brand *Cherie Dolce* and original baked goods brand *Oishii Pan Seikatsu*.



(2) Strengthening Regional Products

As customer needs diversify, Circle K Sunkus is strengthening regional products in order to respond meticulously to regional market needs in terms of local characteristics, taste preferences, price sensitivity and other factors.

In fiscal 2009, Circle K Sunkus will expand its share of regional products in the rice dish category from 40% currently to 50%. Food ingredients and servings of various products, including unified nationwide products, will be fine tuned as necessary to better match regional characteristics as well as local living standards and culture. Based on a spirit of thriftiness, Circle K Sunkus is also engaged in the *MOT Project*—a plan to develop “locally produced, locally consumed” products in collaboration with local food producers and governments. We will extend this project from the two regions involved in fiscal 2008 to more areas in fiscal 2009 as we develop products closely tied with each region. In parallel with these actions at the regional level, we also plan to tailor products to individual stores in order to fulfill customer needs that differ by location. We will propose product “packages” designed to fulfill needs that cannot be fully addressed by the basic product lineups available at a given store location or environment. For example, we will strive to enhance customer convenience by boosting stocks of fruits and vegetables and discounted daily merchandise at stores in residential locations, and stocks of imported confectionery and multiple brands of mineral water at stores in office building locations.

(3) Original Brand Strategy and UNY Group Synergies

Amid successive increases in the price of national brand products due to the soaring price of raw materials, original brands are increasingly finding favor with customers. Against this backdrop, in fiscal 2009, the Company will harness the UNY Group’s collective product development and procurement capabilities even more so than before to satisfy the increasingly twin-fold nature of consumer needs.

The UNY Group is developing original brands based on three types of products: premium products with quality and high added-value, high-quality products at inexpensive prices, and value-priced products equivalent to national brands but at lower prices. In fiscal 2009, Circle K Sunkus jointly developed original products based on the concept of offering high quality at inexpensive prices under the new *UUCS* brand. We also hope to see joint sales promotions carried out with the UNY Group capture synergies throughout the UNY Group as a whole and ultimately lead to improved sales and profitability. By providing a range of products closely tied to the location of stores, Circle K Sunkus aims to further enhance convenience for customers.

Taking an Aggressive Stance—New Store Information System and New Services

As part of our aggressive stance on moving forward, we are introducing a new store information system and equipment related to new services with the aim of developing new services and driving growth in future sales and earnings.

Circle K Sunkus has upgraded its General Store Information System and in fiscal 2008 completed the installation of new POS registers at all stores. In the second half of fiscal 2009, we will roll out new Store Communications Servers (SCS). This new equipment features e-learning functions to support personnel training as well as enhanced communications functions and higher precision single-item inventory management.

Furthermore, we will begin linking all stores over a fiber-optic broadband network and will install multi-use copy machines from April 2008 and in-store multimedia terminals from September of this year. New service category products will also be successively rolled out. In addition, we plan to begin offering ATM services at approximately 900 stores in the Kansai region by July. This will raise the share of Circle K Sunkus stores with ATM services to just over 60%.



We plan to deploy new content via this new service category equipment with the aim of boosting convenience and providing a sense of excitement (*WAKU WAKU*).

Fortifying Our Defenses—Raising Operating Efficiency and Rigorously Pursuing Low-cost Operations

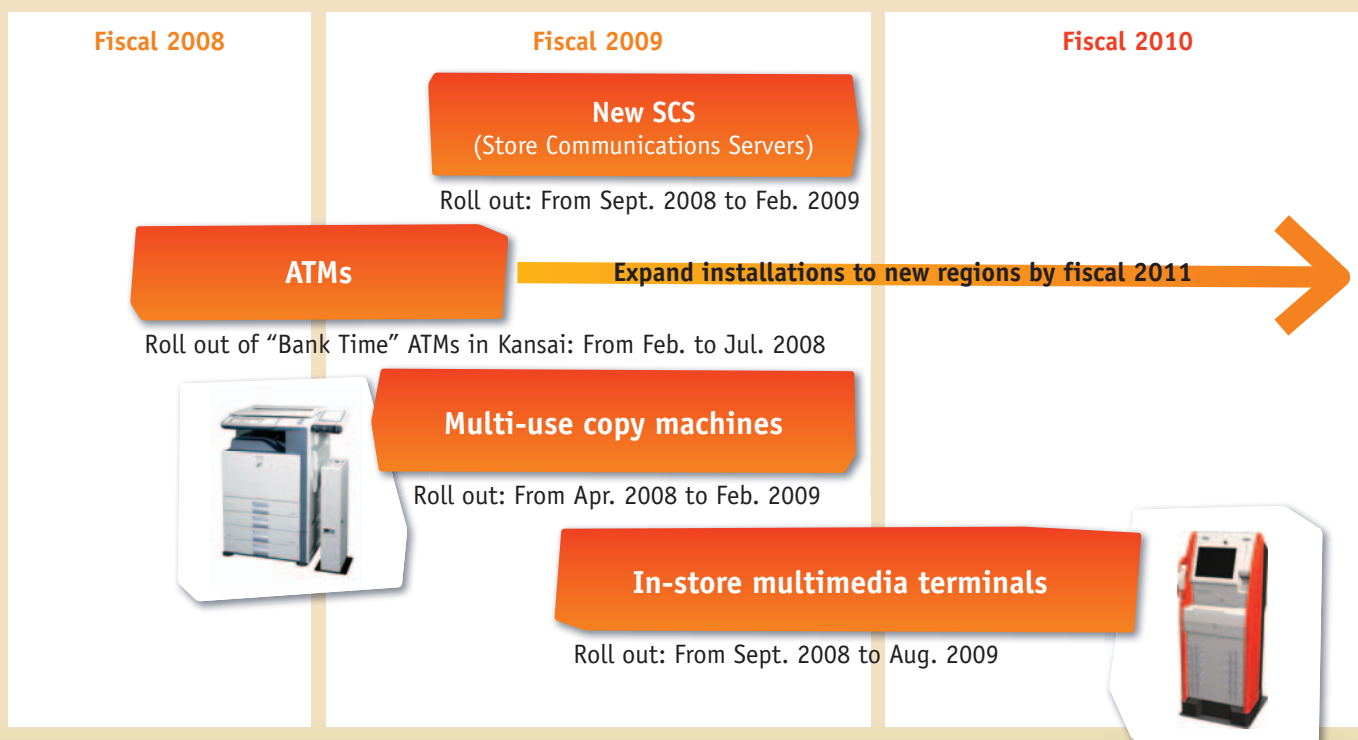
Circle K Sunkus will fortify its defenses by breaking from past ways of thinking about and doing things to rigorously pursue low-cost operations and achieve greater cost effectiveness. This will parallel the large capital investments we will make to deploy the aforementioned systems as part of our aggressive stance on moving forward.

In November 2000, we overhauled franchise agreements at Circle K, mainly by adjusting Circle K's royalty percentages to the same level as Sunkus. This move allowed us to

make a degree of progress with unifying franchise agreements. However, the franchise agreements of both store brands are currently operated independently and have yet to be fully unified. Our first step will be to unify franchise agreements for new stores in the autumn of 2008. Currently, store developers and store supervisors can oversee only one store brand. By unifying franchise agreements for new stores, we plan to structure operations so that the same store developers and store supervisors can take responsibility for both store brands after about three years.

To ensure rigorous low-cost operations, we will strive to eliminate inefficiency in many ways. This will include reducing store closure costs and spending on rent incurred before stores open by changing past ways of thinking about and doing things. In addition, we will carry out more effective sales promotions.

Schedule for Introduction of New General Store Information System and New Service Category Equipment



Three-year Plan Formulated

In April 2008, Circle K Sunkus announced its Three-year Plan, which starts in fiscal 2009. Aiming to boost average daily sales at new stores by emphasizing quality first and foremost, we will accelerate the opening of stores at consolidated subsidiary 99 ICHIBA Co., Ltd., with the goal of maintaining net increases in the number of stores. Circle K Sunkus expects the year-on-year change in existing store sales to turn positive in fiscal 2010 based on a projected boost from efforts to raise customer footfall and sales. Furthermore, we will bolster our range of fast food with high product markups so as to increase sales. In addition, we aim to gradually improve product markups by bolstering original brand products at the UNY Group.

The main thrust of the Three-year Plan is the large capital investments we will make as part of our aggressive stance on moving forward. As shown in the schedule for introducing the new store information system and new

services on page 16, the roll out of the new store information system and service-related equipment, including the installation of a fiber optic broadband network, will be concentrated in fiscal 2009. Accordingly, the Company is budgeting for total capital expenditures of ¥42.8 billion in fiscal 2009, including leasing expenditures. However, the current round of capital expenditures is expected to begin tapering off in fiscal 2010. In fiscal 2011, capital expenditures should largely return to normal levels at approximately ¥27.0 billion.

Earnings are projected to decrease in the first and second fiscal years of the Three-year Plan because of increased spending related to investments. However, Circle K Sunkus is projecting an increase of 8% in operating income by fiscal 2011, the plan's final fiscal year, atop earnings growth supported by lower investment-related outlays and better sales capabilities.

Consolidated Three-year Plan

(stores, percent, millions of yen)

	Fiscal 2009	Fiscal 2010	Fiscal 2011
Store openings	355	399	444
Store closures	282	300	315
Total stores at period-end	5,311	5,410	5,539
YoY change in existing store sales	-1.0%	+0.5%	+0.5%
Average product markup	29.04%	29.04%	29.09%
Total store sales	898,280	924,290	959,360
Total operating revenue	206,160	216,480	233,280
Operating income	17,000	16,090	17,500
Net income	6,620	6,430	7,360

Note: The Three-year Plan does not reflect the impact of growth in tobacco sales due to the introduction of "age verifying cigarette vending machines" compatible with taspo cards from fiscal 2009.

Capital Expenditures

(millions of yen)

	Fiscal 2009	Fiscal 2010	Fiscal 2011
New store investments	12,703	14,266	15,658
Existing store investments	1,437	1,466	1,478
System investments	12,515	3,600	2,003
Head office investments	428	428	431
Capital expenditures < 1 >	27,090	19,760	19,570
Leasing expenditures < 2 >	15,710	9,270	7,400
Total investments < 1+2 >	42,800	29,030	26,970

CORPORATE SOCIAL RESPONSIBILITY

Circle K Sunkus' management philosophy is as follows: "We aim to be a company that achieves steady sustainable growth, while earning the trust of society." Guided by this philosophy, we are committed to providing safe, high-quality and great-tasting products that engender peace of mind, while also ensuring compliance-driven management and a highly transparent disclosure system. Through social contribution and environmental protection activities, Circle K Sunkus will also fulfill social responsibilities commensurate with the size of its organization. By acting responsibly and giving back to society, Circle K Sunkus aims to earn the trust of all stakeholders.

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 risk and compliance management systems. These steps will underpin efforts to enhance corporate value.

Corporate Governance Structure and Initiatives

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. As of May 21, 2008, the Board of Directors was made up of seven members, one of whom is an external director. 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.

Board of Directors (Meets monthly, in principle)

The Board of Directors is chaired by the President and determines important matters concerning management and other issues as required by law, while overseeing the execution of business operations. Internal and external

directors and corporate auditors attend meetings. In fiscal 2008, the Board of Directors held 16 meetings, including extraordinary meetings.

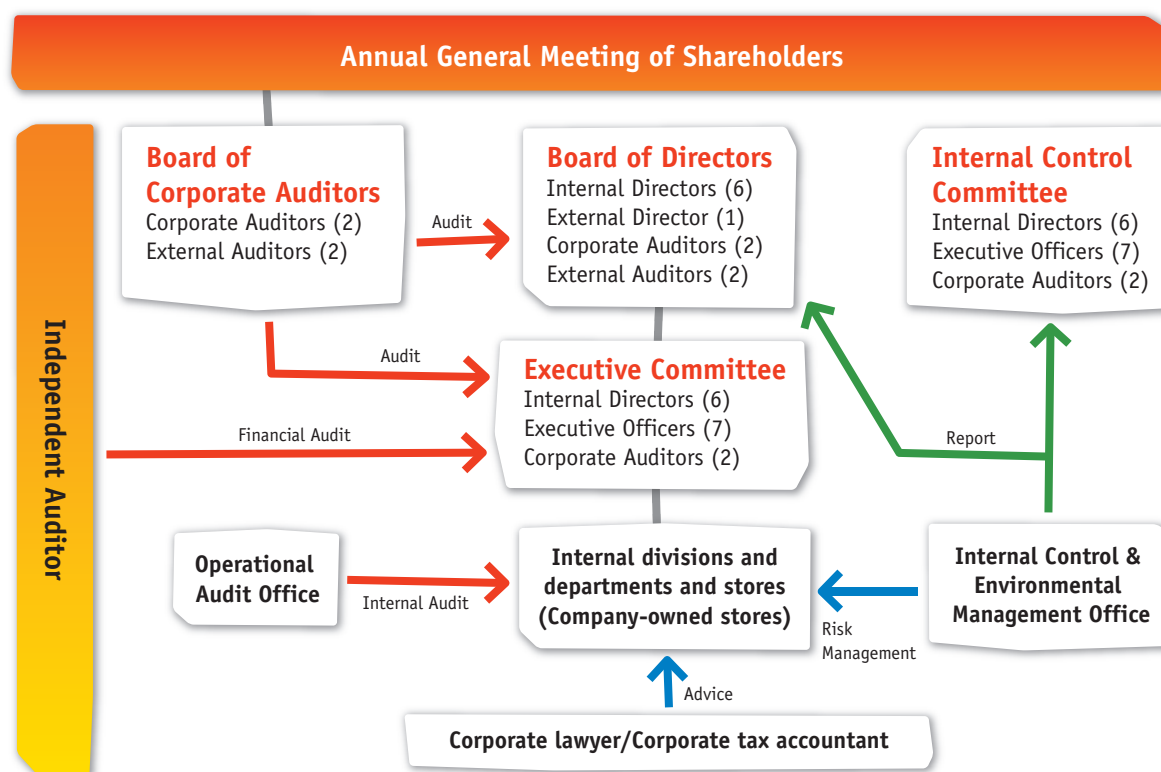
Executive Committee (Meets twice a month, in principle)

The Executive Committee is chaired by the President and is made up of directors, corporate auditors and executive officers. It held 24 meetings in fiscal 2008. At these meetings, the Executive Committee extensively discusses management issues, supports management decision-making by the Board of Directors and oversees the execution of business operations.

Board of Corporate Auditors (Meets monthly, in principle)

The Board of Corporate Auditors comprises four corporate auditors, including two external auditors. The corporate auditors attend important internal meetings, such as Board of Directors' meetings, to receive reports on the Company's management plans, the status of its overall compliance and

CORPORATE GOVERNANCE STRUCTURE (As of May 21, 2008)



risk management systems and other matters. Based on these reports, the corporate auditors offer their opinions from an impartial perspective, and rigorously audit the performance of directors and executive officers. In fiscal 2008, the Board of Corporate Auditors held 12 meetings.

Internal Audits

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

Independent Auditor

The Company has entered into an audit agreement with KPMG AZSA & Co. This independent auditor performs financial audits of the Company while maintaining close cooperation with the corporate auditors and the Operational

Audit Office. Furthermore, the corporate auditors confirm audit plans with the independent auditor, receive reports on the findings of financial audits, and exchange views with the independent auditor.

Remuneration for Directors and Corporate Auditors, and the Independent Auditor

Remuneration for Directors and Corporate Auditors

Remuneration for directors 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 29, 2008 is outlined in the table below.

(millions of yen)

Remuneration	Directors	191 (Incl. external directors: 3)
	Corporate Auditors	36 (Incl. external auditors: 4)

*The above remuneration includes bonuses paid to directors and corporate auditors.

Remuneration Paid to the Independent Auditor (millions of yen)

Remuneration for services stipulated by Article 2-1 of the Certified Public Accountants Law	47
Other remuneration	9

Internal Control System Initiatives

Circle K Sunkus is working to enhance its internal control system for ensuring proper and efficient execution of business operations and the reliability of financial reporting, based on the implementation of its management philosophy and action guidelines.

The Internal Control Committee, which was established in March 2007, is chaired by the President and comprises directors, executive officers and corporate auditors. The committee regularly receives reports on the establishment and operation of the internal control system from the Internal Control & Environmental Management Office to monitor Company-wide progress on putting in place this system and to conduct crisis management.

The Internal Control & Environmental Management Office coordinates internal control and compliance activities across the Company and implements concrete measures to reinforce the management structure.

Risk Management

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

departmental operational risks. At the same time, the Company implements measures to improve business operations in order to achieve its business objectives.

Compliance

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

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

To prevent relationships with antisocial forces, the Company cooperates closely with police, lawyers and other external parties while seeking to ensure that all directors and employees thoroughly understand the tactics employed by antisocial forces to make illegitimate requests and how to deal with them.

Internal Control Over Financial Reporting

Aiming to enhance internal controls over financial reporting, the Company has deployed three specialists to the Finance & Accounting Division and is working closely with the UNY Group to establish a system for evaluating the effectiveness of internal controls over financial reporting based on the Japanese Financial Instruments and Exchange Law.

Environmental and Social Contribution Activities

Guided by its mission statement, the Circle K Sunkus Group regularly conducts environmental programs and socially beneficial activities at its nationwide network of more than 6,000 Circle K and Sunkus stores, leveraging its ties with local communities.

Environmental Activities

Distributed Reusable Original Shopping Bags Free of Charge in Order to Use Fewer Plastic Shopping Bags

Circle K Sunkus is working to use fewer plastic shopping bags at stores with the aim of promoting the 3Rs—Reduce, Reuse, and Recycle—with respect to containers and packaging waste. Besides requesting the cooperation of customers at stores, we have trimmed excess material from plastic shopping bags to make them smaller and lighter. Through these initiatives, we surpassed our fiscal 2008 target of reducing the weight of plastic shopping bags used per store by 24% compared with the fiscal 2001 level. In October 2007, we also began distributing original reusable shopping bags free of charge at certain stores in Aichi Prefecture.



In fiscal 2009, Circle K Sunkus will step up recycling initiatives. For example, new store uniforms introduced in June 2008 are produced from fabrics made of 100% recycled fiber from PET bottles. We also plan to recycle our old uniforms into fiber and use this fiber to produce approximately 250,000 original reusable shopping bags. Plans call for distributing these shopping bags to customers at no charge. This marks the first time in the convenience store industry that an operator has not just recycled uniforms, but also converted them into reusable shopping bags for the benefit of customers.

Supporting a Food Waste “Recycling Loop” at the UNY Group

In fiscal 2009, Circle K Sunkus will work to make more effective use of food waste by supporting a “recycling loop” at the UNY Group, which involves growing and selling vegetables using compost made partly from food waste generated at UNY Group stores. This initiative builds on Circle K Sunkus’ experience in converting food waste into compost and in various other environmental initiatives. We will also actively pursue the development of “locally produced, locally consumed” products.

Social Contribution Activities

Store Fundraising 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. From August 2007, the Company overhauled and unified store fundraising activities conducted separately so far by Circle K and Sunkus. In addition to existing programs, such as The National

Federation of All Japan Guide Dog Training Institution's "Nationwide Guide Dog Campaign" at Circle K and Japan UNICEF at Sunkus, we selected the National Land Afforestation Promotion Organization's "Green Fund" as a new beneficiary of donations. Total annual store fundraising reached ¥75,823,506 in fiscal 2008. In addition to the usual organizations receiving donations, in fiscal 2008, Circle K Sunkus contributed to emergency relief funds and provided emergency relief supplies to regions affected by unforeseeable natural disasters, such as earthquakes.

NPO Support Activities

The Company contributes a portion of earnings generated by its activities to supporting NPOs for the purpose of providing humanitarian assistance.

NPO Family House

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

NPO Japan Team of Young Human Power (JHP)

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

Supporting the Opening of the Fifth "Everyone's Dream School"

Circle K Sunkus has supported the construction of schools in Cambodia since fiscal 2004. In February 2008, the fifth school nicknamed "Everyone's Dream School" was opened at Steung Chreu Secondary School. Currently, roughly 3,000 students are studying on a daily basis at these five schools.



Collection period	Organization receiving donations
April to July 2007	The National Federation of All Japan Guide Dog Training Institution's "Nationwide Guide Dog Campaign"
August to November 2007	National Land Afforestation Promotion Organization's "Green Fund"
December 2007 to March 2008	Japan UNICEF's "Japan UNICEF Fund"

Collection period	Assistance	Contributions
March to April 2007	Emergency relief for survivors of the Noto Peninsula Earthquake	¥ 7,124,086
July 2007	Emergency relief for survivors of the Niigata-Chuetsu Offshore Earthquake	¥10,212,606

BOARDS OF DIRECTORS AND CORPORATE AUDITORS

(As of May 21, 2008)



Kiyoshi Hijikata



Motohiko Nakamura



Teruyasu Ando



Kazuo Takahashi



Katsumi Yamada



Toshitaka Yamaguchi



Koji Sasaki



Kunio Takasu



Tsutomu Yamaguchi



Akira Katsuragawa



Yoshiaki Tsuzuki

CHAIRMAN

Kiyoshi Hijikata

PRESIDENT

Motohiko Nakamura

MANAGING DIRECTOR

Teruyasu Ando

Head of Strategic Planning Office

DIRECTORS

Kazuo Takahashi

Head of Area Franchise Division

Katsumi Yamada

Head of Personnel & General Affairs Division
and Information Systems Division

Toshitaka Yamaguchi

Head of Finance & Accounting Division

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

Mikio Kanamori

Head of Store Operations Division

Yasutoshi Saito

Head of Merchandising Division

Kozo Matsuda

Head of Store Development Division

Akira Kugaya

Head of Regional Division No.1

Katsuji Sato

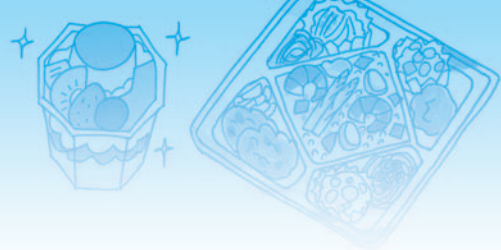
Head of Regional Division No.2

Kiyoshi Aida

Head of Regional Division No.3

Jun Takahashi

Head of Regional Division No.4



FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL POSITION	25
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This graphic indicates that further details are available in the Circle K Sunkus Investors' Guide (IG) 2008. 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 29, 2008)

Note 1: Unless stated otherwise, figures for store results on pages 25 to 31 of the MD&A are shown on a non-consolidated basis.

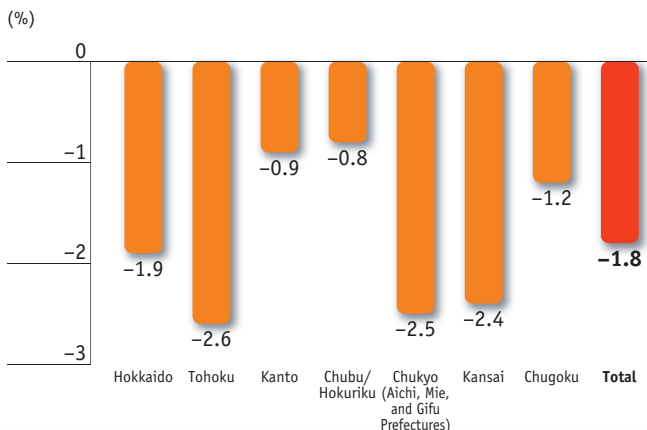
Business Environment

In fiscal 2008, the year ended February 29, 2008, the Japanese economy continued to stage a gradual recovery, supported by generally strong corporate earnings. However, there were some signs of a slowdown around the end of the fiscal year, mainly due to soaring crude oil and raw material prices and the impact of the sub-prime loan problem.

In the retail sector, overall sales of food, apparel, luxury goods and other items were lackluster, reflecting weak consumer sentiment caused by a residents' tax hike, tumbling stock prices, and rising gasoline and food prices. This was despite relatively favorable weather conditions in fiscal 2008. Furthermore, the disparity between urban areas, such as Tokyo and Nagoya, and regional areas in terms of signs of economic recovery and income levels widened, while differences between regions were also apparent in terms of sales trends at retailers.

In the convenience store industry, Circle K Sunkus continued to face a challenging business environment, characterized by increasingly intense competition transcending industry lines, involving not only rival convenience store chains, but also restaurants, supermarkets, drug stores, and discount retailers. Intensified competition was partly compounded by diversifying customer needs due to the impact of Japan's aging society with fewer births. Against this background, the convenience store industry as a whole saw a year-on-year decrease in existing store sales.

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



Store Results

Investors' Guide P.14-15/P.19/P.25-27

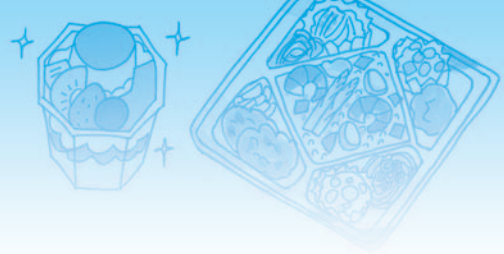
Sales and Existing Store Sales (Y-o-Y Comparisons)

In fiscal 2008, existing store sales improved in year-on-year terms, particularly in the Kanto region, partly due to comparably favorable weather as well as strong performances by newly established original baked goods and dessert brands and the benefits of active sales promotions. However, customer footfall declined throughout the fiscal year, resulting in continued lackluster regional sales in Hokkaido and the Tohoku region, and in the Chukyo and Kansai regions. Overall, existing store sales at Circle K Sunkus for fiscal 2008 decreased 1.8% year on year, 0.6 of a percentage point more than forecast, although the decrease was smaller than in the previous fiscal year.

Sales at Circle K and Sunkus proper, including franchised stores, decreased 1.5% year on year to ¥860,041 million. This was mainly attributable to the opening of 36 fewer stores than planned and the closure of 102 more stores than in the previous fiscal year.

The outlook for fiscal 2009 is for the Japanese economy to experience a standstill in growth amid increasing risk of a downturn in corporate earnings and consumer spending, against the backdrop of the ongoing U.S. economic slowdown, lackluster financial and stock markets and rising price levels driven up by high crude oil and grain prices. As competition in the convenience store industry escalates, Circle K Sunkus will continue to face a challenging business environment.

Factoring these trends into forecasts, Circle K Sunkus is projecting another year-on-year decline in existing store sales of 1.0% for fiscal 2009. Circle K Sunkus expects sales at Circle K and Sunkus proper, including franchised stores, to decrease 1.4% year on year to ¥848,390 million, mainly because it will begin fiscal 2009 with a net 175 fewer stores due to the mass closure of 459 stores in fiscal 2008. Fiscal 2009 projections for existing store sales and sales at Circle K and Sunkus proper do not reflect the impact of the introduction of taspo cards (Note).



Existing store sales in the convenience store industry during the fiscal year under review recorded a smaller year-on-year decrease than in fiscal 2007. However, consumer spending has yet to fully recover, regional disparity between urban centers and regional areas is increasing and competition transcending traditional business boundaries is intensifying. Due to these and other factors, three major convenience store chains suffered year-on-year declines in existing store sales, while FamilyMart recorded an increase.

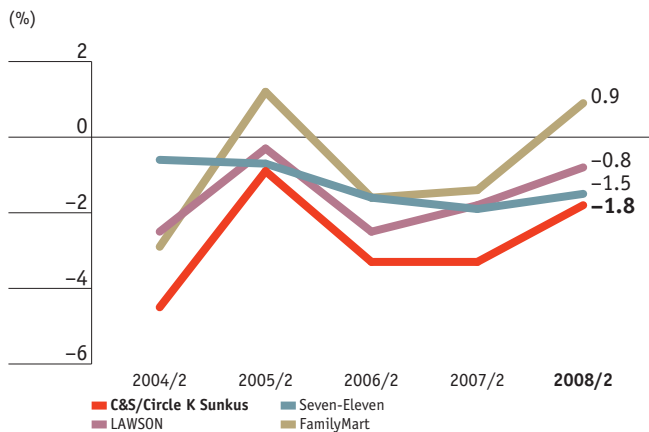
Note: As part of an initiative to prevent underage smoking, "age verifying cigarette vending machines" compatible with taspo cards will be introduced from 2008. Because taspo cards will be needed to use cigarette vending machines, smokers without taspo cards are expected to purchase their cigarettes at convenience stores.

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

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

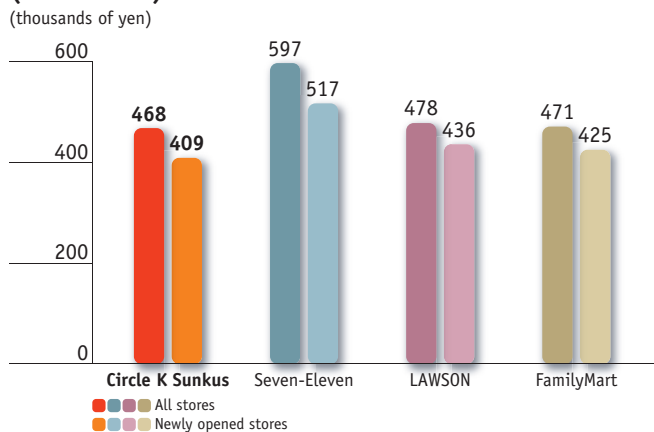
In fiscal 2008, customer footfall declined throughout the fiscal year, decreasing 1.8% year on year. An analysis of the number of customers showed that the percentage of male customers in their 20s, Circle K Sunkus' main customer segment, has decreased 2.8 percentage points compared with fiscal 2006. By time period, we found that overall customer footfall at night, including late-night hours, has declined 1.1 percentage points over the same timeframe. However, the average purchase per customer was largely unchanged from the previous fiscal year,

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 in the second and first halves of the February 2006 and 2007 fiscal years, respectively.

Average Daily Sales at Major Convenience Store Chains (Fiscal 2008)



Source: Financial reports prepared by each company.


Average Daily Sales, Average Number of Customers, and Average Purchase Per Customer

	Fiscal 2006		Fiscal 2007		Fiscal 2008	
		Change		Change		Change
Existing stores						
Average daily sales per store	¥485,000	-3.3%	¥476,000	-3.3%	¥472,000	-1.8%
Average number of daily customers per store	821	-2.1%	811	-2.8%	806	-1.8%
Average purchase per customer	¥ 591	-1.2%	¥ 586	-0.7%	¥ 586	0.0%
Average daily sales at all stores	¥482,000	-2.4%	¥470,000	-2.5%	¥468,000	-0.4%
Average daily sales at newly opened stores	¥424,000	-3.0%	¥394,000	-7.1%	¥409,000	3.8%



putting an end to a slide in this number over the past few years. Nonetheless, the drop in customer footfall weighed heavily on sales, reducing average daily sales per store by ¥2,000 and ¥9,000 year on year on an all-store and existing-store basis, respectively.

Circle K Sunkus regards lower customer footfall as a serious issue, and plans to arrest any further decrease. Head Office and franchised stores will work as one in fiscal 2009 to enhance customer service, as well as introduce more attractive products and new services.

 P.12/P.14-15/P.18/P.27

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

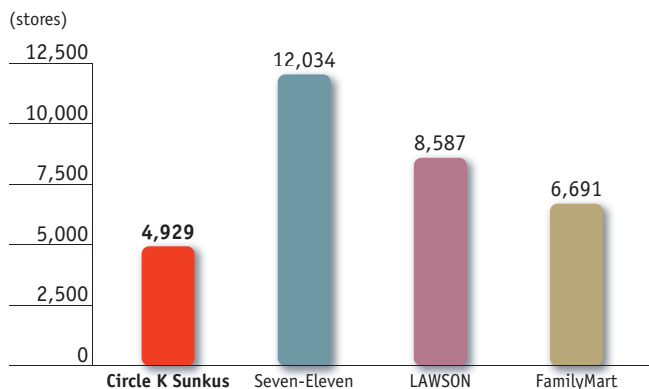
In fiscal 2008, Circle K Sunkus gave top priority to quality in opening new stores. Specifically, the Company reviewed its strategies for opening new stores in each region. In profitable regions, the Company strove to reestablish a dominant presence by focusing investment in new stores in key areas. In regions with lackluster sales, the Company prioritized store relocations over opening new stores. As a result, Circle K Sunkus achieved a measure of success in improving store quality, with average daily sales at newly opened stores improving ¥15,000 from the previous fiscal year to ¥409,000.

Stores Opened/Closed

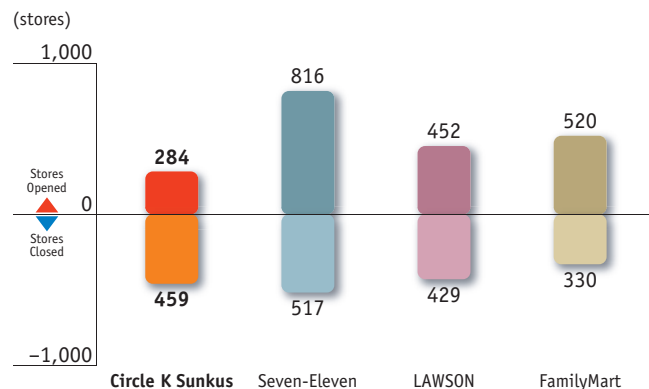
	Fiscal 2006			Fiscal 2007			Fiscal 2008		
	Circle K	Sunkus		Circle K	Sunkus		Circle K	Sunkus	
Stores opened	335	196	139	307	187	119	284	174	110
Stores closed	309	160	149	357	180	177	459	263	196
Stores relocated	82	63	19	103	77	26	98	65	33
Net increase (decrease)	26	36	(10)	(50)	7	(58)	(175)	(89)	(86)
Fiscal year-end	5,154	2,891	2,263	5,104	2,898	2,205	4,929	2,809	2,119

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

Total Number of Stores at Fiscal Year-end

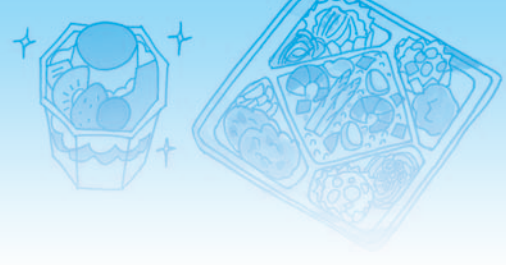


Stores Opened/Closed of Major Convenience Store Chains



Notes: 1. Figures for each convenience store chain represent stores in Japan only, excluding those of consolidated subsidiaries.
2. The total number of stores for the fiscal years ended February 28, 2007 and February 29, 2008 includes one new-concept store.

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



By convenience store chain, average daily sales at new Circle K stores improved ¥8,000 to ¥421,000, while they increased ¥23,000 to ¥389,000 at newly opened Sunkus stores. However, average daily sales at newly opened Sunkus stores were under ¥400,000, partly because we opened fewer new Sunkus stores than planned in the Kanto region, where high sales are expected.

Circle K Sunkus opened stores largely as planned through the first half of fiscal 2008, but the pace dropped in the second half. Consequently, the Company opened 284 stores during fiscal 2008, 36 stores short of target. The number of stores opened by relocating existing stores to better locations within the same market area was 98. In fiscal 2008,

Circle K Sunkus made steady progress with the “Venture Employee System,” which was launched in September 2006 to sign up franchisee candidates. During the fiscal year, seven program participants began operating their own franchised stores. In addition, Circle K Sunkus closed 459 unprofitable and Company-owned stores in fiscal 2008, 102 more stores than in the previous fiscal year. As a result, Circle K Sunkus had a total of 4,929 stores as of February 29, 2008, a net decrease of 175 stores.

In terms of franchise agreement type, Type A stores have been declining in number year by year, whereas Type C stores have been increasing. One main reason is the increasing difficulty in securing locations suited to Type A

Stores by Geographic Region

(stores, percent)

	Fiscal 2008					
	Circle K Sunkus		Circle K		Sunkus	
	Stores	Share	Stores	Share	Stores	Share
Hokkaido	205	4.2%	–	–	205	9.7%
Tohoku	497	10.1%	141	5.0%	356	16.8%
Kanto	1,116	22.7%	215	7.7%	900	42.5%
Chubu · Hokuriku	707	14.3%	707	25.2%	–	–
Chukyo (Aichi, Mie, and Gifu prefectures)	1,421	28.8%	1,236	44.0%	185	8.7%
Kansai	810	16.4%	427	15.2%	383	18.1%
Chugoku	173	3.5%	83	2.9%	90	4.2%
Total	4,929	100.0%	2,809	100.0%	2,119	100.0%
No. of prefectures covered	30	–	21	–	19	–

Types of Franchise Agreement

	Type A		Type C	
	Circle K	Sunkus	Circle K	Sunkus
Franchise agreements	The owner of the facility, who has received franchisee approval, sets up and runs the store with his/her own investment.		The Company rents the property and recruits the store manager separately to run the store.	
Contract period	10 years			
Investments required by franchisees	¥32.3 million		¥7.3 million	
Franchise membership fees	¥7.3 million, borne by franchisees		¥7.3 million, borne by franchisees	
Land, buildings and internal remodeling	¥25.0 million, borne by franchisees		Borne by the Company	
Royalty percentage (Relative to monthly gross profit)	30% on average	31% on average	46% on average	49% on average
A 24-hour subsidy	–	¥100 thousand/month	–	¥100 thousand/month
Utility expenses borne by:	Franchisees			

Note: The average royalty percentage was calculated assuming average daily store sales of ¥468,000 and an average product markup of 28.99% for the year ended February 29, 2008.



agreements. Another reason is that more and more new stores require larger site areas to provide more parking, or locations inside buildings; these locations entail larger investments that are better suited to Type C agreements. Consequently, as Type A store openings dwindle year after year, Type C stores now account for roughly 90% of all new stores. Furthermore, Circle K Sunkus achieved a net year-on-year reduction of 48 Company-owned stores as of the fiscal year-end, by closing 188 of these stores, after their numbers had increased for the past few years.

In fiscal 2009, Circle K Sunkus will continue to open stores with an emphasis on quality, as it strives to implement strategies for opening stores by region to reestablish a dominant presence in key areas. In particular, the Company aims to improve average daily sales at new stores by opening more stores in the profitable Kanto region. Furthermore, in terms of securing volume, the number of outstanding contracts to be signed for new stores was 199 at the beginning of the fiscal year, while 33 program participants in the “Venture Employee System” are expected to begin operating their own franchised stores, which will help us to secure outstanding franchisee candidates. We plan to open 280 stores, including 126 relocations, while closing stores at a normal pace of 260 stores, resulting in a net increase of 20 stores. Consequently, Circle K Sunkus expects to have 4,949 stores as of February 28, 2009.

In fiscal 2008, the major convenience store chains all opened fewer stores than in the previous fiscal year. The convenience store industry as a whole continues to face difficulties in opening new stores, as reflected in net decreases in the number of stores at Circle K Sunkus following a major store closure drive, and smaller net increases at various other major convenience store chains.

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Product Details and Markup Rates

In fiscal 2008, Circle K Sunkus completed vendor and logistics integration in the fast food and perishable food categories. Leveraging this integration, Circle K Sunkus has developed unified brands for original baked goods and desserts, both of which were previously developed independently by Circle K and Sunkus. The concept behind these brands is to develop great-tasting products from scratch by enhancing ingredient quality. Steady sales of these new original brands helped to lift overall perishable food sales 2.2% year on year. In the service category, sports events and cinema tickets, as well as tickets to concerts by popular artists from Japan and abroad, sold well. In addition, sales were extremely strong for *Net Preca*, a service where various prepaid cards are issued online at the points of sale in stores. Consequently, service category sales rose 7.8% year on year.

Number of Stores by Franchise Agreement Type

(stores, percent)

	Fiscal 2006	Fiscal 2007	Fiscal 2008
Type A	1,689	1,498	1,322
Share	32.8%	29.3%	26.8%
Type E	586	543	482
Share	11.4%	10.6%	9.8%
Type C	2,350	2,465	2,575
Share	45.6%	48.3%	52.2%
Company-owned stores	529	598	550
Share	10.3%	11.7%	11.2%

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

Fast food:

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

Perishable food:

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

Processed food:

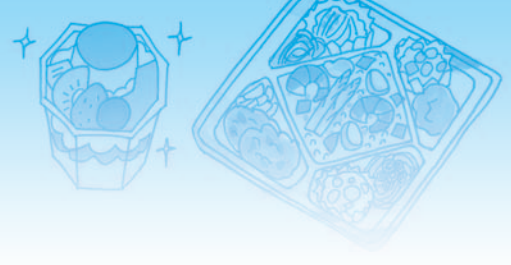
Alcoholic beverages, soft drinks, snacks, instant noodles, ice cream, and dried foods

Non-food items:

Magazines, newspapers, tobacco, cosmetics, general merchandise

Service:

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



However, overall fast food sales decreased 4.0% year on year, reflecting lackluster sales of boxed lunches, baked goods and delicatessen items. In the boxed lunch category, where sales have been declining over the past few years, vendor integration has allowed Circle K Sunkus to develop even better tasting products. The Company has adopted a new saturated vapor food preparation technology using special food preparation equipment and steadily rolled out new boxed lunches in the health-conscious *Balance Shokudo* series as a result. However, due to external factors such as a shift in demand away from rice, these initiatives were unable to lift overall boxed lunch sales in year-on-year terms. In the processed food category, overall sales decreased 2.6% year on year, mainly due to lackluster sales of soft drinks, where sales of tea-based beverages in 500 ml

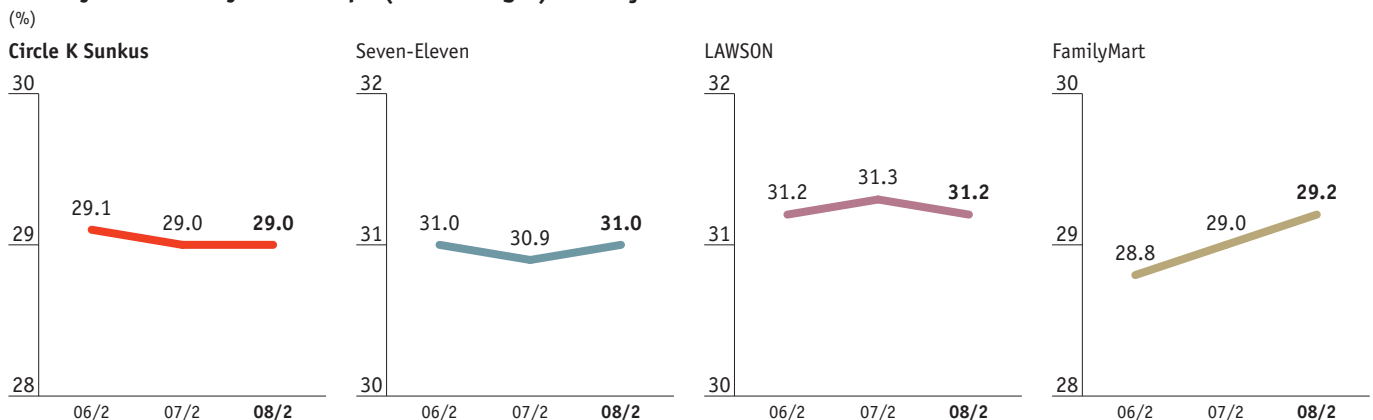
PET bottles were weak, and sluggish overall sales of alcoholic beverages. In the non-food items category, tobacco sales continued to hold firm, increasing 1.4% year on year. However, Circle K Sunkus once again recorded weak sales of general merchandise, cosmetics products and daily necessities in fiscal 2008 due to the impact of discount sales by traditional industry outsiders such as ¥100 discount shops and drug stores. In addition, sales of magazines and other periodicals declined, largely due to Japan's aging society with fewer children and the influence of the Internet. As a result, sales in the non-food items category decreased 1.8% year on year.

As a result, total product sales decreased 1.5% year on year.

Sales by Product and Product Markups

	Fiscal 2006				Fiscal 2007				Fiscal 2008			
	Sales Growth	Share	Markup		Sales Growth	Share	Markup		Sales Growth	Share	Markup	
			Change	Change			Change	Change				
Fast food	0.0%	20.4%	35.3%	0.4%	-4.9%	20.0%	35.7%	0.4%	-4.0%	19.5%	36.0%	0.3%
Perishable food	-0.9%	12.5%	33.5%	0.3%	-0.4%	12.8%	33.7%	0.2%	2.2%	13.3%	34.2%	0.5%
Processed food	-3.6%	32.1%	35.4%	0.7%	-4.1%	31.7%	35.6%	0.2%	-2.6%	31.3%	36.0%	0.4%
Non-food items	0.9%	29.3%	19.2%	-0.2%	0.3%	30.2%	18.5%	-0.7%	-1.8%	30.1%	18.2%	-0.3%
Service	-6.5%	5.7%	7.7%	-0.1%	-10.1%	5.3%	7.7%	0.0%	7.8%	5.8%	6.7%	-1.0%
Total	-1.0%	100.0%	29.05%	0.26%	-2.9%	100.0%	28.97%	-0.08%	-1.5%	100.0%	28.99%	0.02%

Three-year Summary of Markups (Gross Margin) for Major Convenience Store Chains



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



Strong sales of tobacco and services, both of which have low markups, had the effect of reducing the average product markup by 0.55 of a percentage point. However, thanks partly to the benefits of having completed integration in fiscal 2008, product markups improved in the fast food, perishable food and processed food categories by 0.3, 0.5 and 0.4 of a percentage point, respectively. Consequently, the average product markup for fiscal 2008 was 28.99% as planned, improving 0.02 of a percentage point.

For fiscal 2009, Circle K Sunkus is targeting a year-on-year improvement in the average product markup of 0.05 of a percentage point to 29.04%.

Area Franchisers

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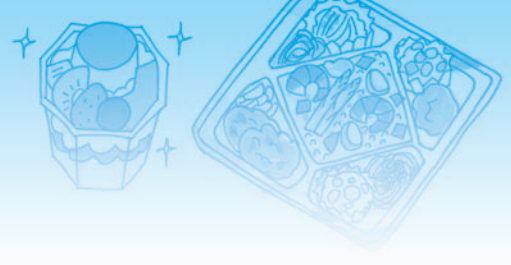
Circle K Sunkus and its area franchisers each develop store networks. The Company establishes area franchisers as joint venture companies with prominent local firms to operate franchised stores in specific regions. Area franchisers receive expertise and guidance from the Company on their respective convenience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

Area Franchisers

(As of February 29, 2008)

Company	Equity interest	Date of agreement	Number of stores (stores)		Sales (millions of yen)		Area license fees (millions of yen)
				Change		Change	
Sunkus Aomori Co., Ltd. *	100.0%	1994. 3.01	63	-7	¥ 8,726	-5.8%	
Sunkus Nishi-Saitama Co., Ltd. *	100.0%	1987. 2.28	75	0	11,520	-0.4%	
SUNKUS KITAKANTO Co., Ltd. *	100.0%	1997. 3.12	35	3	4,884	-0.7%	
Sunkus Nishi-Shikoku Co., Ltd. *	100.0%	1992. 8.27	84	-4	11,743	-7.5%	
Circle K Shikoku Co., Ltd.	35.0%	1996. 5.14	148	-11	23,040	0.2%	
Sunkus Higashi-Saitama Co., Ltd.	19.0%	1988. 7.19	66	0	9,428	1.1%	
Sunkus Tokai Co., Ltd.	19.0%	1989. 9.06	101	2	15,521	2.5%	
Sunkus Keihanna Co., Ltd.	19.0%	1989.10.26	102	-11	17,454	-4.6%	
Sunkus and Associates Higashi-Shikoku Co., Ltd.	19.0%	1995. 1.12	138	3	19,741	-5.1%	
Sunkus Hokulia Corporation	19.0%	1995. 1.24	88	-2	15,579	-1.6%	
Sunkus and Associates Toyama Co., Ltd.	19.0%	1996. 7.02	82	0	13,573	-0.8%	
Minami-Kyushu Sunkus Co., Ltd.	19.0%	1998. 8.21	96	4	13,916	1.8%	
CVS Bay Area Inc.	2.4%	1997. 1.14	132	1	27,565	0.1%	
Total			1,210	-22	¥192,696	-1.6%	¥2,999

* Consolidated subsidiaries



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

As of February 29, 2008, the Circle K Sunkus Group had 13 area franchisers who operated 1,210 stores in 20 prefectures. In fiscal 2008, area franchisers posted sales of ¥192,696 million, down 1.6% year on year.

Consolidated Operating Results for Fiscal 2008

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In fiscal 2008, Circle K Sunkus had six consolidated subsidiaries, with the inclusion of 99 ICHIBA Co., Ltd., an operator of small fresh food supermarkets.

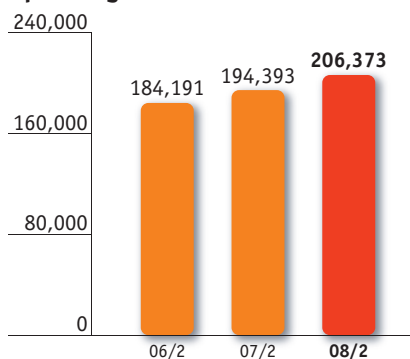
Sales at Circle K and Sunkus proper, including franchised stores, declined 1.0% to ¥902,424 million, despite the sales contribution from the newly consolidated subsidiary. Sales decreased due to the opening of 40 fewer stores than planned, closure of 102 stores more than in fiscal 2007, and weak existing store sales.

The Company's operating revenue is drawn from franchise commissions from franchised stores, license fees from area franchisers, net sales of Company-owned stores and other operating revenue. Franchise commissions from franchised stores declined 1.3% year on year as a result of a net decrease of 131 stores and weaker sales. Nonetheless, net sales of Company-owned stores climbed 16.7% year on year to ¥92,475 million, reflecting an increase in the number of Company-owned stores, the inclusion of total store sales of ¥5,507 million from newly consolidated subsidiary 99 ICHIBA Co., Ltd., and a year-on-year increase of ¥759 million in operating revenue of ZERO NETWORKS Co., Ltd. Consequently, operating revenue increased 6.2% to ¥206,373 million.

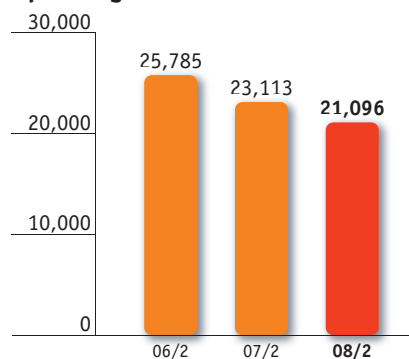
Consolidated Operating Results

(millions of yen)

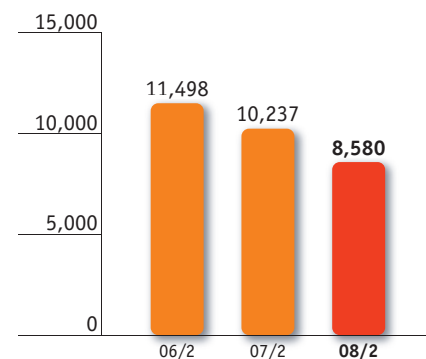
Operating revenue



Operating income



Net income





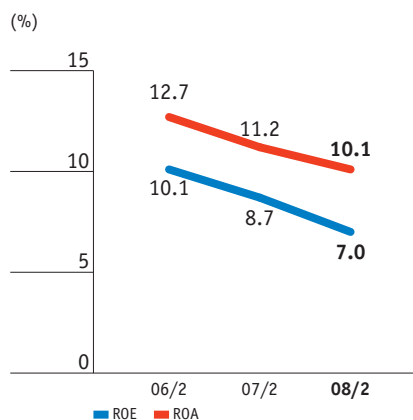
Consolidated selling, general and administrative (SG&A) expenses increased 3.4% year on year to ¥114,663 million, partly due to the inclusion of a newly consolidated subsidiary. The main factors behind higher SG&A expenses were an increase of 6.1% in personnel expenses due to an increase in the number of participants in the “Venture Employee System” for signing up and nurturing franchisee candidates, as well as sales promotion and advertising expenses, which rose 2.1% year on year because of aggressive spending on sales promotions to boost sales at franchised stores. Moreover, rental and lease expenses rose 2.2% year on year despite the decline in lease expenses following the end of the lease period for the store information system currently in use. This was mainly attributable to higher rental and lease expenses due to an increase in the number of Type C franchise agreement stores, rising rents and the impact of expansion in parking space. Management consignment fees also rose in year-on-year terms in line with an increase in the number of stores under consigned management. As a result, consolidated operating income decreased 8.7% to ¥21,096 million.

In fiscal 2008, Circle K Sunkus closed 102 more stores than in the previous fiscal year on a consolidated basis, resulting in a large increase in spending on store closures. The loss on sales or disposal of property and equipment

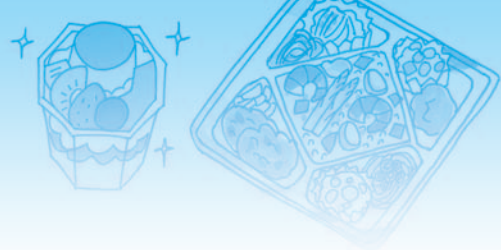
increased 104.3% to ¥1,843 million, while the loss on cancellation of lease contracts rose 56.4% to ¥3,384 million. Meanwhile, the Company booked an impairment loss on fixed assets of ¥2,716 million, down 14.3% year on year. In addition, the Company posted a gain of ¥1,339 million on the return of the substitutional portion of the employees’ pension fund for employees of the former SUNKUS & ASSOCIATES INC. Consequently, income before income taxes and minority interests fell 17.1% to ¥15,240 million and net income dropped 16.2% to ¥8,580 million. Net income per share amounted to ¥102.43, down 14.6% from the previous fiscal year.

Looking at projections for fiscal 2009, Circle K Sunkus expects sales at Circle K and Sunkus proper, including franchised stores, to decrease 0.5% to ¥898,280 million and operating revenue to decline 0.1% to ¥206,160 million, mainly because it will begin fiscal 2009 with a net 149 fewer stores due to the mass closure of stores in fiscal 2008. In fiscal 2009, Circle K Sunkus expects large capital investments related to the introduction of a new store information system and new services. Consequently, SG&A expenses are projected to increase 3.3%. As a result, operating income is projected to fall 19.4% to ¥17,000 million, while net income for fiscal 2009 is projected to decrease 22.8% to ¥6,620 million.

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



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



Consolidated Subsidiaries

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In fiscal 2008, Circle K Sunkus had six consolidated subsidiaries comprising four area franchisers; ZERO NETWORKS Co., Ltd., which is contracted to conduct original ATM operations; and 99 ICHIBA Co., Ltd., which operates small fresh food supermarkets.

Sales of the above four area franchisers were down 4.1% year on year due to intensifying competition, but their operating profitability was better than forecast, resulting in a smaller operating loss. ZERO NETWORKS began installing "Bank Time" ATMs at stores in the Kansai region in fiscal 2008, bringing the number of original ATMs installed at stores to 2,475 as of February 29, 2008. Supported by growing public awareness, steady increase in usage of these ATMs, and lower-than-planned SG&A expenses, ZERO NETWORKS achieved profitability in fiscal 2008, posting operating income of ¥165 million. Meanwhile, 99 ICHIBA Co., Ltd. opened 35 stores on schedule in fiscal 2008, increasing its number of stores to 52 at the fiscal year-end. 99 ICHIBA achieved a large increase in sales based on this net growth in stores, but fell short of target. Product markups were also below target mainly due to surging prices for fresh fruit and vegetables. Consequently, 99 ICHIBA's operating income was lower than expected in fiscal 2008.

In fiscal 2009, the four area franchisers are projecting an operating loss of ¥124 million because of an increase in SG&A expenses in line with the full-scale capital investments related to introducing the new store sales system. ZERO NETWORKS is forecasting an operating loss of ¥138 million based on higher SG&A expenses for reinforcing sales promotion and advertising initiatives in the six Kansai region prefectures, where full-fledged installation of ATMs is under way. 99 ICHIBA plans to increase the pace of store openings with the planned opening of 46 stores in fiscal 2009. 99 ICHIBA expects a smaller operating loss than in fiscal 2008 based on a projected 115% net sales increase in line with the planned net increase in the number of stores.

From fiscal 2009, DO NEXT INC., a planner, developer and operator of logistics, production and information systems for convenience stores, will become a subsidiary accounted for by the equity method. The company is wholly owned by Circle K Sunkus Co., Ltd.

Business Performance of Consolidated Subsidiaries

(stores, millions of yen)

	Fiscal 2008			Fiscal 2009 (Forecast)		
	Four area franchisers total	ZERO NETWORKS	99 ICHIBA	Four area franchisers total	ZERO NETWORKS	99 ICHIBA
Stores opened	20	–	35	29	–	46
Stores closed	28	–	1	16	–	6
Fiscal year-end	257	–	52	270	–	92
Total store sales	¥36,874	–	¥5,507	¥38,050	–	¥11,843
Total operating revenue	7,811	¥4,774	5,510	7,829	¥5,548	11,843
Operating income (loss)	(14)	165	(491)	(124)	(138)	(214)

Reference: Circle K Sunkus' consolidated subsidiaries are listed below. 99 ICHIBA Co., Ltd. became a consolidated subsidiary in fiscal 2008, bringing the number of consolidated subsidiaries to six.

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



Consolidated Financial Position

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Total current assets increased ¥5,733 million from the previous fiscal year-end to ¥94,244 million. This mainly reflected an increase of ¥1,806 million in cash and cash equivalents, a component of liquidity on hand, as well as a ¥3,000 million joint monetary investment trust for investment purposes recorded under short-term investments.

Net property and equipment rose ¥1,035 million from the previous fiscal year-end to ¥47,355 million. This mainly reflects an increase of ¥2,441 million in buildings and structures, as Type C franchise agreements, where Circle K Sunkus supplies new stores for franchisees, now account for more than 90% of all new stores.

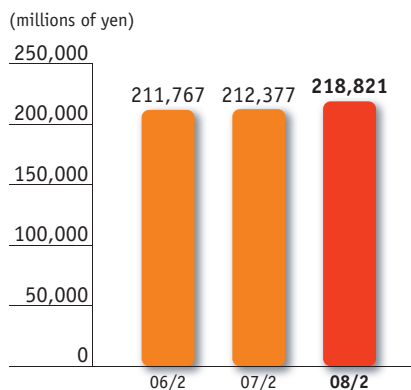
Investments and other assets decreased ¥324 million from a year earlier to ¥77,222 million. This was mainly because of a decrease of ¥1,596 million in long-term leasehold deposits, and a drop of ¥527 million in investments in and long-term loans to unconsolidated subsidiaries and affiliates, reflecting a decrease in the number of stores following a mass closure of stores. However, software increased ¥797 million from a year earlier due to software development for new POS registers installed during fiscal 2008 and for new services.

Total current liabilities rose ¥2,365 million from a year ago to ¥78,451 million. This mainly reflected an increase of ¥2,990 million in money held as agent 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.

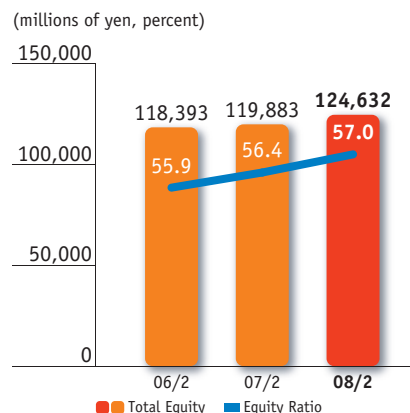
Total long-term liabilities decreased ¥670 million from a year earlier to ¥15,738 million. This mainly reflected a decline of ¥1,671 million in the employee retirement benefit liability due to the return of the substitutional portion of the employees' pension fund for employees of the former SUNKUS & ASSOCIATES INC.

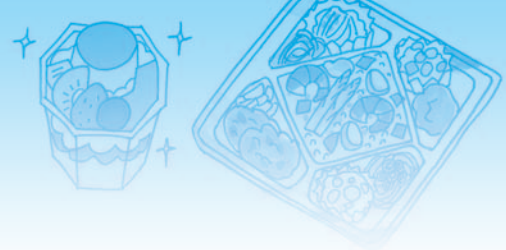
Total equity increased ¥4,749 million to ¥124,632 million. This change was attributable to an increase of ¥5,019 million in retained earnings from a year earlier, which reflected net income of ¥8,580 million, despite payments of ¥3,264 million for dividends. Consequently, the equity ratio was 57.0%, and total equity per share was ¥1,487.72.

Total Liabilities and Equity



Total Equity/Equity Ratio





Capital Expenditures

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In fiscal 2008, total investments rose ¥7,457 million to ¥34,697 million. Investments in new stores were ¥1,975 million less than in the previous fiscal year partly due to a decrease in store leases in process. This was despite opening 11 more stores than in fiscal 2007 due to the increase in stores opened by consolidated subsidiary 99 ICHIBA Co., Ltd. Furthermore, investments in systems increased ¥2,010 million from the previous fiscal year, mainly reflecting the installation of new point-of-sales (POS) systems at all stores. This was accompanied by an increase of ¥7,971 million in corresponding leasing expenditures.

Looking ahead to fiscal 2009, Circle K Sunkus is expecting a large increase in system investments because of the planned installation of new Store Communications Servers, fiber-optic cable, new in-store multimedia terminals and other innovations. Accordingly, the Company is budgeting for total capital expenditures of ¥42,800 million, ¥8,103 million more than in fiscal 2008.

Consolidated Cash Flows

In fiscal 2008, operating activities provided net cash of ¥21,262 million, ¥1,561 million more than in the previous fiscal year. This was mainly attributable to increases of

¥941 million in loss on sales or disposal of property and equipment, ¥643 million in trade payables, and ¥966 million in money held as agent. These increases were partially offset by a decrease of ¥3,147 million in income before income taxes and minority interests.

Net cash used in investing activities was ¥15,791 million, ¥582 million more than in the previous fiscal year. This was mainly attributable to the payment of ¥3,000 million for the acquisition of marketable securities for short-term investment purposes.

Consequently, free cash flow, which is net cash provided by operating activities minus net cash used in investing activities, amounted to ¥5,471 million, ¥979 million more than in the previous fiscal year.

Financing activities used net cash of ¥4,168 million, ¥5,689 million less than in the previous fiscal year. This mainly reflected dividends paid of ¥3,264 million and a decrease in guarantee deposits received of ¥1,614 million due to the repayment of guarantee deposits upon closing stores.

Consequently, as of February 29, 2008, cash and cash equivalents were ¥66,763 million, ¥1,806 million higher than a year earlier.

Capital Expenditures

(millions of yen)

	2006/2	2007/2	2008/2	2009/2 (Forecast)
New store investments	¥12,977	¥14,990	¥13,015	¥12,703
Existing store investments	2,014	2,339	3,008	1,437
System investments	1,742	2,392	4,402	12,515
Head office investments	733	1,498	280	435
Capital expenditures < 1 >	17,466	21,219	20,705	27,090
Leasing expenditures < 2 >	4,221	6,021	13,992	15,710
Total investments < 1+2 >	21,687	27,240	34,697	42,800
Depreciation and amortization	7,426	6,694	6,804	7,759

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.



Returning Profits to Shareholders

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

In fiscal 2008, Circle K Sunkus declared interim and year-end dividends of ¥20 per share, both of which were ¥1 more than in the previous fiscal year. As a result, the annual dividend for fiscal 2008 was ¥40 per share. Despite its increasingly challenging business environment, Circle K Sunkus has decided to increase its dividend, as it regards enhancing shareholder returns as an important management priority. Circle K Sunkus also projects an annual dividend for fiscal 2009 of ¥40 per share, despite the projected earnings decline.

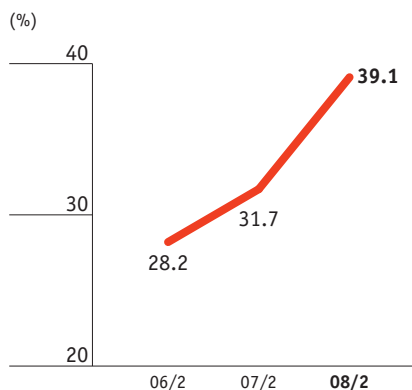
Retained earnings will be earmarked for investments related to store information systems, and for investments in developing new stores, revitalizing existing ones, and procuring product displays and other equipment for new products.

Outlook

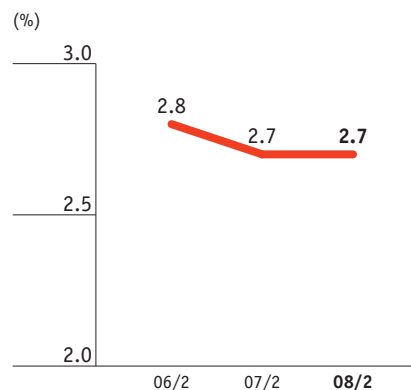
The convenience store industry faces an increasingly challenging business environment and Japan's society is experiencing constant change. Pressing issues faced by Circle K Sunkus include lackluster sales due to lower customer footfall and changes in its earnings structure.

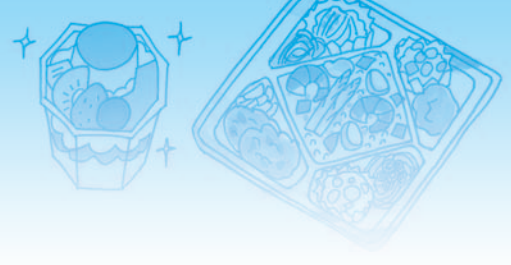
Against this backdrop, Circle K Sunkus formulated a new medium-term management plan beginning in fiscal 2009. Under this plan, while maintaining its emphasis on quality, the Company will work to build a stronger earnings structure by strengthening its sales capabilities and transforming its earnings (cost) structure across a diverse array of operations. Furthermore, while driving future sales and earnings growth and making large investments in introducing new services, Circle K Sunkus aims to increase its corporate value through the pursuit of low-cost operations and greater return on investments.

Dividend Payout Ratio



Ratio of Dividends to Total Equity





The Company's first step in fiscal 2009, the first fiscal year of the medium-term management plan, was a bold reorganization. Because Circle K Sunkus believes that a stronger focus on regions and individual stores is crucial to rising above the increasingly intense competition, it newly established regional divisions. By promoting regional strategies and managing earnings by region under this new organization, the Company aims to speed up operations to generate stronger results. The *Yume WAKU2* project was launched in March 2008 to bring Circle K Sunkus employees and franchised stores together to develop stores that are better appreciated by customers. This project is part of efforts to offer "true value to customers." Coinciding with the launch of a newly designed joint uniform for Circle K and Sunkus stores in June, Circle K Sunkus plans to take steps to enhance its brand image in many ways. On the product development front, Circle K Sunkus aims to develop and foster new flagship products from scratch, while continuing to provide reliable, safe and great-tasting products. Circle K Sunkus will also work even harder than before to capture synergies with the UNY Group, with the aim of enhancing profitability. Furthermore, Circle K Sunkus will begin making large investments in advanced services. Beginning with the full-scale launch of ATM services in the Kansai region, the Company will successively install multi-use copy machines from April and in-store multimedia terminals from August 2008.

Earnings are projected to decrease in the first and second fiscal years of the medium-term management plan because of increased spending related to the above innovations. However, Circle K Sunkus aims to return to a growth trajectory by fiscal 2011, the plan's final fiscal year, by transforming its earnings structure.

Business Risks

The Circle K Sunkus Group's Risk Management Guidelines set forth Company-wide risks that, if they materialize, may impede efforts to achieve Group-wide objectives. Three major risk areas have been identified: (1) reliability of financial reporting; (2) compliance with laws and regulations concerning business activities; and (3) business activities. As of February 29, 2008, the Group recognizes the following five areas as major risks associated with the aforementioned "(3) business activities." Circle K Sunkus will make every effort to prevent these kinds of events from occurring and to respond promptly if they occur. However, an unforeseen event could have an impact on the Circle K Sunkus Group's operating results and financial position.

[1] Food Product Safety

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



[2] Information Systems

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

[3] Litigation

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

[4] Area Franchisers

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

[5] Disasters and Other Factors

The Group defines disasters as natural disasters such as earthquakes and typhoons, terrorist acts, and crimes targeting companies. The Group believes that convenience stores have an important role to play in society in the event of such 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 changes in the natural environment such as unseasonable weather.

CONSOLIDATED BALANCE SHEETS

Circle K Sunkus Co., Ltd. and its subsidiaries
February 29, 2008 and February 28, 2007

ASSETS	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Current assets:			
Cash and cash equivalents	¥ 66,763	¥ 64,957	\$ 641,952
Short-term investments (Note 4)	3,000	-	28,846
Accounts receivable:			
Due from franchised stores (Note 5)	3,208	3,404	30,846
Other	9,697	9,300	93,240
	12,905	12,704	124,086
Inventories	2,542	2,490	24,442
Deferred tax assets (Note 16)	1,051	867	10,106
Prepaid expenses and other current assets	8,331	7,889	80,106
Allowance for doubtful accounts	(348)	(396)	(3,346)
Total current assets	94,244	88,511	906,192
Property and equipment (Notes 6 and 7):			
Property and equipment, at cost	83,125	81,118	799,279
Less, accumulated depreciation	(35,770)	(34,798)	(343,942)
Net property and equipment	47,355	46,320	455,337
Investments and other assets:			
Investment securities (Note 4)	4,033	4,554	38,779
Investments in and long-term loans to unconsolidated subsidiaries and affiliates (Note 8)	801	1,328	7,702
Long-term leasehold deposits	54,185	55,781	521,010
Software	3,844	3,047	36,962
Goodwill	58	144	557
Deferred tax assets (Note 16)	4,160	3,645	40,000
Other (Notes 7 and 11)	11,629	10,501	111,817
Allowance for doubtful accounts	(1,488)	(1,454)	(14,308)
Total investments and other assets	77,222	77,546	742,519
Total assets	¥218,821	¥212,377	\$2,104,048

See accompanying Notes to Consolidated Financial Statements.



	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable:			
Trade	¥ 36,089	¥ 36,470	\$ 347,010
Due to franchised stores (Note 9)	2,496	2,672	24,000
Other	5,863	5,739	56,375
	44,448	44,881	427,385
Income taxes payable	3,304	3,618	31,769
Money held as agent	26,631	23,641	256,067
Other current liabilities	4,068	3,946	39,115
Total current liabilities	78,451	76,086	754,336
Long-term liabilities:			
Guarantee deposits received	11,096	11,753	106,692
Employee retirement benefit liability (Note 11)	709	2,380	6,817
Other long-term liabilities	3,933	2,275	37,818
Total long-term liabilities	15,738	16,408	151,327
Commitments and Contingent liabilities (Notes 13, 14 and 15):			
Equity (Note 12):			
Common stock:			
Authorized: 180,000,000 shares in 2008 and 2007			
Issued: 86,183,226 shares in 2008 and 2007	8,380	8,380	80,577
Capital surplus	36,094	36,094	347,058
Retained earnings	84,636	79,617	813,808
Less, treasury stock, at cost:			
2,425,708 shares in 2008 and 2,423,589 shares in 2007	(5,026)	(5,021)	(48,327)
Total shareholders' equity	124,084	119,070	1,193,116
Other components of equity	524	813	5,038
Minority interests	24	0	231
Total equity	124,632	119,883	1,198,385
Total liabilities and equity	¥218,821	¥212,377	\$2,104,048

CONSOLIDATED STATEMENTS OF INCOME

Circle K Sunkus Co., Ltd. and its subsidiaries
For the Years Ended February 29, 2008 and February 28, 2007

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Operating revenue:			
Franchise commissions from franchised stores	¥101,388	¥102,710	\$ 974,885
Net sales of Company-owned stores	92,475	79,246	889,183
Other operating revenue	12,510	12,437	120,288
	206,373	194,393	1,984,356
Operating costs and expenses (Note 17):			
Cost of goods sold	70,614	60,359	678,981
Selling, general and administrative expenses	114,663	110,921	1,102,529
	185,277	171,280	1,781,510
Operating income	21,096	23,113	202,846
Other income (expenses):			
Interest and dividend income	675	557	6,490
Interest expenses	(44)	(42)	(423)
Loss on sales or disposal of property and equipment	(1,843)	(902)	(17,721)
Loss on cancellation of lease contracts	(3,384)	(2,164)	(32,539)
Gain on returning of substitutional portion of Employee Pension Fund (Note 2(1))	1,339	-	12,875
Impairment loss on fixed assets (Note 7)	(2,716)	(3,170)	(26,115)
Miscellaneous, net (Note 4)	117	995	1,125
	(5,856)	(4,726)	(56,308)
Income before income taxes and minority interests	15,240	18,387	146,538
Income taxes (Note 16)	6,762	8,150	65,019
Minority interests in losses of consolidated subsidiaries	(102)	(0)	(981)
Net income	¥ 8,580	¥ 10,237	\$ 82,500
	Yen	U.S. Dollars	
Per share:			
Net income	¥102.43	¥119.92	\$0.98
Cash dividends	40.00	38.00	0.38

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Circle K Sunkus Co., Ltd. and its subsidiaries
For the Years Ended February 29, 2008 and February 28, 2007

	Millions of Yen									
	Shareholders' equity						Other components of equity			
	Number of common shares issued	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gain on available-for-sale securities	Total other components of equity	Minority interests	Total equity
Balance at February 28, 2006	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 in 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)
Balance at February 28, 2007	86,183,226	8,380	36,094	79,617	(5,021)	119,070	813	813	0	119,883
Net income	-	-	-	8,580	-	8,580	-	-	-	8,580
Cash dividends	-	-	-	(3,266)	-	(3,266)	-	-	-	(3,266)
Decrease in retained earnings through inclusion of additional subsidiaries in consolidation	-	-	-	(295)	-	(295)	-	-	-	(295)
Net change in treasury stock	-	-	-	-	(5)	(5)	-	-	-	(5)
Changes other than shareholders' equity for the year	-	-	-	-	-	-	(289)	(289)	24	(265)
Balance at February 29, 2008	86,183,226	¥8,380	¥36,094	¥84,636	¥(5,026)	¥124,084	¥ 524	¥ 524	¥24	¥124,632

	Thousands of U.S. Dollars									
Balance at February 28, 2007	\$ 80,577	\$ 347,058	\$ 765,548	\$ (48,279)	\$ 1,144,904	\$ 7,817	\$ 7,817	\$ 0	\$ 1,152,721	
Net income	-	-	82,500	-	82,500	-	-	-	82,500	
Cash dividends	-	-	(31,404)	-	(31,404)	-	-	-	(31,404)	
Decrease in retained earnings through inclusion of additional subsidiaries in consolidation	-	-	(2,836)	-	(2,836)	-	-	-	(2,836)	
Net change in treasury stock	-	-	-	(48)	(48)	-	-	-	(48)	
Changes other than shareholders' equity for the year	-	-	-	-	-	(2,779)	(2,779)	231	(2,548)	
Balance at February 29, 2008	\$80,577	\$347,058	\$813,808	\$(48,327)	\$1,193,116	\$5,038	\$ 5,038	\$231	\$1,198,385	

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Circle K Sunkus Co., Ltd. and its subsidiaries
For the Years Ended February 29, 2008 and February 28, 2007

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 15,240	¥ 18,387	\$ 146,538
Adjustments for:			
Depreciation and amortization	7,260	7,889	69,808
Impairment loss on fixed assets	2,716	3,170	26,115
Loss on sales or disposal of property and equipment	1,843	902	17,721
Loss on cancellation of lease contracts	1,512	986	14,538
Decrease (increase) in trade receivables	178	(348)	1,712
Decrease (increase) in inventories	18	(305)	173
Decrease in trade payables	(714)	(1,357)	(6,865)
Increase (decrease) in other accounts payable and accrued expenses	42	(398)	404
Increase in money held as agent	3,132	2,166	30,115
Decrease in employee retirement benefit liabilities	(1,558)	(133)	(14,981)
Other, net	(1,237)	(1,397)	(11,894)
Subtotal	28,432	29,562	273,384
Interest and dividends received	417	344	4,010
Interest paid	(3)	(3)	(29)
Income taxes paid	(7,584)	(10,202)	(72,923)
Net cash provided by operating activities	21,262	19,701	204,442
Cash flows from investing activities:			
Acquisition of property and equipment	(9,615)	(10,468)	(92,452)
Acquisition of long-term investments and other assets	(3,567)	(6,972)	(34,298)
Proceeds from sales of property, long-term investments and other assets	1,171	3,476	11,260
Payments for long-term leasehold deposits	(6,271)	(7,318)	(60,298)
Proceeds from redemption of long-term leasehold deposits	5,462	5,235	52,519
Increase in cash through acquisition of consolidated subsidiary (Note 3)	-	116	-
Net (increase) decrease in short-term investments	(3,000)	700	(28,846)
Other	29	22	279
Net cash used in investing activities	(15,791)	(15,209)	(151,836)
Cash flows from financing activities:			
Repayment of long-term debt	-	(227)	-
Net decrease in short-term borrowings	-	(218)	-
Proceeds from guarantee deposits received	714	815	6,865
Repayments for guarantee deposits received	(1,614)	(1,942)	(15,519)
Dividends paid	(3,264)	(3,274)	(31,385)
Purchase of treasury stock	(5)	(5,007)	(48)
Other	1	(4)	10
Net cash used in financing activities	(4,168)	(9,857)	(40,077)
Net increase (decrease) in cash and cash equivalents	1,303	(5,365)	12,529
Cash and cash equivalents at beginning of year	64,957	68,803	624,587
Increase in cash and cash equivalents upon inclusion of additional subsidiaries in consolidation	503	1,519	4,836
Cash and cash equivalents at end of year	¥ 66,763	¥ 64,957	\$ 641,952

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Circle K Sunkus Co., Ltd. and its subsidiaries
For the Years Ended February 29, 2008 and February 28, 2007

1. Basis of Consolidated Financial Statements

(a) Basis of presenting consolidated financial statements

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

(b) Principal shareholder

UNY CO., LTD. ("UNY") directly owned 40,746 thousand shares of common stock of the Company at February 29, 2008, which represented 48.8% of the total voting interests of the Company at the balance sheet date. UNY also has significant influence over the Company. Accordingly, the Company is a subsidiary of UNY.

(c) U.S. dollar amounts

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing approximate exchange rate at February 29, 2008, which was ¥104 to U.S.\$1.00. The translation should not be construed as a representation that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

(d) Reclassification

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2007 financial statements to conform to the classifications used in 2008.

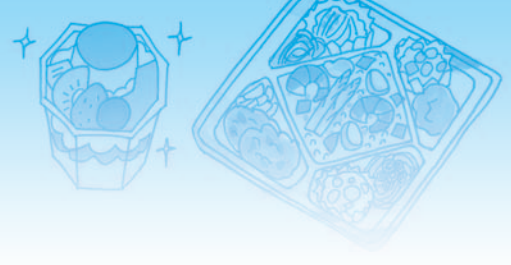
2. Summary of Significant Accounting Policies

(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 29, 2008 and February 28, 2007 was as follows:

	2008	2007
Consolidated subsidiaries	6	5
Unconsolidated subsidiaries, stated at cost	6	7
Affiliates, stated at cost	9	9



(b) Franchise agreement and basis of recognizing franchise commissions

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

For the years ended February 29, 2008 and February 28, 2007, net sales, which were reported by franchised stores as a calculation basis for franchise commissions, were ¥814,407 million (\$7,830,837 thousand) and ¥835,868 million, respectively.

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

As a normal course of franchise operation, the Company generally acquires furniture, fixtures and equipment designed for Circle K stores and Sunkus stores or leases them as lessee under long-term noncancelable lease agreements (See Note 13). The Company also leases land and/or buildings for its own Company-owned stores or the franchised stores as lessee principally under long-term cancelable lease agreements with a few months’ advance notice. The Company pays the landlords leasehold deposits, equivalent to approximately several months’ rent, 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 agreements, the Company also enters into lease agreements, as lessor, with each franchisee to lease land and/or buildings for the store spaces. These leases are normally for the same term as the franchise agreement, and the guarantee deposits received from franchised stores, which are included in “Guarantee deposits received” in the accompanying consolidated balance sheets, are refundable (the major portion) on an installment basis and are noninterest bearing.

(c) Area franchise agreements

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 fees are included in “Franchise commission from franchised stores” in the accompanying consolidated statements of income.

(d) Cash equivalents

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

(e) Inventories

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



(f) Investments and marketable securities

The Circle K Sunkus Group classifies certain investments in debt and equity securities as “held-to-maturity,” “trading” or “available-for-sale.” The classification determines the respective accounting method as stipulated by the accounting standard for financial instruments. Marketable securities with market quotations for available-for-sale securities are stated at fair value, and net unrealized gains or losses on these securities are reported as a component of equity, net of applicable income taxes. Gains and losses on the disposition of marketable securities are computed by the moving average method. Non-marketable 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

The allowance for doubtful accounts is provided for at the aggregate amount of estimated credit loss based on the financial review approach for individual 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 are depreciated by the declining balance method at rates based on the estimated useful life of the asset, except that buildings acquired on and after April 1, 1998 are depreciated by the straight-line method. The aggregate capitalized expenditure for property of not less than ¥100,000 but below ¥200,000 is amortized over a three-year period by the straight-line method.

In accordance with the amendment of the Corporation Tax Law of Japan, effective for the fiscal year ended February 29, 2008, the Company and its consolidated subsidiaries have changed the depreciation method for property and equipment acquired on or after April 1, 2007 to the method pursuant to the amended Corporation Tax Law of Japan. As a result, operating income and income before income tax and minority interests for the year ended February 29, 2008 were each ¥142 million (\$1,365 thousand), less than what would have been recorded under the previous accounting 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

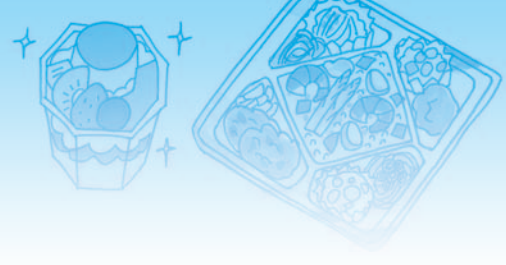
With regard to financing leases that do not transfer ownership of the leased property to the lessee during the term of the lease, the leased property is not capitalized and the relating rental and lease expenses are charged to income as incurred, as provided by the “Opinion Concerning Accounting Standard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

(j) Software

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

(k) Impairment of fixed assets

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



(l) Employee retirement benefit liability

Employees who terminate their service with the Circle K Sunkus Group are entitled to retirement and severance benefits determined by 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 (together, the “UNY” Group), including the Company. 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 the actuarial present value of projected benefit obligation using an actuarial appraisal approach and the value of pension plan assets available for benefits at the fiscal year-end. Unrecognized actuarial differences arising from the projected benefit obligation or pension plan assets being different from that assumed or from changes in assumptions are amortized on a straight-line basis over eight to ten years, a period within the remaining service years of the employees, from the next year in which they arise. Unrecognized past service costs are amortized on a straight-line basis over ten years, a period within the remaining service years of the employees.

Until August 31, 2007, the employees who transferred from SUNKUS & ASSOCIATES INC. (“SUNKUS”) on the occasion of the merger were covered by the same noncontributory welfare pension plan or qualified pension plan as the plans organized by SUNKUS.

In conjunction with the Defined Benefit Enterprise Pension Plan Law, the Company, as a member of the noncontributory welfare pension plan organized by SUNKUS, received approval from the Minister of Health, Labor and Welfare of Japan for exemption from payment of future benefits regarding the substituted portion of the employee welfare pension fund on July 29, 2005 and received approval for returning the assets relating to the substituted portion of the employee welfare pension fund on September 1, 2007. The Company then recognized an extinguishment of the retirement benefit obligation with respect to such substituted portion during the year ended February 29, 2008. As a result, the Company recorded ¥1,339 million (\$12,875 thousand) as other income on the consolidated statements of income for the year ended February 29, 2008. The Company also received approval from the Minister of Health, Labor and Welfare of Japan to transfer from the employee welfare pension fund plan to a corporate pension fund plan.

(m) Directors’ bonuses

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

From the year ended February 28, 2007, the Circle K Sunkus Group has adopted the “Accounting Standard for Directors’ Bonus (ASBJ Statement No. 4)” issued by ASBJ on November 29, 2005. The standard requires that directors’ bonuses, including those for corporate auditors, shall be accounted for as an expense in 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 were each ¥47 million less the year ended February 28, 2007 than they would have been under the previous accounting method.

(n) Allowance for incentive points

Effective from the fiscal year ended February 29, 2008, an allowance for incentive points granted to members of KARUWAZA CLUB, which is the Company’s original club for customers, is provided in the amount estimated for the future use of incentive points, as a reasonable estimation has become available. Until the fiscal year ended February 28, 2007, such costs were recorded at the time the points were used.

As a result, operating income and income before income taxes and minority interests for the year ended February 29, 2008 were each ¥80 million (\$769 thousand) less than they would have been under the previous accounting method.

(o) Allowance for debt guarantees

The allowance for debt guarantees is provided to prepare for losses arising from the fulfillment of debt guarantees in an amount estimated based on the financial condition of the parties’ provided guarantees and other factors.



(p) 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.

(q) 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 the "Practical Solution on Presentation for Corporate Size-Based Portion of Corporate Business Tax on Income Statement" (ASBJ, Report of Practical Issues No. 12).

(r) Consumption tax

The consumption tax imposed on the Circle K Sunkus Group's revenues from customers is withheld at the time the revenue is received and subsequently is paid 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.

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

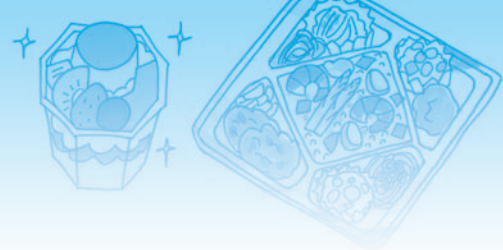
ASBJ issued the "Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Statement No. 5)" and Implementation Guidance "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Guidance No. 8)" on December 9, 2005, and are effective for the year ending on and after May 1, 2006. The standard requires the presentation of the equity section in the balance sheet be similar to that required by 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.

(t) Appropriation of retained earnings

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

(u) Per share data

Net income per share is computed by dividing income available to common shareholders by the weighted average number of shares of common stock outstanding during the respective years. Diluted net income per share is not disclosed because the Circle K Sunkus Group had no diluted common shares for the years ended February 29, 2008 or February 28, 2007. Cash dividends per share shown for each fiscal year in the accompanying consolidated statements of income represent dividends declared as applicable to the respective years.



3. Acquisition

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. 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
Current assets	¥ 906
Noncurrent assets	1,650
Goodwill	97
Current liabilities	(1,590)
Noncurrent liabilities	(450)
Common stock owned by the Company	(10)
Acquisition cost	603
Cash and cash equivalents held by Sunkus Nishi-Shikoku	(719)
Increase in cash presented on the accompanying consolidated statements of cash flows	¥ (116)

4. Investments

At February 29, 2008, short-term investments consisted of a joint money trust.

At February 29, 2008 and February 28, 2007, investment securities consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Marketable securities:			
Equity securities	¥1,856	¥2,401	\$17,846
Bonds	1,959	1,905	18,837
Total marketable securities	3,815	4,306	36,683
Other non-marketable securities	218	248	2,096
	¥4,033	¥4,554	\$38,779



During the years ended February 29, 2008 and February 28, 2007, the Circle K Sunkus Group recorded a loss on the write-down of available-for-sale securities and investments in unconsolidated subsidiaries and affiliates due to a permanent diminution in value in the amounts of ¥19 million (\$183 thousand) and ¥228 million, respectively. This loss is reflected in the accompanying consolidated statements of income.

Marketable securities are classified as available-for-sale and are stated at fair value with unrealized gains and losses excluded from current earnings and reported as a net amount in an equity account until realized. At February 29, 2008 and February 28, 2007, gross unrealized gains and losses for marketable securities were summarized as follows:

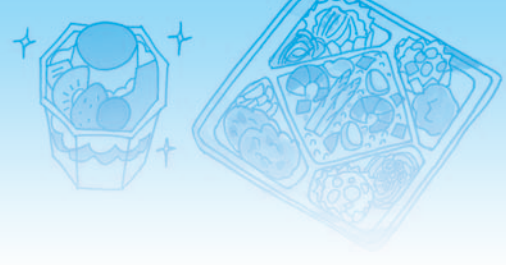
	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
Millions of Yen				
At February 29, 2008:				
Marketable securities:				
Equity securities	¥ 938	¥ 961	¥ (43)	¥1,856
Bonds	2,000	–	(41)	1,959
	¥2,938	¥ 961	¥ (84)	¥3,815

At February 28, 2007:				
Marketable securities:				
Equity securities	¥ 945	¥1,466	¥ (10)	¥ 2,401
Bonds	2,000	–	(95)	1,905
	¥ 2,945	¥1,466	¥(105)	¥ 4,306

Thousands of U.S. Dollars				
At February 29, 2008:				
Marketable securities:				
Equity securities	\$ 9,019	\$9,240	\$(413)	\$17,846
Bonds	19,231	–	(394)	18,837
	\$28,250	\$9,240	\$(807)	\$36,683

At February 29, 2008, expected maturities of available-for-sale debt securities were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due in one year or less	¥3,000	\$28,846
Due after one year through five years	1,959	18,837
	¥4,959	\$47,683



5. Accounts Receivable: Due from Franchised Stores

Under franchise agreements, the Company as franchiser and the consolidated subsidiaries as area franchisers are responsible for providing architectural and designing services with respect to the respective franchised store facilities, for training of franchisee personnel, and for the centralized processing of invoices from suggested vendors of merchandise and 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 of all franchised stores, pays the amounts payable to the vendors on behalf of the franchised stores. When the merchandise is received by each franchised store, the Circle K Sunkus Group records the cost of the merchandise in "Accounts receivable: Due from franchised stores" account, since such costs will be subsequently recovered from the respective franchise stores.

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

6. Property and Equipment

At February 29, 2008 and February 28, 2007, property and equipment consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Land	¥ 8,816	¥ 8,945	\$ 84,769
Buildings and structures	57,550	55,109	553,366
Machinery, equipment and vehicles	189	197	1,817
Furniture and fixtures	15,561	16,023	149,625
Construction in progress	1,009	844	9,702
	83,125	81,118	799,279
Less, accumulated depreciation	(35,770)	(34,798)	(343,942)
	¥ 47,355	¥ 46,320	\$ 455,337



7. Impairment of Fixed Assets

For the purpose of recognition and measurement of 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 whether assets are impaired based on an analysis of significant downturns in the fair value of land, the schedules of closing stores and the ongoing operating losses of stores. An impairment loss is recognized if undiscounted expected cash flows are less than the carrying amount of an asset. Recoverable amounts of assets were measured based on their net selling prices primarily from appraisal valuations or amounts of operating cash flows discounted by interest rates of 8.1% and 6.3% for the years ended February 29, 2008 and February 28, 2007, respectively.

For the years ended February 29, 2008 and February 28, 2007, the Circle K Sunkus Group recognized an impairment loss on fixed assets of ¥2,716 million (\$26,115 thousand) and ¥3,170 million respectively as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Convenience stores:			
Land	¥ 523	¥ 348	\$ 5,029
Buildings and structures	1,297	1,202	12,471
Furniture, fixtures and equipment	141	113	1,356
Leased property and equipment	624	1,206	6,000
Other	131	301	1,259
Total	¥2,716	¥3,170	\$26,115

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

At February 29, 2008 and February 28, 2007, investments in and long-term loans to unconsolidated subsidiaries and affiliates consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Investments in:			
Unconsolidated subsidiaries and affiliates, stated at cost	¥768	¥1,281	\$7,385
Interest-bearing long-term loans	33	47	317
	¥801	¥1,328	\$7,702

9. Accounts Payable: Due to Franchised Stores

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

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."

10. Short-term Borrowings and Long-term Debt

No short-term borrowings or long-term debt were recorded at February 29, 2008 or February 28, 2007.

11. Employee Retirement Benefits

The following table reconciles the benefit obligation and net periodic retirement benefit expense as of and for the years ended February 29, 2008 and February 28, 2007:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Projected benefit obligation	¥ 9,877	¥13,327	\$ 94,971
Fair value of pension plan assets at end of year	(8,849)	(9,949)	(85,087)
Project benefit obligation in excess of pension plan assets	1,028	3,378	9,884
Less, unrecognized actuarial differences (loss)	(1,754)	(1,980)	(16,865)
Unrecognized past service costs	1,435	869	13,798
	709	2,267	6,817
Prepaid pension cost	-	113	-
Total amounts of employee retirement benefit liability recognized on the consolidated balance sheets	¥ 709	¥ 2,380	\$ 6,817

Note: Prepaid pension cost was included in "Other" in investments and other assets in the accompanying balance sheet for the year ended February 28, 2007.

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Component of net periodic retirement benefit expense:			
Service cost	¥ 626	¥ 621	\$ 6,019
Interest cost	225	248	2,164
Expected return on pension plan assets	(362)	(347)	(3,481)
Amortization of actuarial differences	387	445	3,721
Amortization of past service costs	(148)	(120)	(1,423)
Net periodic retirement benefit expense	¥ 728	¥ 847	\$ 7,000

Major assumptions used in the calculation of the above information for the years ended February 29, 2008 and February 28, 2007 were as follows:

	2008	2007
Method attributing the projected benefits to periods of services	Straight-line method	Straight-line method
Discount rate	2.0%	2.0%
Expected rate of return on pension plan assets	4.0%	4.0%
Amortization of unrecognized actuarial differences	8 to 10 years	8 to 10 years
Amortization of unrecognized past service costs	10 years	10 years



12. Equity

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

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

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

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

At February 29, 2008 and February 28, 2007, capital surplus principally consisted of additional paid-in capital. In addition, retained earnings included legal reserve of the Company in the amount of ¥688 million (\$6,615 thousand) at February 29, 2008 and ¥688 million at February 28, 2007.

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

At the annual shareholders’ meeting held on May 21, 2008, the shareholders approved cash dividends amounting to ¥1,675 million (\$16,106 thousand). Such appropriations have not been accrued in the consolidated financial statements as of February 29, 2008 and are recognized in the period in which they are approved by the shareholders.

13. 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))

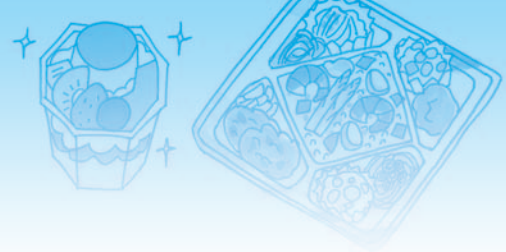
As disclosed in Note 2 (i), the leased property for non-cancelable financing leases of the Circle K Sunkus Group is not capitalized as permitted by the accounting standard for leases of Japan. If the leased property of the Company had been capitalized, the related accounts would have been increased (decreased) at February 29, 2008 and February 28, 2007 as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Property and equipment, net of accumulated depreciation ^{*1}	¥26,436	¥20,791	\$254,192
Lease obligations as liabilities ^{*2}	27,852	22,455	267,807
Allowance for impairment loss on leased property	(915)	(1,151)	(8,798)
Net effect on retained earnings at year-end	¥ (501)	¥ (513)	\$ (4,817)

Additionally, for the years ended February 29, 2008 and February 28, 2007, income before income taxes and minority interests would have decreased by ¥12 million (\$115 thousand) and increased by ¥20 million, respectively.

Notes: ^{*1}. Pro forma depreciation of the leased property is computed by the straight-line method over the term of the lease, 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 term of the lease.



Future minimum payments for non-cancelable finance leases, excluding the imputed interest, and operating leases at February 29, 2008 and February 28, 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Finance leases:			
Due within one year	¥ 7,737	¥ 7,263	\$ 74,394
Due after one year	20,115	15,192	193,414
	¥27,852	¥22,455	\$267,808
Operating leases:			
Due within one year	¥ 691	¥ 1,018	\$ 6,644
Due after one year	310	699	2,981
	¥ 1,001	¥ 1,717	\$ 9,625

14. Contingent Liabilities

At February 29, 2008 and February 28, 2007, contingent liabilities in respect of guarantees of indebtedness of unconsolidated subsidiaries and affiliates, franchisees and others amounted to ¥3,766 million (\$36,212 thousand) and ¥3,771 million, respectively.

15. Derivative Instruments

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

16. Income Taxes

Income taxes for the years ended February 29, 2008 and February 28, 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Income taxes:			
Current	¥7,265	¥7,933	\$69,856
Deferred	(503)	217	(4,837)
	¥6,762	¥8,150	\$65,019



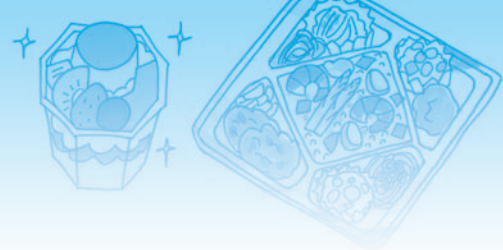
The tax effects on temporary differences that give rise to a significant portion of deferred tax assets at February 29, 2008 and February 28, 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Deferred tax assets:			
Enterprise tax accruals	¥ 279	¥ 296	\$ 2,683
Allowance for doubtful accounts	620	610	5,962
Accrued bonus	311	346	2,990
Depreciation	142	64	1,365
Employee retirement benefit liability	285	959	2,741
Impairment loss on fixed assets	2,200	1,970	21,154
Long-term deferred income	1,042	307	10,019
Write-down of investment securities	413	407	3,971
Long-term deferred credit	484	524	4,654
Other	1,128	384	10,846
Less, valuation allowance	(1,340)	(807)	(12,885)
	5,564	5,060	53,500
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(353)	(548)	(3,394)
	(353)	(548)	(3,394)
Net deferred tax assets	¥ 5,211	¥4,512	\$ 50,106

In assessing the realizability of deferred tax assets, management of the Circle K Sunkus Group considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which these temporary differences become deductible. At February 29, 2008 and February 28, 2007, 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 realized.

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 29, 2008 and February 28, 2007 was as follows:

	Percentage of pre-tax income	
	2008	2007
Japanese statutory effective tax rate	40.27%	40.28%
Increase (decrease) due to:		
Permanently nondeductible expenses	1.02	0.74
Tax exempt income	(0.25)	(0.11)
Local minimum taxes per capita levy	1.28	1.22
Change in valuation allowance	2.43	2.75
Other	(0.38)	(0.56)
Effective income tax rate	44.37%	44.32%



17. Additional Income Statement Information

Additional income statement information for the years ended February 29, 2008 and February 28, 2007 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Payroll and remuneration expenses	¥21,935	¥20,675	\$210,913
Advertising expenses	11,084	10,859	106,577
Depreciation	6,729	6,695	64,702
Utility expenses	2,435	2,314	23,413
Rental and lease expenses	48,716	47,656	468,423
Amortization of goodwill	75	123	721

18. Related Party Transactions

During the years ended February 29, 2008 and February 28, 2007, 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 29, 2008 and February 28, 2007 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Cost on disposal of store equipment	¥ -	¥ 16	\$ -
Cost on disposal of leased equipment	61	15	587
Acceptance of commercial paper	23,995	5,999	230,721

19. Segment Information

The primary business of the Circle K Sunkus Group is the management of stores and franchise operations in respect to the Circle K and Sunkus convenience store chains. Segment information is not shown because the Circle K Sunkus Group operated predominantly in a single industry during the years ended February 29, 2008 and February 28, 2007.



INDEPENDENT AUDITORS' REPORT



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

We have audited the accompanying consolidated balance sheet of Circle K Sunkus Co., Ltd. (the "Company") and its consolidated subsidiaries as of February 29, 2008, and the related consolidated statements of income, shareholders' equity and cash flows for the year then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits. The consolidated financial statements of Circle K Sunkus Co., Ltd. and its consolidated subsidiaries as of February 28, 2007 and 2006, were audited by other auditors who have ceased operations and whose report dated May 23, 2007, expressed an unqualified opinion on those statements.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Circle K Sunkus Co., Ltd. and its consolidated subsidiaries as of February 29, 2008, 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended February 29, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

KPMG AZSA & Co.
Nagoya, Japan
May 21, 2008

THE UNY GROUP

(As of February 20, 2008)

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)
- Sun Reform Co., Ltd. (reform and repair)

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



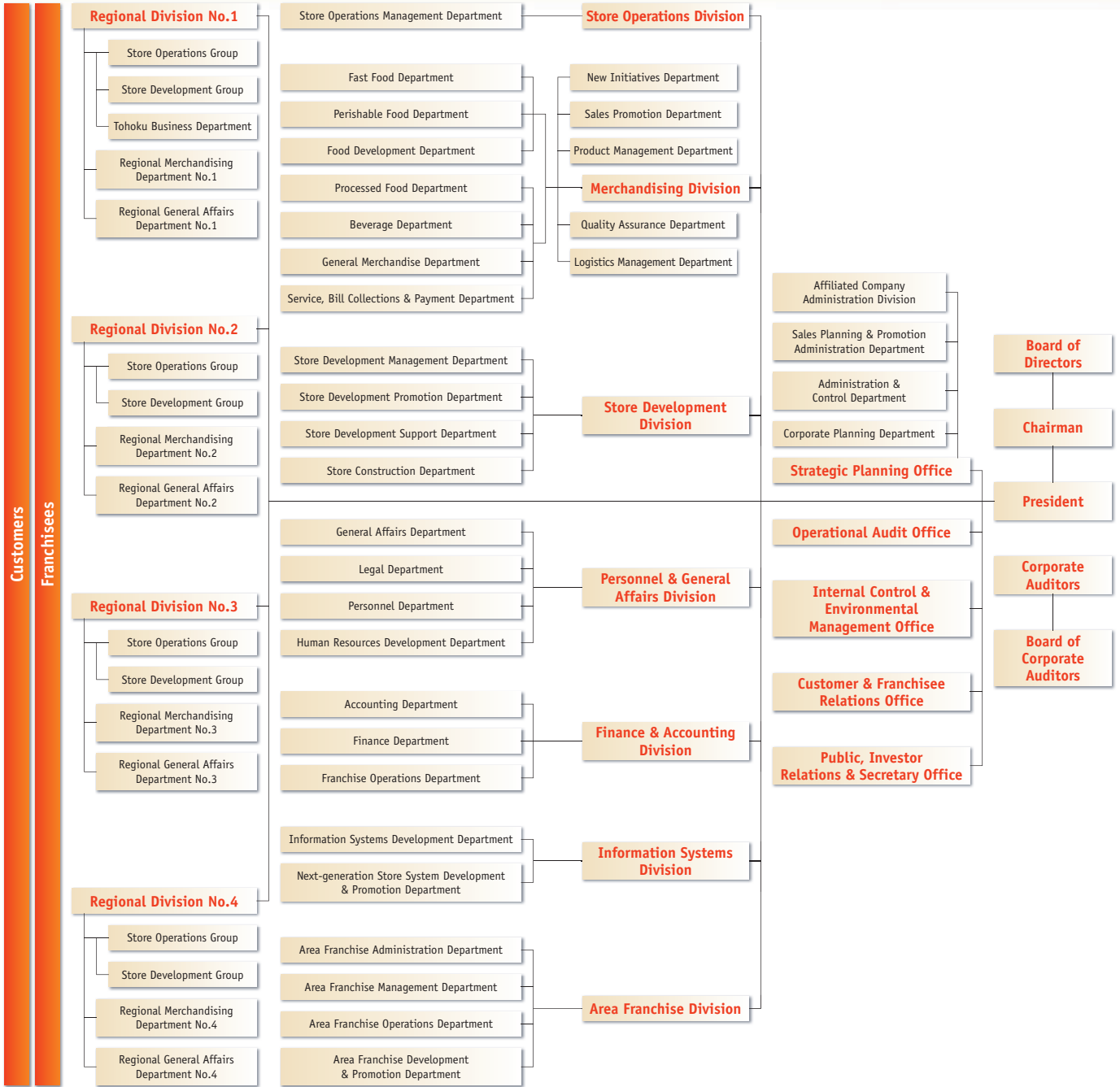
An APITA general merchandise store operated by UNY Co., Ltd.



Products under the original UUCS brand were jointly developed by UNY Group companies based on the concept of offering high-quality products at inexpensive prices. In this manner, the UNY Group is working to capture synergies.

ORGANIZATION

(As of March 1, 2008)



INVESTOR INFORMATION

(As of February 29, 2008)

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

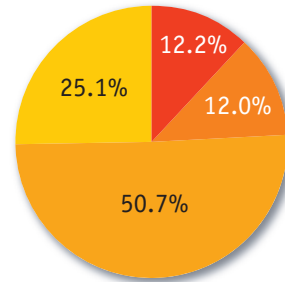
The Sumitomo Trust and Banking Co., Ltd.

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

Number of shareholders

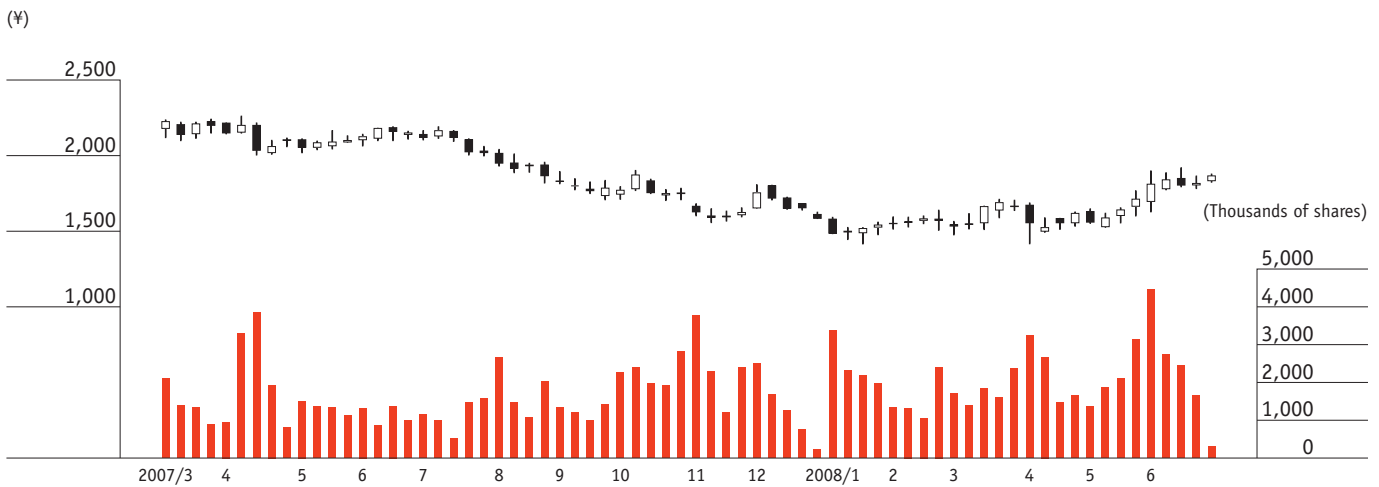
21,331

Breakdown by type of investors



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

Stock price/Turnover



CORPORATE DATA

(As of February 29, 2008)

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

1,738 (non-consolidated)

Business activities

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

Total store sales

¥1,052,737 million (Figure includes area franchisers.)

Number of stores

6,139 (Figure includes 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.
99 ICHIBA Co., Ltd.

Circle K Sunkus Co., Ltd.

Harumi Center Bldg., 2-5-24 Harumi, Chuo-ku,
Tokyo 104-8538, Japan
Telephone: +81-3-6220-9000

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



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Printed in Japan