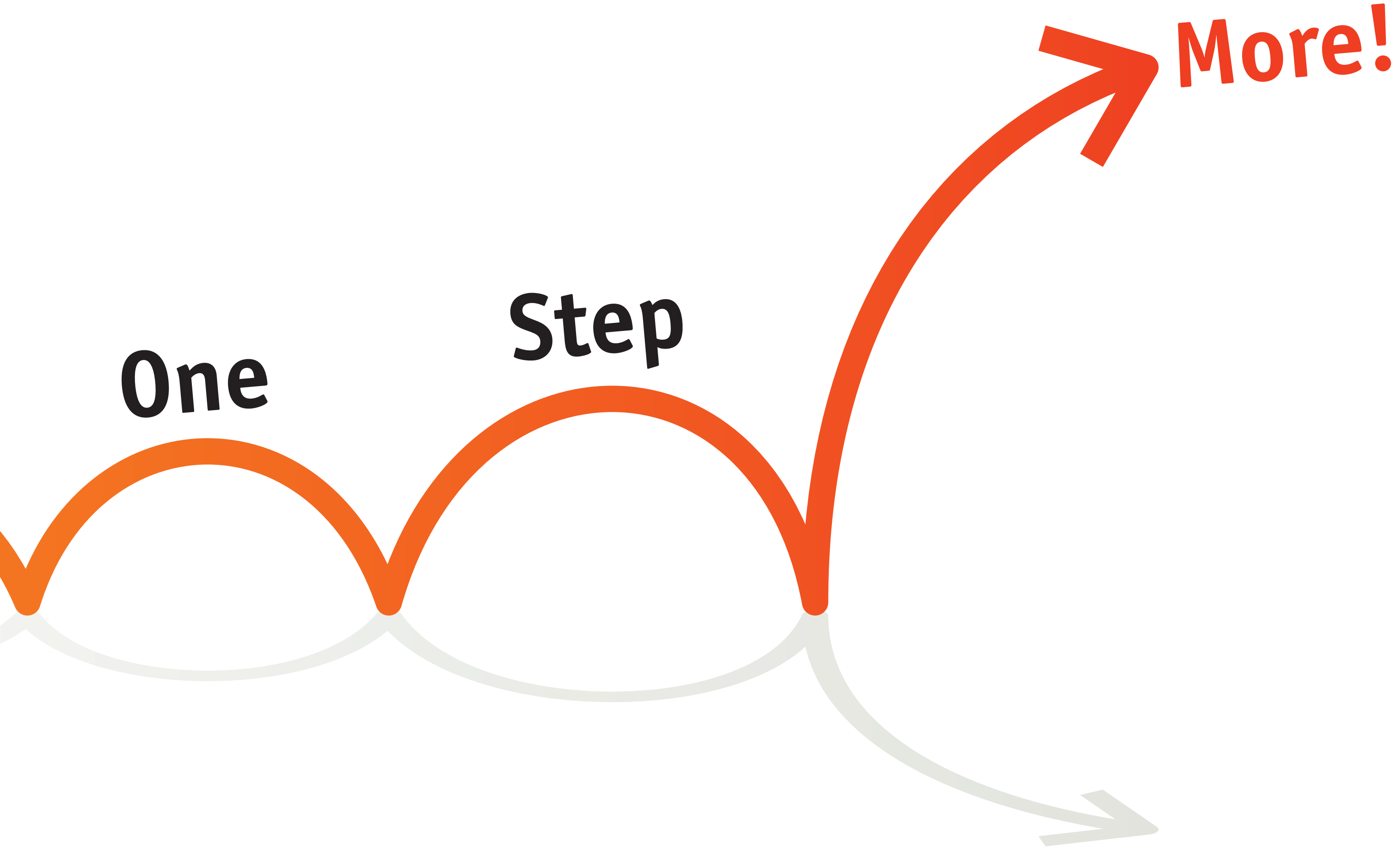
CircleKSunkus

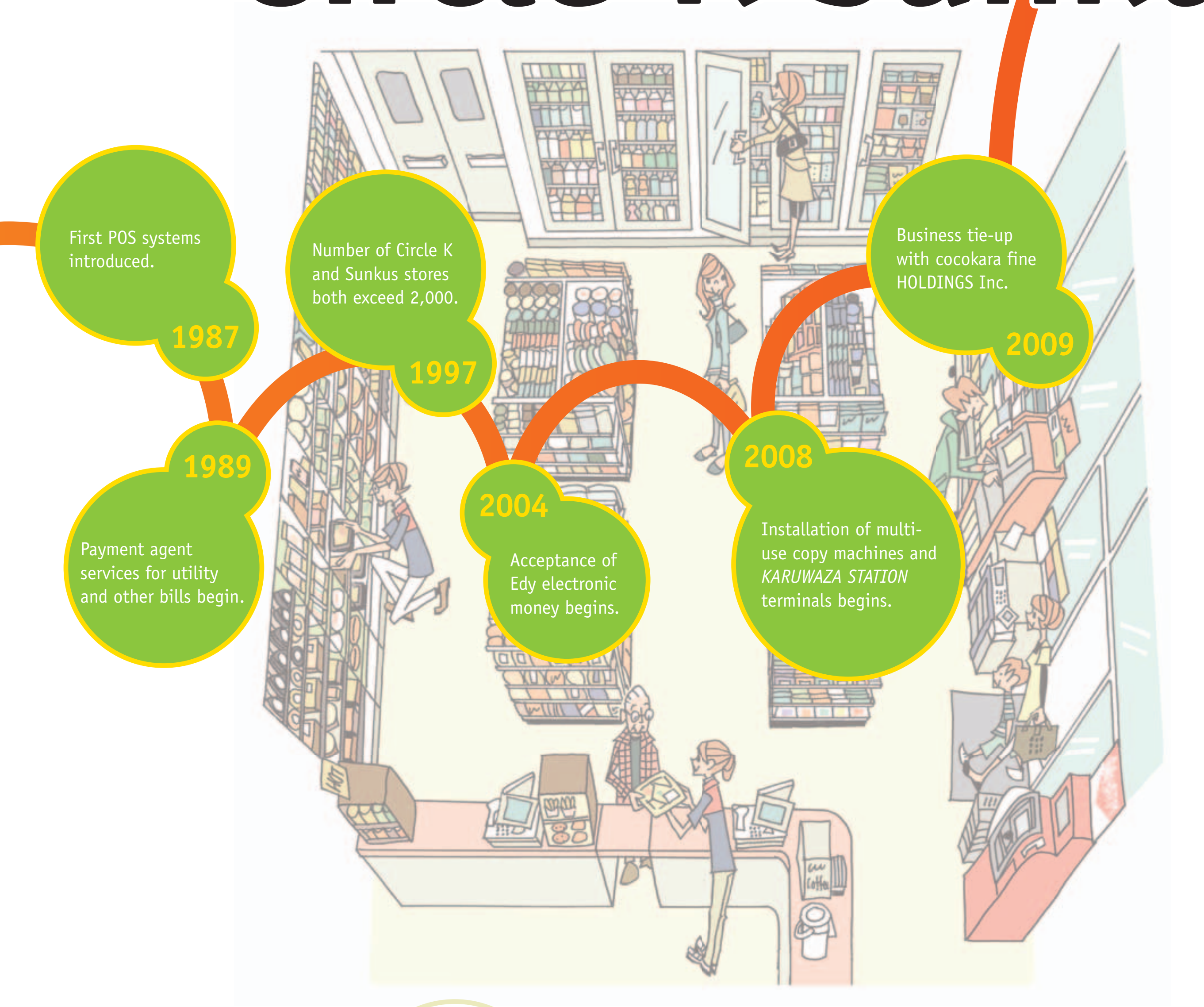


Annual Report 2010

For the fiscal year ended February 28, 2010

OPENING FEATURE:

Circle K Sunkus



1987 First POS systems introduced.

1989 Payment agent services for utility and other bills begin.

1997 Number of Circle K and Sunkus stores both exceed 2,000.

2004 Acceptance of Edy electronic money begins.

2008 Installation of multi-use copy machines and *KARUWAZA STATION* terminals begins.

2009 Business tie-up with cocokara fine HOLDINGS Inc.

30th Anniversary

30th!

In 2010, Circle K Sunkus celebrates the 30th anniversary of opening its first Circle K and Sunkus stores. Going forward, Circle K Sunkus will remain an operator of convenience store chains that address the needs of the times.

1980 OPEN!!

First Circle K store

First Sunkus store

Today

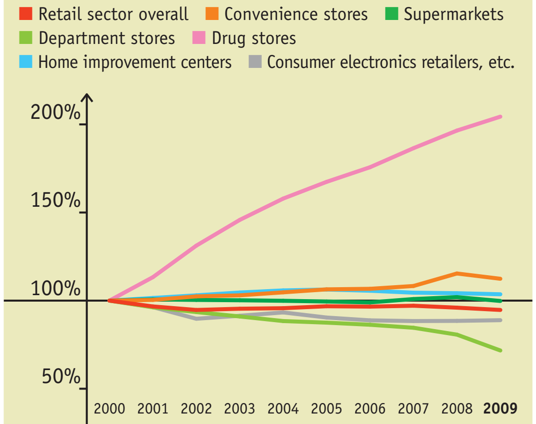
Circle K Sunkus will never stop rising to new challenges. We will actively and boldly embrace new ideas and new approaches to flexibly address changes in Japan's social structure, including its aging population with fewer births, and the accompanying diversification of customer needs.

Recent Developments in Japan's Retail Market in the Context of an Aging Population With Fewer Births

Japan's population has been aging rapidly, and has been seeing fewer births. Currently, senior citizens aged 65 or older account for one in five Japanese*, even as the birth rate continues to decline. In this context, Japan's retail market as a whole has remained in gradual decline since peaking out in 1996.

Since 2000, the market has been expanding in the convenience store, drug store and home improvement center sectors. On the other hand, the market has contracted in the department store and consumer electronics retailer sectors, leading to disparity among retail formats in terms of the growth potential for each market. The underlying factors behind this trend include changes in the number and composition of households, including more senior-citizen and single-person households, as well as fewer households made up of young adults under the age of 30 due to the declining birth rate. Another factor is the shifting lifestyles accompanying these changes.

Sales Growth Rate By Retail Format (*2000=100%)



Source: Prepared by Circle K Sunkus based on information from Japan Association of Chain Drug Stores, Japan DIY Industry Association, and commercial sales statistics reports by the Ministry of Economy, Trade and Industry.

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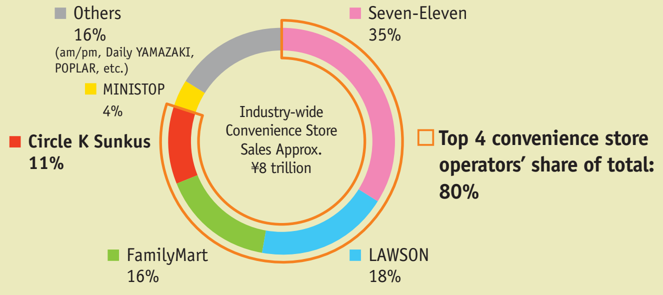
*Source: Annual Report on the Aging Society, Cabinet Office Director-General for Policies on Cohesive Society

The Convenience Store Industry —Increasingly Dominated by Major Convenience Store Chains

Market Share of Various Convenience Store Operators (Non-consolidated Basis)



Source: Prepared by Circle K Sunkus based on financial reports issued by each company for the fiscal year ended February 28, 2010.

The convenience store industry has become increasingly dominated by the top four convenience store operators. By the fiscal year ended February 28, 2010, the market share of the top four convenience store operators had expanded to account for 80% of industry-wide sales. For its part, Circle K Sunkus commands a market share of 11%, making it the industry's fourth largest convenience store operator.

Aiming to Develop Entirely New Convenience Stores

Eyeing future growth, Circle K Sunkus will develop new types of convenience stores never seen before by developing new store formats through collaboration with different business sectors and other measures.

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.

Contents

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

Consolidated Financial Highlights

Circle K Sunkus Co., Ltd.
Years ended February 28, 2010 and 2009, February 29, 2008 and February 28, 2007 and 2006.

	Millions of Yen					Thousands of U.S. Dollars
	2010	2009	2008	2007	2006	2010
For the year:						
Total store sales	¥902,318	¥940,232	¥902,424	¥911,282	¥919,825	$10,138,404
Operating revenue	194,143	213,398	206,373	194,393	184,191	2,181,382
Operating income	15,200	23,010	21,096	23,113	25,785	170,787
Income before income taxes and minority interests	10,781	17,956	15,240	18,387	19,858	121,135
Net income	5,555	9,435	8,580	10,237	11,498	62,416
At year–end:						
Total assets	224,844	222,305	218,821	212,377	211,767	2,526,337
Total equity	132,832	130,656	124,632	119,883	118,393	1,492,494
	Yen					U.S. Dollars
Financial indicators:						
Return on equity (ROE)	4.2%	7.4%	7.0%	8.7%	10.1%	–
Shareholders' equity ratio	59.1%	58.8%	57.0%	56.4%	55.9%	–
Net income per share	66.32	112.65	102.43	119.92	132.77	0.75
Dividends per share	40.00	40.00	40.00	38.00	38.00	0.45
Dividend payout ratio	60.3%	35.5%	39.1%	31.7%	28.2%	–
Shareholders' equity per share	1,585.98	1,559.97	1,487.72	1,431.27	1,373.59	17.82
Number of stores:						
Circle K	2,861	2,846	2,809	2,898	2,891	
Sunkus	2,097	2,093	2,119	2,205	2,263	
Consolidated four area franchisers	276	263	257	265	146	
99 ICHIBA	68	61	52	–	–	
Total	5,302	5,263	5,238	5,369	5,300	

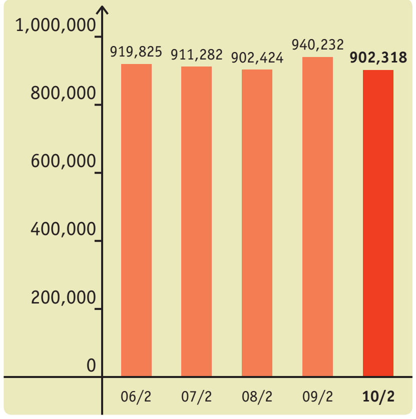
Notes: 1. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥89 to U.S.$1, the rate of exchange at February 28, 2010.

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, six consolidated subsidiaries in the fiscal year ended February 29, 2008 and February 28, 2009 and seven consolidated subsidiaries in the fiscal year ended February 28, 2010.

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

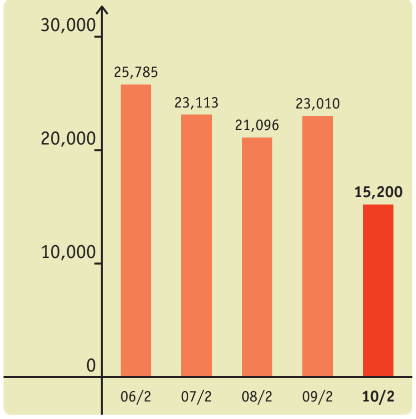
Total Store Sales

(Millions of Yen)



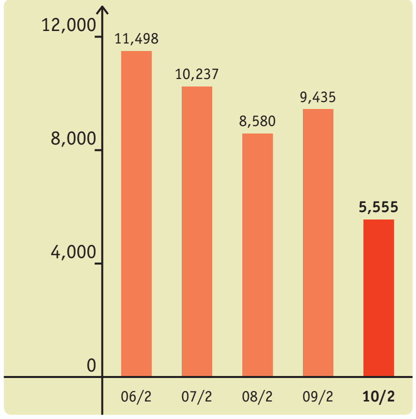
Operating Income

(Millions of Yen)



Net Income

(Millions of Yen)



To Our Shareholders and Other Investors

In an increasingly challenging business environment, we believe that now is the time for all of us to transform Circle K Sunkus with fresh ideas. We will actively embrace challenges that only Circle K Sunkus can accomplish as we ensure that franchisees and Head Office work as one to expand each other's earnings.

Motohiko Nakamura,
President

Review of the Fiscal Year Ended February 28, 2010

Circle K Sunkus' management policy for the fiscal year ended February 28, 2010 was "Challenge and Action." Under the mantra of "Let Go and Change," we tackled many different challenges. With the introduction of *KARUWAZA STATION* in-store multimedia terminals in August 2009, we successfully completed the large-scale system investments implemented since the fiscal year ended February 28, 2008 and have further expanded our lineup of services. We also produced positive results on other fronts. For example, we opened our first stores in Fukuoka Prefecture; launched franchisee support measures such as the "Franchised Store Staffing System"; and implemented the "listening" initiative to directly convey the views and proposals of franchisees to management. We also formed a business tie-up with a partner in a different business sector, in our first step to develop entirely new convenience stores. Progress was also made with the inefficiency reduction measures I have promoted since my appointment as president. Here, the entire Company worked as one to rigorously enforce inefficiency reduction measures, resulting in substantial cost reductions.

Despite these positive results, Circle K Sunkus recorded weak sales overall, mainly due to generally lackluster consumer spending, preferences for low prices, and intensifying competition with different business sectors. Weather-related factors, such as an extended rainy season and a mild summer, were also responsible. From July 2009, tobacco sales decreased due to the end of a boost from the introduction of so-called "taspo card systems" (age-verifying IC card systems installed in cigarette vending machines). Consequently, existing store sales declined 5.6% year on year on a non-consolidated basis. Overall, selling, general and administrative (SG&A) expenses were reduced far below plan, despite substantially higher costs incurred in relation to new information systems and service equipment rolled out until the previous fiscal year. However, these cost reductions were not enough to make up for decreased operating gross profit in line with weak net sales, resulting in a year-on-year decline in earnings.

Management Policy for the Fiscal Year Ending February 28, 2011: "Everyone Should Think and Act Together"

The convenience store industry as a whole continues to face difficult sales conditions. Industry-wide, existing store sales have been in decline since June 2009, mainly reflecting weak consumer spending and the impact of deflation. The fiscal year ending February 28, 2011 will be a crucial year for ensuring that Circle K Sunkus remains competitive. However, rather than being discouraged by our current conditions, I believe that these difficult and challenging times provide an opportunity for all of us to transform Circle K Sunkus with fresh ideas.

Circle K Sunkus' management policy for the fiscal year ending February 28, 2011 is that everyone should think and act together. I believe that it is important for all members of Circle K Sunkus to align their strengths and collectively think about what must be done to stage a comeback—and take action. The keywords of our management policy are "visualize" and "enjoy." We will make the priorities and issues faced by Circle K Sunkus clearly "visible" in terms of concrete figures as we collectively think about challenges and resolve issues as rapidly as possible. "Enjoy" expresses the need for us to return to basics, and for all of us to "enjoy" the process of working together to develop endearing retailing spaces, stores and products that customers truly "enjoy."

Building Stronger Partnerships With Franchisees

The fiscal year ended February 28, 2010 was a year that put the spotlight on Head Office-franchisee issues throughout the convenience store industry. As you know, the convenience store business is a franchise business. This business cannot thrive unless we remember that the success of Head Office ultimately depends on franchisees. In the past, we have implemented a broad range of franchisee support measures in an effort to build good relationships with our franchisees. Nonetheless, in this difficult business environment, it is our franchisees who are in a more difficult position than Head Office. Therefore, in the fiscal year ending February 28, 2011, we will step up franchisee support measures, including measures to boost sales and support sales-promotion initiatives.

On the other hand, in order to actively support our franchisees, we will tackle the challenge of achieving further cost reductions during the current fiscal year. In the fiscal year ending February 28, 2011, we will expand our targeted cost reduction items around "7 Urgent Cost

Reductions." Efforts will be focused on reviewing operations and increasing their transparency. By leaving no stone unturned in the process of reducing inefficiencies, we will work to achieve our annual cost reduction target of ¥3.3 billion for the fiscal year.

We are once again forecasting a drop in earnings in the fiscal year ending February 28, 2011, the final year of our Three-Year Plan. This is because despite the large cost reductions, ¥1.2 billion will be allocated to strengthening franchisee support measures. Franchisees and Head Office will work as one to expand one another's earnings, in order to return Circle K Sunkus to earnings growth in the fiscal year ending February 28, 2012.

Rising to the Challenge of Developing Entirely New Types of Convenience Stores

On December 21, 2009, Circle K Sunkus formed a business tie-up with cocokara fine HOLDINGS Inc., which manages the SEGAMI and SEIJO drug store chains, among other operations. I believe that as the convenience store industry approaches a mature phase, it will be essential to develop entirely new types of convenience stores. This will require tie-ups with different business sectors, not tie-ups within our industry. The business tie-up with cocokara fine HOLDINGS represents the first step in this process.

On behalf of Circle K Sunkus, I personally took the initiative to approach cocokara fine HOLDINGS with a proposal to form this business tie-up. In Japan, where the aging of Japan's society and its declining birthrate is advancing at an unprecedented pace, nursing care and nursing services will take on greater importance than ever before. I intend to make Circle K Sunkus an elderly- and senior citizen-friendly chain of convenience stores in the future. In this regard, cocokara fine HOLDINGS is strong in nursing care and nursing services, and is aligned with Circle K Sunkus' targeted direction. Another strength is that as a company formed through a merger, cocokara fine HOLDINGS shares many experiences in common with Circle K Sunkus. Furthermore, one of my goals is to "creatively destroy" the traditional convenience-store model to reinvent convenience

Development of new store format

- Develop the new *Healthcare Conbini* format (Healthcare Convenience Store; provisional name)

→ New trial store scheduled to open in the second half of FY2011/2

New style of collaboration

- *Mini Conbini* (Mini-convenience stores) within dispensing pharmacies
- *Mini Drug Stores* within convenience stores, etc.

cocokara fine HOLDINGS INC.™ Circle K Sunkus

Business tie-up formed in December 2009

Mutual merchandising support

- Roll out Health & Beauty Care (H&BC) products at convenience stores
- Roll out fast food and perishable food at drug stores

Personnel development and exchanges

- Establish the "Registered Vender Qualification Exam Support Package" stores. Given that President Tsukamoto of cocokara fine HOLDINGS shares the same view, I feel that we have formed a business tie-up with the ideal partner.

In the second half of the fiscal year ending February 28, 2011, we plan to actively open stores based on a new format fusing convenience stores and drug stores. The Business Innovation Development Division, which was established in the fiscal year ending February 28, 2011, is leading this effort with the aim of launching the full-scale operation of this new format from the fiscal year ending February 28, 2013. Additionally, retailing spaces for general merchandise, a product category suffering weak sales, will be revitalized by making use of cocokara fine HOLDINGS' merchandise and expertise. Our goal is for these efforts to help lift overall sales at existing stores.

In other areas, Circle K Sunkus is pursuing new initiatives like the launch of car sharing services in partnership with Japan Car Sharing Inc. and the installation of charging stations for electric vehicles. We will boldly open up the possibilities for convenience stores to function as social infrastructure in new ways.

A joint press conference on the business tie-up between Circle K Sunkus and cocokara fine HOLDINGS was held on December 21, 2009. (Center-left, Circle K Sunkus President Nakamura; Center-right, cocokara fine HOLDINGS President Tsukamoto)

Circle K Sunkus in a New Era

In 2010, Circle K Sunkus celebrates the 30th anniversary of opening its first Circle K and Sunkus stores. In the future, we will continue to do what only we can accomplish with the aim of building an entirely new Circle K Sunkus.

There is no silver bullet to enhancing sales. If one were to exist, it would be our ability to transform ourselves. We are determined to work as one to rise above these challenging times as we reinvent Circle K Sunkus for a new era by constantly adopting fresh ideas. Your continued support and understanding will be vital to reaching our goals.

July 2010

Motohiko. Nakamura

Motohiko Nakamura, President

FEATURE 1:

The Relentless Pursuit of More Value

Circle K Sunkus' management policy for the fiscal year ending February 28, 2011 is that everyone should think and act together. Based on this management policy, we will collectively think about and resolve the priorities and issues faced by Circle K Sunkus as rapidly as possible. Our efforts will be focused on building a foundation for growth through the relentless pursuit of more value, as we aim to make Circle K Sunkus a company that can continue to grow in a challenging business environment.

Achieved the Complete Unification of Our Organization

Circle K Sunkus conducted a reorganization in order to streamline its organization while strengthening internal ties and speeding up operations. Ever since the merger that formed the company, we have phased in the unified management of both the Circle K and Sunkus store brands by the Store Operations Division and Store Development Division. With this reorganization, Circle K Sunkus has abolished its system of assigning responsibility to store supervisors and store developers by store brand. Through this measure, we have achieved our long-awaited goal since the merger—the complete unification of our organization.

The Company has integrated the Store Operations Division and Store Development Division into the new Store Development & Operations Division in order to strengthen ties between the former two divisions and speed up operations on an unprecedented scale. Furthermore, aiming to execute more fine-tuned regional strategies, Circle K Sunkus has further broken down the coverage areas of its regional divisions from four to six areas. At the same time, the Company has abolished the post of deputy head, and has transferred authority to the heads of each regional division, thereby clarifying roles and accountability.

Additionally, the Company established the Business Innovation Development Division specializing in the development of new business formats, as a measure to develop entirely new convenience stores, which will be crucial to future growth. In this process, we will develop new convenience store models, including smaller shops and convenience stores with drug counters.

Initiatives to Further Reduce Costs and Strengthen Franchisee Support Measures

The convenience store industry faces fierce competition across traditional and nontraditional business formats such as food service establishments and drug stores, in addition to weak consumer spending. In the fiscal year ending February 28, 2011, we will work to substantially lower Head Office costs by continuing to rigorously enforce inefficiency reduction measures. On the other hand, we will allocate some of the cost savings to bolstering franchisee support measures, with the aim of enhancing franchisee earnings. Through these initiatives, Head Office and franchisees will work as one to expand one another's earnings.

Since the fiscal year ended February 28, 2010, Circle K Sunkus has conducted a Company-wide drive to rigorously enforce inefficiency reduction measures. In the previous fiscal year, the Company achieved significant cost savings, reducing selling, general and administrative (SG&A) expenses by ¥5.2 billion more than planned at the beginning of the fiscal year. For the fiscal year ending February 28, 2011, we have expanded our targeted cost reduction items around the seven items listed below. We are targeting annual cost reductions of approximately ¥3.3 billion. Through further cost reductions and productivity enhancements, we aim to generate the funds needed to improve franchisee sales.

1. Rigorously enforce inefficiency reduction measures and change approaches
2. Reduce transportation expenses for various activities
3. Review overtime work and use of temp-agency staff
4. Review outsourcing expenses
5. Negotiate reductions in store rents
6. Review operating expenses at Company-owned stores
7. Other measures (personnel expenses, etc.)

→ **Annual Reduction**
Approximately ¥3.3 billion

With the aim of building strong partnerships with franchisees, Circle K Sunkus implemented franchisee support measures in the previous fiscal year including launching the "Franchised Store Staffing System" to provide staff placement services to franchise stores; establishing the Circle K Sunkus Mutual Aid Organization; and conducting a "listening" initiative to directly convey the views and proposals of franchisees to management. These measures will be continued into the future. In the fiscal year ending February 28, 2011, we are implementing three new franchisee support measures. The first measure is to provide for supervisor-franchisee sales-promotion expenses to strengthen the sales capabilities of each individual store. For all franchised stores, Circle K Sunkus will provide an annual payment of ¥100,000 per store. Franchisees will use this payment to strengthen their sales capabilities while consulting with store supervisors on ways of using the funds more closely in line with actual conditions at each individual store. The second measure is to change our approach to discounted sales. From April 2010, we adopted a new discounted sales approach. This new approach provides advantages in terms of reducing the operational burden on franchised stores, in addition to enhancing franchisee sales and gross profit. The third measure is to increase the number of nationwide TV commercials, while shifting to commercials focused on products in order to enhance sales. We will spend approximately ¥1.2 billion on these measures to strengthen support for franchisees.

Events that encourage franchisee participation will also be stepped up in the hope of raising cohesion between franchisees and Head Office. In the first half of the fiscal year, we will hold a training session for supporters of patients with dementia in order to develop a system for responding to the future aging of Japanese society. In the second half, we will hold Franchised Store Forums at various locations nationwide in order to provide an opportunity for franchisees and Head Office management to engage in direct dialogue. In addition, we plan to organize a visit to a fast food preparation center.

Franchised storeowners and store supervisors work together to expand earnings at stores.

The friendly, positive attitude of franchised storeowners and store staff leads to retailing spaces that customers can truly enjoy.

Aiming to Become an Even More Useful Convenience Store Chain

As an operator of convenience stores closest to customers’ daily lives, Circle K Sunkus aspires to fulfill the role that convenience stores can play as a source of a comprehensive range of services in daily life. To this end, we have focused on enhancing services and functions where we provide the “convenience” needed by customers in their daily lives, rather than limiting ourselves to the role of a mere vendor of goods. Over the past three fiscal years, beginning with the fiscal year ended February 29, 2008, we have put in place an offensive structure for rising above the competition and establishing entirely new convenience stores by making a steady succession of large-scale system investments to expand future sales and earnings. These investments include the introduction of multi-use copy machines and *KARUWAZA STATION* in-store multimedia terminals, as well as the installation of fiber-optic broadband cable in stores to pave the way for future services.

In the fiscal year ending February 28, 2011, we will continue to boldly pursue greater convenience for customers in order to ensure that these investments produce results.

Began Accepting New Payment Methods

Circle K Sunkus accepts a diverse array of payment methods other than cash, including payment via electronic money and credit card. In the fiscal year ending February 28, 2011, Circle K Sunkus will begin accepting payment via Suica cards offered by East Japan Railway Company (JR East) and QUO Cards, which are common nationwide prepaid cash cards, from July.

The market for electronic money has expanded in step with growing adoption of this payment method. By fiscal 2012, the Japanese fiscal year ending March 31, 2013, the electronic money market is expected to increase to around ¥6,600 billion in size. In the fiscal year ended February 28, 2010, Circle K Sunkus saw electronic money payments increase to ¥17,203 on a per-store, daily basis, up 14% year on year.

Suica, which will enter service at Circle K Sunkus from July 2010, is an electronic money format offered by a transportation company. The broad penetration of Suica is underscored by the issuance of more than 31.22 million Suica cards to date. This growth has been fueled by the greater convenience afforded by the ability to use Suica cards when transferring from JR to private railways and buses, and vice versa. Circle K Sunkus will go beyond merely accepting Suica as a form of payment to form a point-exchange tie-up between Suica and *KARUWAZA CLUB*, the Company's in-house membership club. Through this tie-up, *KARUWAZA CLUB* members will be able to exchange *KARU* Points accumulated by shopping at Circle K and Sunkus stores for Suica points. This will be the convenience store industry's first-ever tie-up between Suica and a convenience store operator's own membership service. With plans to expand its handling of electronic money formats offered by transportation companies in the future, Circle K Sunkus will continue working to boost customer footfall by further enhancing convenience for customers.

On the other hand, the QUO Card is a common nationwide prepaid cash card accepted at approximately 36,500 locations across Japan, including convenience stores, family restaurants, drug stores, gasoline stations, and book shops. The high degree of acceptance of QUO Cards has prompted increased use of these cards as gifts or prizes. Every year, approximately 30 million QUO Cards with a total issue value of approximately ¥60 billion are newly issued and enter circulation. With the acceptance of payment via QUO Cards, Circle K Sunkus also seeks to capture demand for gifts.

Suica and Quo Card entered service at Circle K and Sunkus stores in July 2010.

An Expanding Range of Payment Methods

2003
(December)
BARCLAY VOUCHERS
Gift Cards

2004
(July)
Edy electronic money
(September)
Credit cards

2005

2006

2007

2008
(January)
QUICPay
Visa Touch (Smartplus)
(April)
iD

2009

2010
(July)
Suica
QUO Card

2011 onward
(Future)
Expand acceptance of electronic money formats offered by transportation companies

Greater Convenience Through Full-Scale *KARUWAZA STATION* Deployment

In August 2009, Circle K Sunkus completed the installation of *KARUWAZA STATION* in-store multimedia terminals at all of its stores. With this step, the Company is now able to roll out a diverse array of previously unavailable services and content, in addition to reducing the operational burden on stores.

In the fiscal year ended February 28, 2010, Circle K Sunkus launched a steady stream of new services. Beginning with lottery ticket sales for the Sports Promotion Lottery "toto" and BIG, these services included a prize money payback service for the "toto" lottery, the first service of its kind for a convenience store. Other new services included application filing services for various examinations, application filing and fee payment services for university entrance examinations, and airline ticket pick-up services. In the ticket area, Circle K Sunkus significantly expanded the range of tickets handled by offering tickets via JTB Ticket, a new ticket vendor, in addition to Ticket Pia as before. Consequently, ticket sales increased by 6% year on year in the fiscal year ended February 28, 2010.

In the fiscal year ending February 28, 2011, Circle K Sunkus plans to continue rolling out user-friendly, convenient content, including value-priced services linked with the *KARUWAZA CLUB* in-house membership club, as well as applications for driver's licenses and insurance policies.

KARUWAZA STATION in-store multimedia terminals provide a diverse array of services.

Further Evolution: *KARUWAZA CLUB*

KARUWAZA CLUB, Circle K Sunkus' in-house membership club, has steadily expanded its membership since its creation in July 2004. As of February 28, 2010, membership had exceeded 560,000 people. Through the use of *KARUWAZA STATION* in-store multimedia terminals, customers are now able to join the club much more easily and conveniently. Consequently, the number of members rose by 140,000 from the previous fiscal year. In the past, the Company added Edy electronic money to original *KARUWAZA CARD*s while working to build a high-quality base of loyal customers through point services. In addition, customer information has been analyzed and put to good use in marketing initiatives such as campaigns. In the fiscal year ending February 28, 2011, we will commence *KARUWAZA Coupon* issuance from June and begin granting single-item bonus points in July, as part of our plans to further boost our ability to attract customers to stores with these new services.

KARUWAZA Coupon is a service where discount coupons are issued instantly from the aforementioned *KARUWAZA STATION* in-store multimedia terminals. The service is expected to help boost sales through the immediate use of discount coupons and increase the number of store visits by customers checking the availability of discount coupons. Meanwhile, "single-item bonus points" refers to the granting of bonus points in addition to ordinary points when purchasing eligible products. Through this initiative, we seek to make points easier to collect, and thus provide customers with a stronger incentive to collect points, which will ultimately lead to an increased number of store visits by customers.

By strengthening mutual point granting systems and other ties with partner companies, including All Nippon Airways Co., Ltd. and JR East, we aim to increase *KARUWAZA CLUB* membership to 1 million people by February 28, 2011.

KARUWAZA CARD
with Edy electronic money

KARUWAZA Coupons can be issued easily
from *KARUWAZA STATION* terminals.

Developing Products and Retail Spaces That Fit the Diversifying Lifestyle Settings of Customers

Circle K Sunkus will continue to evolve by developing products and retail spaces that fit the diversifying customer needs accompanying changes in Japan's social structure.

Began Merchandising Activities Tied to Specific Time Periods

Customer needs vary continuously from morning to daytime and nighttime. Circle K Sunkus is stepping up merchandising activities and sales promotion measures designed to capture customer needs in each time period.

Circle K Sunkus faces a particularly large drop in the number of customers visiting stores during the morning and night/late-night time periods. To address this situation, Circle K Sunkus will begin conducting time-limited sales campaigns and offering combination menus tied specifically to the morning and night time periods from July 2010. By enhancing the range of products best suited to breakfast or dinner, we aim to increase sales.

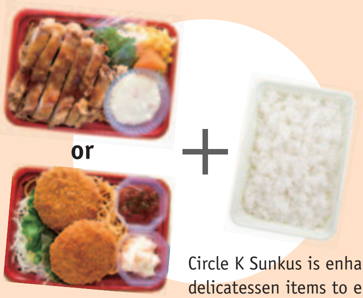
Embracing the Challenge of Enhancing Long-life Products

For the fiscal year ending February 28, 2011, we will expand product volume in retail spaces by enhancing the range of products available during off-peak hours. To address demand for products that can be stored for a certain period before consumption, we will also bolster our lineup of long-life products such as baked goods and delicatessen items.

In the baked goods category, we will target customer needs for bread stored for breakfast and for snacks with “storable bread for convenient consumption.” In the delicatessen item category, we will address the needs of double-income or single-person households with products based on the themes of an “extra entrée item” and a “storable main entrée for convenient consumption.”

Long-life products have been improving in terms of taste and quality year after year thanks to advancement in food manufacturers’ technologies. Circle K Sunkus will utilize long-life products as supplementary products for retailing spaces after peak hours, with the aim of generating value-added sales.

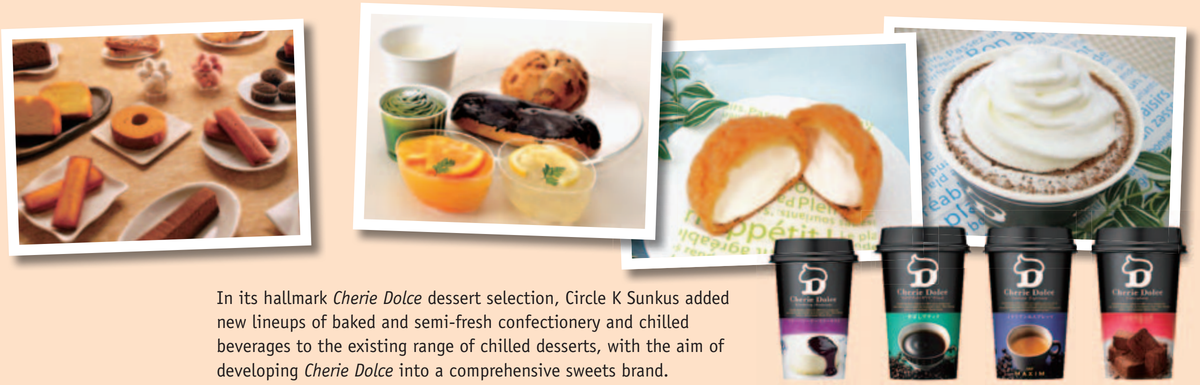
Long-life delicatessen items have an extended sales period of approximately 30 days.



Circle K Sunkus is enhancing its range of delicatessen items to enable customers to enjoy choosing from more options. Discount services are offered for combination purchases of delicatessen items and rice.

Further Expansion of the *Cherie Dolce* Original Dessert Selection

Since its launch in November 2007, the *Cherie Dolce* original dessert selection has earned a strong reputation from customers as authentic desserts on a par with any specialist dessert shop. In the process, it has become one of Circle K Sunkus’ hallmark products. In November 2009, the Company launched the *Cherie Dolce* α series of room-temperature baked and semi-fresh confectionery, alongside its existing range of chilled desserts. Furthermore, to fortify the *Cherie Dolce* brand, we added a new chilled beverages lineup from April 2010.



In its hallmark *Cherie Dolce* dessert selection, Circle K Sunkus added new lineups of baked and semi-fresh confectionery and chilled beverages to the existing range of chilled desserts, with the aim of developing *Cherie Dolce* into a comprehensive sweets brand.

The *Cherie Dolce* chilled beverage lineup provides a range of coffee and tea beverages boasting authentic taste and premium quality that can be enjoyed together with desserts. Through this approach, we aim to increase the average spending per customer by encouraging combination purchases of chilled beverages and desserts.

Enhancing Product Attractiveness to Boost Sales

In the fiscal year ending February 28, 2011, Circle K Sunkus aims to boost sales by implementing product development and sales promotion measures that take full advantage of the respective strengths of its three hallmark brands, namely *Oishii Pan Seikatsu* original baked goods, the aforementioned *Cherie Dolce* and the *rubetta* pasta range.

Consumers are showing increasingly stronger preferences for low prices due to further belt tightening. Circle K Sunkus has achieved a measure of success with providing a range of both reasonably priced boxed lunches and premium boxed lunches in response to the increasingly dual nature of consumer needs. Therefore, the Company will maintain this policy in the fiscal year ending February 28, 2011. In the rice dish category, where sales have remained lackluster, Circle K Sunkus will focus on developing sushi products and enhancing the range of sushi in the current fiscal year, with the aim of boosting sales.

In the fiscal year ending February 28, 2011, the Company will continue to install in-store fryers and freshly brewed coffee dispensers in stores. The goal is to generate value-added sales and reinforce countertop fast foods. By February 28, 2011, Circle K Sunkus plans to install both in-store fryers and freshly brewed coffee dispensers at a total of approximately 1,800 stores, accounting for around 40% of all stores.

Furthermore, beginning with the fiscal year ending February 28, 2011, we will work to reduce logistics costs by reviewing delivery frequencies and time periods for each region and product category. We will also begin building systems and structures for establishing a new Supply Chain Management (SCM) system for the future.

To address the increasingly dual nature of customer needs, Circle K Sunkus offers both value-priced and high-value-added boxed lunches.

In the fiscal year ending February 28, 2011, Circle K Sunkus launched a new sushi brand by fully revamping sushi products, in an effort to boost rice dish category sales.

FEATURE 2:

Aiming to Develop Entirely New Convenience Stores

To Remain a Convenience Store Operator Valued by Customers

As the convenience store industry approaches a mature phase, Circle K Sunkus believes that developing entirely new types of convenience stores is essential to achieving future growth. Looking ahead, by actively forming tie-ups with different business sectors, Circle K Sunkus will reinvent convenience stores like never before, with the view to setting itself apart from the competition.

Business Tie-up With cocokara fine HOLDINGS Inc.

In December 2009, Circle K Sunkus formed a business tie-up with cocokara fine HOLDINGS Inc., which manages the SEGAMI and SEIJO drug store chains, among other operations. Working together and in close cooperation, Circle K Sunkus and cocokara fine HOLDINGS will take full advantage of one another's expertise, infrastructure and other resources to cultivate new markets, while enhancing their ability to attract customers across their store chains as a whole, and strengthening earnings power.

cocokara fine HOLDINGS owns 661 drug stores mainly in the Kansai and Kanto regions, and reported consolidated net sales of ¥190.9 billion in the fiscal year ended March 31, 2010. In March 2010, cocokara fine HOLDINGS announced that it will merge in October 2010 with Allied Hearts Holdings Co., Ltd., whose home markets are the Tokai and Kansai regions. With this move, cocokara fine HOLDINGS will become the drug store industry's third largest player.

The business tie-up between Circle K Sunkus and cocokara fine HOLDINGS is broad in scope, encompassing such areas as the development of competitive new business formats that fuse drug stores and convenience stores; the establishment of new types of tie-up stores featuring prescription drug counters in existing convenience stores and "convenience-store" spaces within dispensing pharmacies; joint development of original products and mutual merchandising support; and support for obtaining registered vendor certification. The two companies have already formed a Business Tie-Up Execution Committee, and are conducting a series of discussions on various themes in four subcommittees set up under the aforementioned Committee.

In May 2010, we opened the Sunkus SEIJO Drug Store Tama Center Ochiai Store, a tie-up store combining a convenience store and drug store/dispensing pharmacy in Tama City, Tokyo. The store has a Home-Visiting Nurse Station and Home Nursing Care Assistance Office on site, alongside the convenience store and drug store/dispensing pharmacy. In the second half of the fiscal year ending February 28, 2011, we plan to open two new stores based on a new "healthcare convenience" format fusing convenience stores and drug stores. Looking further ahead, we plan to expand the new store format by opening around 20 additional stores in the fiscal year ending February 28, 2012, followed in the fiscal year ending February 28, 2013 by the opening of 50 more stores.

General merchandise sales at convenience stores have been weak due to intensified competition with drug stores, ¥100 shops, and other retailers. Looking ahead, Circle K Sunkus will stock its general merchandise shelves with Health & Beauty Care products available at drug stores, implement more affordable pricing policies, and review retailing spaces from a seasonal merchandising perspective. At the same time, general merchandise displays will be revitalized by making use of shelf allocation and display methods proposed by cocokara fine HOLDINGS, which will help to reinvigorate existing stores.

In addition, the two companies will boldly pursue new possibilities, including studying ways to develop "senior-citizen friendly convenience stores" that anticipate the aging of Japan's society. For example, one way is to utilize convenience stores as delivery centers for prescription drugs and mail-order drug store products in the future.

In May 2010, a new tie-up store that combines a convenience store with a drug store/dispensing pharmacy was opened. The store also has a Home-Visiting Nurse Station on site.

Rolled Out Car Sharing Services

In January 2010, Circle K Sunkus rolled out car sharing services in partnership with Japan Car Sharing Inc. There has been an increase in the number of people who choose not to own cars, partly reflecting a stronger savings preference among consumers amid recent weakness in economic conditions. This is expected to fuel further expansion in demand for car sharing services. Furthermore, we believe that car sharing services that make use of parking spaces at convenience stores will help to boost convenience for customers, while leading to increased opportunities for customers to visit stores and an influx of new customers.

Circle K Sunkus will first begin offering the service at convenience stores in the Tokyo metropolitan area. Looking ahead, while carefully monitoring customer needs, we will consider expanding the service to other stores and regions.

Sunkus Shinagawa Hiratsuka Store
Circle K Sunkus provides car sharing services using store parking lots.

Converting Convenience Stores Into New Social Infrastructure Locations

The installation of charging stations is expanding in preparation for the widespread adoption of electric vehicles, an initiative aimed at reducing CO_2 emissions. Circle K Sunkus has begun installing charging stations for the Plug-in Hybrid Vehicles (PHVs) and electric vehicles of multiple automakers at store parking lots. Installations began at store parking lots in Aichi Prefecture in December 2009 and Kanagawa Prefecture in May 2010. We plan to install a total of 13 charging stations by the end of the first half of 2010. Although we are still at the trial stage, we will continue to conduct charging station trials to provide a new social infrastructure utilizing convenience store locations.

Together with these charging station installations, Circle K Sunkus has begun deploying Toyota PHVs on a trial basis for use as company cars by Aichi and Kanagawa prefecture-based store supervisors visiting stores. A total of 10 PHVs are currently in use.

Circle K Toyota Hirata Store
Circle K Sunkus is installing charging stations for electric vehicles to provide a new social infrastructure utilizing convenience store locations.

Corporate Governance

Basic Approach to Corporate Governance

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

Corporate Governance Structure and Initiatives

Board of Directors (Meets monthly, in principle)

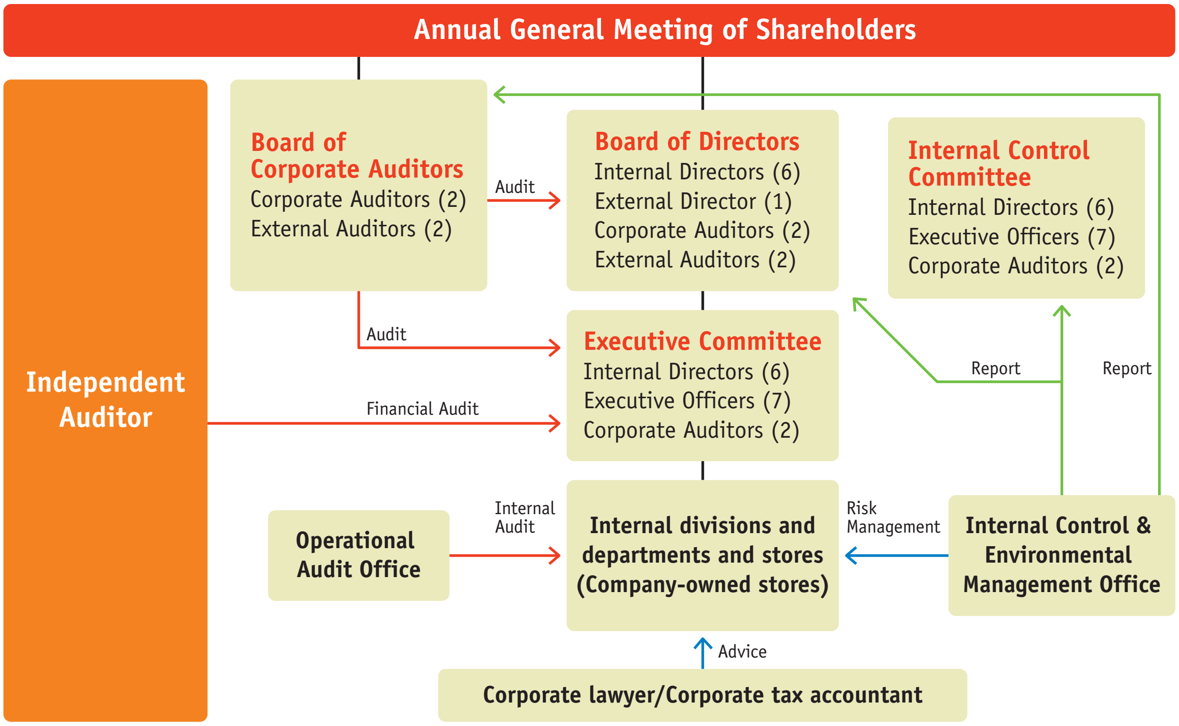
The Board of Directors is chaired by the President and determines important matters concerning management and other issues as required by law, while overseeing the execution of business operations. Internal and external directors and corporate auditors attend meetings. In the fiscal year ended February 28, 2010, the Board of Directors held 16 meetings, including extraordinary meetings. Circle K Sunkus has set the terms of directors at one year to clarify their objectives and responsibilities.

Executive Committee
(Meets twice a month, in principle)

The Executive Committee is chaired by the President and is made up of directors, corporate auditors and executive officers. It held 24 meetings in the fiscal year ended February 28, 2010. At these meetings, the Executive Committee extensively discusses management issues, supports management decision-making by the Board of Directors and oversees the execution of business operations.

Corporate Governance Structure

(As of May 26, 2010)



Board of Corporate Auditors (Meets monthly, in principle)

The Board of Corporate Auditors comprises four corporate auditors, including two external auditors. The corporate auditors attend important internal meetings, such as Board of Directors' meetings, to receive reports on the Company's management plans, the status of its overall compliance and risk management systems and other matters. Based on these reports, the corporate auditors offer their opinions from an impartial perspective, and rigorously audit the performance of directors and executive officers. In the fiscal year ended February 28, 2010, the Board of Corporate Auditors held 12 meetings, including extraordinary meetings.

Internal Control Committee (Meets once every two months, in principle)

The Internal Control Committee is chaired by the President and comprises directors, executive officers and corporate auditors. It held 6 meetings in the fiscal year ended February 28, 2010. The committee regularly receives reports on the establishment and operation of the internal control system from the Internal Control & Environmental Management Office to monitor Companywide progress on putting in place this system and to conduct crisis management.

Activities of External Directors and External Corporate Auditors

Director Koji Sasaki attended 9 out of 12 regular meetings of the Board of Directors held during the fiscal year ended February 28, 2010, and expressed opinions mainly from a broad perspective as appropriate on matters such as retail industry trends and the Group's current status.

Corporate Auditor Hideshige Haruki attended all 10 regular meetings of the Board of Directors and all 10 meetings of the Board of Corporate Auditors held after his appointment as corporate auditor in May 2009. Mr. Haruki expressed opinions as appropriate mainly based on his specialized expertise as a lawyer. Corporate Auditor Tatsumi Yoshida attended all 10 regular meetings of the Board of Directors and all 10 meetings of the Board of Corporate Auditors held after his appointment as corporate auditor in May 2009. Mr. Yoshida expressed opinions as appropriate mainly based on his specialized expertise concerning corporate legal affairs and risk management.

Executive Officer System

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

Internal Audits

The Company has assigned six 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 28, 2010 is outlined in the following table.

(millions of yen)

Remuneration	Directors	155
	Corporate Auditors	38

*The above remuneration includes bonuses paid to directors and corporate auditors. In addition, remuneration paid to external directors and external corporate auditors of ¥6 million is also included.

Remuneration Paid to the Independent Auditor

(millions of yen)

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

Internal Control System Initiatives

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

The Internal Control Committee monitors Company-wide progress on putting in place an internal control system and conducts crisis management. In addition, the Internal Control & Environmental Management Office coordinates internal control and compliance activities across the Company and implements concrete measures to reinforce the management structure.

Risk Management

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

Compliance

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

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

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 Controls Over Financial Reporting

Effective from the fiscal year ended February 28, 2010, Circle K Sunkus has established the Committee for Internal Controls Over Financial Reporting, which is supervised by the President, to discuss and determine the evaluation and reporting of internal controls over financial reporting. The committee, chaired by the director in charge of the Finance & Accounting Division, will promptly address matters related to internal controls over financial reporting, to ensure the reliability of financial reporting as required by the Financial Instruments and Exchange Law of Japan.

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

Environmental Activities

Promoting Food Recycling

Circle K Sunkus is engaged in food recycling using food residue, along with measures to curtail the generation of food waste. In the fiscal year ended February 28, 2010, Circle K Sunkus began selling at certain stores products including ingredients developed through food recycling activities.

(1) Recycling Bread Crust Scraps Into Eco Feed

Eco Feed refers to animal feed that has been processed using raw materials derived from reusable food waste materials. Every year, Circle K Sunkus recycles approximately 180 tons of bread crust scraps discarded from its sandwich preparation centers into animal feed for delivery to pig farms. Pork raised on this feed is used as food ingredients in boxed lunches and other items under the original brand Re Pork. A total of 9 different products featuring Re Pork were sold from August 2009 to April 2010 at Circle K Sunkus' stores in the Shikoku region.

Boxed lunches featuring Re Pork.

(2) Growing Carrots Through a Food Recycling Loop

The UNY Group is working to establish a recycling business plan called the Food Recycling Loop in accordance with the Food Recycling Law of Japan. Under this plan, food residue, including food products that have reached their sales expiration dates at UNY Group stores, are recycled into compost, and the compost is then used to grow agricultural produce. In January 2010, Circle K Sunkus commenced sales of boxed lunches containing carrots grown using this compost at its stores in the Chukyo region.

Exceeded Target for Reducing Plastic Shopping Bag Usage

By the fiscal year ending February 28, 2011, Circle K Sunkus aims to reduce the total weight of shopping bags used per store by 35% compared with the level in the fiscal year ended February 28, 2001, in partnership with various members of the Japan Franchise Association. To this end, we have trimmed excess material from plastic shopping bags and made them smaller and lighter, while requesting the cooperation of customers at stores. In the fiscal year ended February 28, 2010, Circle K Sunkus distributed approximately 320,000 reusable shopping bags made from recycled store uniforms to customers at no charge. Helped partly by this measure, Circle K Sunkus reduced its plastic shopping bag usage per store by 37.4% compared with the level in the fiscal year ended February 28, 2001, exceeding its reduction target of 32% for the fiscal year ended February 28, 2010 on the same basis.

Carbon Offset Activities Using *KARUWAZA CLUB* Points

Circle K Sunkus is promoting carbon offset activities through a service that enables *KARUWAZA CLUB* members to exchange their points for CO_2 emissions rights. From the launch of this service in December 2008 to April 26, 2010, emissions rights corresponding to 158 tons of CO_2 were issued through the exchange of *KARUWAZA CLUB* points.

Carrots are grown using compost made from recycled food residue from stores.

Social Contribution Activities

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

Store Fundraising Activities

Circle K Sunkus conducts store fundraising activities for three organizations receiving donations. It divides the fiscal year into three collection periods and raises funds for each organization in one of the three collection periods. In the fiscal year ended February 28, 2010, Circle K Sunkus rolled out a system whereby its *KARUWAZA CLUB* membership points can be exchanged to make a fundraising donation at its stores. In addition, during the fiscal year, Circle K Sunkus once again conducted emergency store fundraising drives and contributed the proceeds to emergency relief activities for those affected by earthquakes and other unforeseeable natural disasters.

Results of Fundraising Activities in the Fiscal Year Ended February 28, 2010

Collection period	Organization receiving donations	Donations
April to July 2009	The National Federation of All Japan Guide Dog Training Institutions "Nationwide Guide Dog Campaign"	¥28,441,974
August to November 2009	National Land Afforestation Promotion Organization	¥15,631,808
December 2009 to March 2010	Japan UNICEF	¥21,566,964
Total		¥65,640,746

* Of the total amount of donations shown above, donations of ¥523,850 were made through the exchange of *KARUWAZA CLUB* points.

Emergency Relief Activities in Response to Major Disasters in the Fiscal Year Ended February 28, 2010

Collection period	Disasters	Contributions
July to August 2009	Heavy rain in the Chugoku and Northern Kyushu area	¥10,158,686
October 2009	Offshore Sumatra and Samoan Islands earthquakes	¥11,506,518
January 2010	Major Haiti earthquake	¥29,518,215

NPO Support Activities

NPO Family House

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

NPO Japan Team of Young Human Power (JHP)

Circle K Sunkus has supported the construction and renovation of schools in Cambodia since the fiscal year ended February 28, 2004. From the fiscal year ended February 28, 2010, Circle K Sunkus has supported the construction of schools together with the top-ten franchisees who have received a superior performance award during the fiscal year. The seventh "Everyone's Dream School" was built with the support of this program at Ka Po Primary School. On a cumulative basis, approximately 4,100 children are now studying at these schools.

The seventh "Everyone's Dream School" schoolhouse.

Nameplate of franchisees participating in assistance for the construction of the schoolhouse.

Board of Directors, Corporate Auditors and Executive Officers

(As of May 26, 2010)


Kiyoshi Hijikata


Motohiko Nakamura


Katsumi Yamada


Kazuo Takahashi


Toshitaka Yamaguchi


Jun Takahashi


Koji Sasaki


Kunio Takasu


Masaaki Yoshiki


Hideshige Haruki


Tatsumi Yoshida

CHAIRMAN
Kiyoshi Hijikata

PRESIDENT
Motohiko Nakamura

MANAGING DIRECTOR
Katsumi Yamada
Head of Personnel & General Affairs Division

DIRECTORS
Kazuo Takahashi
Head of Information Systems Division

Toshitaka Yamaguchi
Head of Finance & Accounting Division

Jun Takahashi
Head of Store Development & Operations Division

DIRECTOR (External Director)
Koji Sasaki
Chairman of UNY Co., Ltd.

CORPORATE AUDITORS
Kunio Takasu

Masaaki Yoshiki

CORPORATE AUDITORS (External Auditors)
Hideshige Haruki

Tatsumi Yoshida
Corporate Auditor of UNY Co., Ltd.

EXECUTIVE OFFICERS
Kiyoshi Aida
Head of Business Innovation Development Division

Yasutoshi Saito
Head of Merchandising Division

Naoyoshi Tsukamoto
Head of Information Services Division

Katsuji Sato
Head of Area Franchise & Affiliated Company Administration Division

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

Mikio Kanamori
Head of Regional Division No. 4 (Central Japan, East)

Kozo Matsuda
Head of Regional Division No. 6 (Western Honshu)

Financial Section

Investors' Guide

This graphic indicates that further details are available in the Circle K Sunkus Investors' Guide (IG) 2010. Certain figures in this annual report differ from corresponding figures in the IG due to differences in rounding methods.

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

Business Environment

In the fiscal year ended February 28, 2010, the Japanese economy showed signs of bottoming out, including an improving trade balance supported by stronger overseas demand and a boost from consumer purchasing incentives such as the Japanese government's Eco-point system. However, Japan also saw signs of deflation, brought about by persistently weak domestic demand centered on consumer spending and capital investment. As household incomes stagnated, consumers further tightened their belts and showed increasingly stronger preferences for low prices.

In the retail industry, overall demand languished as prices fell across many different sectors, including the food, apparel, and housing-related sectors. In this context, competition between different industries and business formats intensified. In the convenience store industry, existing store sales remained weak due to declines in customer footfall and in the average purchase per customer. This partly reflected the end of a boost in sales from the introduction of taspo card systems (age-verifying IC cards installed in cigarette vending machines; hereinafter the "taspo card effect"), as well as generally weak consumer spending due to the weak economy. Weather-related factors, such as a mild summer, were also responsible.

Store Results

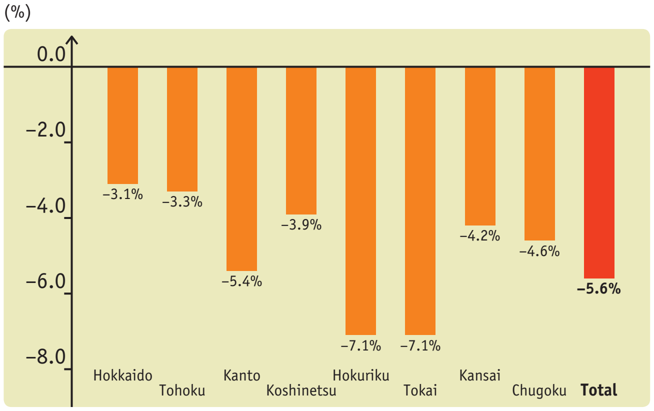
Investors' Guide P.2/P.12/P.16/P.30–32

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

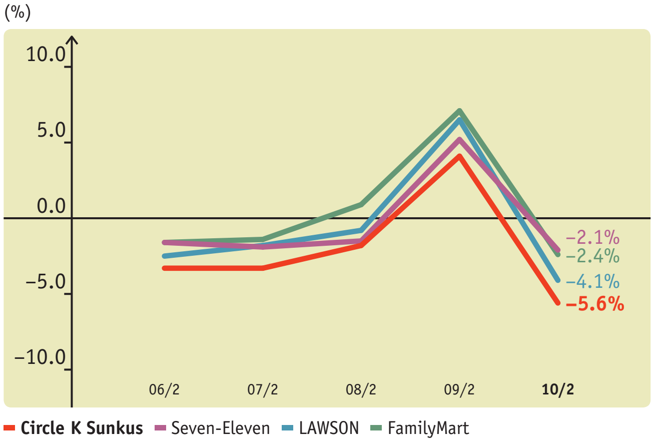
In the fiscal year ended February 28, 2010, Circle K Sunkus continued to record weak sales across a wide range of product categories—including fast food, perishable food and processed food. This was mainly the result of generally lackluster consumer spending, low-price preferences, and intensifying competition with different business sectors. Another factor was weak sales of summertime products such as chilled noodles, ice cream, and soft drinks due to weather-related factors, such as an extended rainy season and a mild summer. From July 2009, tobacco sales decreased due to the end of the taspo card effect. Consequently, existing store sales in the fiscal year ended February 28, 2010 declined 5.6% year on year on a non-consolidated basis. Consequently, total store sales, including franchised stores, decreased 4.3% year on year to ¥852,154 million.

In the fiscal year ending February 28, 2011, Japan is expected to see an economic recovery, mainly driven by additional stimulus from government financial policies, including a child support allowance, and improving employment and personal income conditions in response to a halt in declining corporate earnings. Nonetheless, economic growth is projected to be marginal as the economy offers

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



Year-on-Year Changes in 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 ¥10,000 in the second and first halves of the February 2006 and 2007 fiscal years, respectively.

no prospect of any sharp improvement in consumer spending. The convenience store industry faces intensifying competition across traditional and nontraditional business formats such as food service establishments and drug stores, which should lead to an increasingly challenging earnings environment.

In this climate, Circle K Sunkus will continue to implement measures to support improved earnings at franchisees by pursuing further cost reductions and improving productivity, so that franchisees and the Head Office can work as one to expand one another's earnings. We will also conduct bold sales-promotion measures focused on morning and night time periods when fewer customers visit stores, as we continue working to refine Circle K Sunkus' mainstay original products. Regarding new services, we plan to begin accepting new methods of payment, including payment via Suica cards offered by East Japan Railway Company (JR East). Furthermore, partnerships with the membership organizations of JR East and other partner companies will also be bolstered through incentive-point exchange programs and other means. We will strive to ensure that these and other measures help us to win new customers and boost customer footfall at our stores. Given that a recovery in consumer spending will require more time, Circle K Sunkus is projecting a continued year-on-year decline in existing store sales of 2.8% on a full-year basis, although existing store sales are improving. Consequently, Circle K Sunkus expects total store sales, including franchised stores, to decrease 1.0% year on year to ¥843,210 million.

In terms of existing store sales in the convenience store industry during the fiscal year under review, all major convenience stores suffered a downturn in existing store sales, in part because of weather-related factors including a mild summer, and the end of the taspo card effect, as well as weak consumer spending. Circle K Sunkus posted flagging existing store sales due to the negative impact of the so-called "Toyota Shock" in its mainstay Tokai region, a factor responsible for Circle K Sunkus' larger year-on-year drop in existing store sales than at other major convenience stores.

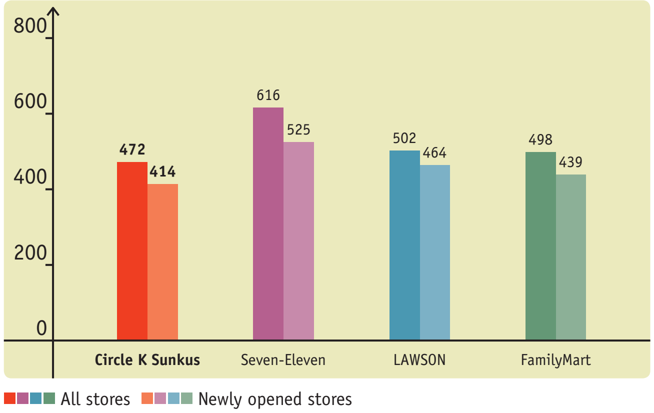
Investors' Guide P.12/P.32

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

During the fiscal year under review, Circle K Sunkus suffered a downturn in customer footfall, which decreased 3.1% year on year. This was partly a reflection of the increasing prevalence of home-cooked meals, reflecting consumers' stronger savings preferences in response to the weak economy. Another factor was the end of the taspo card effect. On the other hand, with consumers increasingly tightening

Average Daily Sales at Major Convenience Store Chains

(thousands of yen)



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

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

(yen, customers)

	2008/2		2009/2		**2010/2**	
		Change		Change		**Change**
Existing stores						
Average daily sales per store	472,000	–1.8%	498,000	4.1%	**476,000**	**–5.6%**
Daily average number of customers per store	806	–1.8%	849	4.0%	**830**	**–3.1%**
Average purchase per customer	586	0.0%	587	0.0%	**573**	**–2.5%**
Average daily sales at all stores	468,000	–0.4%	495,000	5.8%	**472,000**	**–4.6%**
Average daily sales at newly opened stores	409,000	3.8%	455,000	11.2%	**414,000**	**–9.0%**

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

their belts, the Company saw fewer items purchased per customer. There was also a drop in the unit price per item, partly reflecting the launch of low-priced boxed lunches addressing the impact of deflation and consumer preferences for low prices. Consequently, the average purchase per customer declined 2.5% year on year. As a result, average daily sales per store declined by ¥23,000 and ¥28,000 on an all-store and existing-store basis, respectively. Additionally, Circle K Sunkus opened stores with an emphasis on quality based on strategies for opening stores in each region. However, average daily sales per new store decreased ¥41,000 year on year, partly reflecting the weak economy, and a boost in sales from the taspo card effect in the previous year.

Investors' Guide P.8–9/P.14-16/P.31–32

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

Circle K Sunkus opened 285 stores, including 88 relocated stores, 20 stores more than in the previous year. The Company saw 41 program participants in the “Venture Employee System,” which was launched in September 2006 to sign up, foster and train franchisee candidates, begin operating their own franchised stores. These franchisee candidates thus contributed positively to the Company’s drive to open new stores. Moreover, Circle K Sunkus opened its first stores in Fukuoka Prefecture, a business area that represents the 38th prefecture covered by the Circle K Sunkus Group. In the fiscal year ended February 28, 2010, the Company opened 11 stores in Fukuoka Prefecture. Meanwhile, Circle K Sunkus closed 266 stores during the fiscal year under review. As a result, Circle K Sunkus had a total of 4,958 stores as of February 28, 2010, a net increase of 19 stores.

In terms of franchise agreement type, in the fiscal year ended February 28, 2010, Type A stores continued to decline in number, while Type C stores once again increased. Although Circle K Sunkus has been facing increasing difficulty year after year in securing locations suited to Type A stores, the Company has been stepping up the opening of Type A stores, opening 15 Type A stores in the fiscal year ended February 28, 2010. On the other hand, more and more new Type C stores have been opened, primarily inside buildings. As a result, Type C stores once again accounted for more than 90% of all new stores in the fiscal year ended February 28, 2010. Furthermore, Circle K Sunkus has been working to reduce the number of Company-owned stores since the fiscal year ended February 29, 2008; in the fiscal year ended February 28, 2010, it closed 112 stores. In addition, the Company utilized the “Venture Employee System” and the “Operations Management Employee System” launched in May 2008 to help convert Company-owned stores into franchised stores. Overall, the number of Company-owned stores was reduced by 90 stores compared with the previous fiscal year-end.

In the fiscal year ending February 28, 2011, 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 highly profitable Kanto and Chukyo regions. At the same time, we aim to achieve a net increase in the number of stores by signing up, fostering and training outstanding franchisee candidates by means of using the “Venture

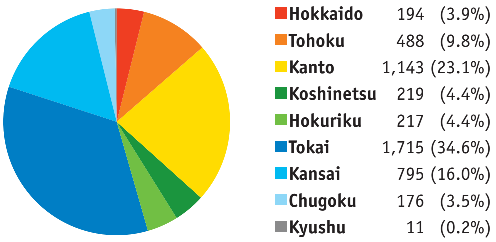
Stores Opened/Closed

(stores)

	2008/2	2009/2	**2010/2**
Stores opened	284	265	**285**
Stores relocated	98	120	**88**
Stores closed	459	255	**266**
Net increase (Decrease)	(175)	10	**19**
Fiscal year-end	4,929	4,939	**4,958**

Stores by Geographic Region

(stores)



Employee System" and the incentive plan for managing multiple stores. For the fiscal year ending February 28, 2011, the number of outstanding contracts to be signed for new stores was 156 at the beginning of the fiscal year, while 40 program participants in the "Venture Employee System" are expected to begin operating their own franchised stores. Circle K Sunkus expects to open 310 stores, including 100 relocations. Meanwhile, it plans to close 280 stores, resulting in a net increase of 30 stores. Consequently, Circle K Sunkus expects to have 4,988 stores as of February 28, 2011.

In the fiscal year ended February 28, 2010, all the major convenience store chains posted net increases in the number of stores, reflecting more stores opened and fewer stores closed than in the previous fiscal year.

Types of Franchise Agreements

	Type A	Type C
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	120 monthly accounting periods (approx. 10 years)	
Investments required by franchisees	¥37.7 million	¥7.7 million
Contracted cash segregated as deposits	¥3.0 million, borne by franchisees	
Commission for setting up store	¥1.0 million	
Education and training expenses	¥0.3 million	
Franchise membership fees	¥0.5 million	
Part of payments for purchased products	¥1.2 million	
Merchandise, equipment and consumables	¥4.7 million, borne by franchisees	
Land, buildings and internal remodeling	¥30.0 million, borne by franchisees	Borne by the Company
Rent	Borne by franchisees	Borne by the Company
Royalty percentage (Relative to monthly gross profit)	14%–30%; 30% on average	37%–62%; 46% on average
Minimum revenue guarantee	Annual net sales of franchised stores ¥23.0 million ≦ (¥19.0 million + annual sales x 6%) ≦ ¥27.0 million	Annual net sales of franchised stores ¥20.0 million ≦ (¥14.0 million + annual sales x 6%) ≦ ¥22.0 million
Change in type of agreement	None	Upgrade to Type A possible if satisfactory performance achieved over two years following the opening of the store

Notes: 1. The average royalty percentage was calculated assuming average daily store sales of ¥472,000 and an average product markup of 27.64% for the fiscal year ended February 28, 2010.
2. The monetary figures given for "Merchandise, equipment and consumables" and "Land, buildings and internal remodeling" are amounts for an average store: the actual amount will differ for each store.

Number of Stores by Franchise Agreement Type

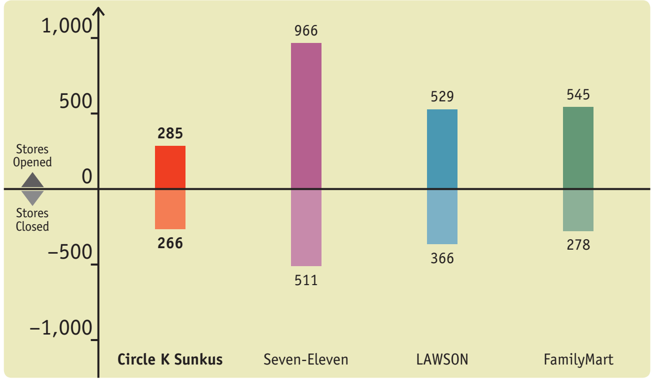
(stores)

	2008/2	2009/2	2010/2
Type A	1,322	1,244	**1,196**
Share	26.8%	25.2%	**24.1%**
Type E	482	436	**399**
Share	9.8%	8.8%	**8.1%**
Type C	2,575	2,751	**2,945**
Share	52.2%	55.7%	**59.4%**
Company-owned stores	550	508	**418**
Share	11.2%	10.3%	**8.4%**

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

Stores Opened/Closed of Major Convenience Store Chains

(stores)



Note: Figures for each convenience store chain represent stores in Japan only, excluding those of consolidated subsidiaries.
Source: Financial reports prepared by each company and news reports.

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Product Details and Markup Rates

In the fiscal year ended February 28, 2010, food category sales were generally weak due to the impact of lackluster consumer spending. In particular, in the fast food category, sales dropped by a sharp 10.5% year on year, mainly because of the prevalence of home-cooked meals, reflecting consumer savings preferences, and reduced overtime work accompanying deteriorating corporate performances. Circle K Sunkus posted strong sales of boxed lunches offered in price ranges under ¥400, to address the low price preferences of consumers. However, sales of other boxed lunches, rice balls and sushi were weak. Consequently, overall rice dish sales remained weak. Sales of baked goods, processed noodles, and delicatessen items were also lackluster. The Company posted lower sales in the *Cherie Dolce* original dessert selection and reduced sales of *Oishii Pan Seikatsu* original baked goods, both of which fall under the perishable food category, partly because these products—now in their second year since launch—have largely run their course. Soft drink and ice cream sales also struggled to grow, partly reflecting a mild summer during what is typically the peak season for sales of these products. In the processed food category, sales decreased 5.5% year on year due to lackluster sales of alcoholic beverages, snacks and other products.

In the non-food items category, overall sales declined 1.3% year on year, reflecting continued weak sales of general merchandise, cosmetics products and daily necessities in the fiscal year ended February 28, 2010 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, as some publications were suspended or went out of print due to the influence of the Internet. However, tobacco sales increased 1.9% year on year on a full-year basis, as a large positive contribution to sales from the taspo card effect, which continued through June 2009, more than offset falling sales from July 2009. In the service category, overall sales increased 5.0% year on year. This mainly reflected strong ticket sales, which increased year on year. The main reasons were increased customer convenience resulting from the roll-out of *KARUWAZA STATION* in-store multimedia terminals, as well as an expanded range of tickets offered after Circle K Sunkus switched ticket vendors to Ticket Pia and JTB Ticket. Another factor was higher sales from *Ticket Preca*, including online game money.

As a result of the foregoing, total product sales decreased 4.3% year on year.

The average product markup for Circle K Sunkus in the fiscal year ended February 28, 2010 was 27.64%, down 0.47 of a percentage point year on year. The primary reason

Sales by Product and Product Markups

	2008/2				2009/2				**2010/2**			
	Sales Growth	Share	Markup		Sales Growth	Share	Markup		**Sales Growth**	**Share**	**Markup**	
				Change				Change				**Change**
Fast food	–4.0%	19.5%	36.0%	0.3%	–3.2%	18.2%	36.2%	0.2%	**–10.5%**	**17.0%**	**36.3%**	**0.1%**
Perishable food	2.2%	13.3%	34.2%	0.5%	0.0%	12.8%	34.4%	0.2%	**–4.9%**	**12.8%**	**34.4%**	**0.1%**
Processed food	–2.6%	31.3%	36.0%	0.4%	–2.0%	29.6%	36.5%	0.5%	**–5.5%**	**29.2%**	**36.8%**	**0.2%**
Non–food items	–1.8%	30.1%	18.2%	–0.3%	16.8%	34.0%	16.6%	–1.6%	**–1.3%**	**35.1%**	**16.2%**	**–0.5%**
Service	7.8%	5.8%	6.7%	–1.0%	–3.9%	5.4%	6.4%	–0.3%	**5.0%**	**5.9%**	**5.9%**	**–0.5%**
Total	–1.5%	100.0%	28.99%	0.02%	3.6%	100.0%	28.11%	–0.88%	**–4.3%**	**100.0%**	**27.64%**	**–0.47%**

was higher sales of low-margin tobacco and service category products, which together reduced the product markup by 0.14 of a percentage point. On the other hand, the average product markup for food categories, excluding non-food items and service categories, improved 0.11 of a point year on year, but food category sales were generally weak.

For the fiscal year ending February 28, 2011, Circle K Sunkus expects the average product markup to improve by 0.08 of a point to 27.72%. This outlook is based on a projected year-on-year drop in tobacco sales, despite continued growth in sales of low-margin service category products.

Fast food:
Rice dishes, sandwiches, noodles, delicatessen snacks, and countertop fast foods

Perishable food:
Milk, chilled beverages, bread, desserts, and fresh packaged foods

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

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

Service:
Tickets, *Net Prica* used for prepaid cards, stamps, and parcel delivery

Consolidated Operating Results for the Fiscal Year Ended February 28, 2010

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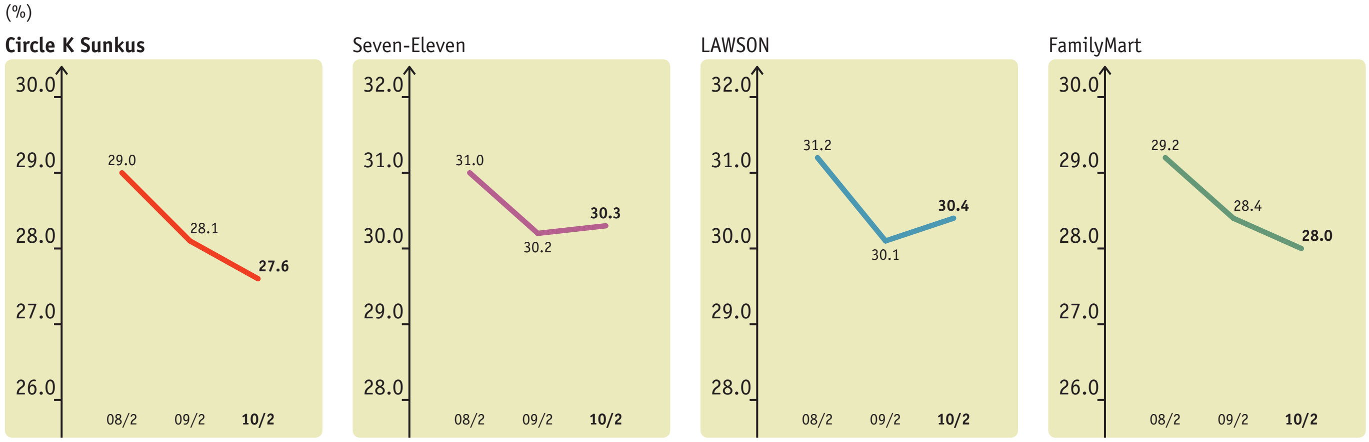
The Company's operating revenue is drawn from franchise commissions from franchised stores, license fees from area franchisers, net sales of Company-owned stores and other operating revenue. In the fiscal year ended February 28, 2010, franchise commissions from franchised stores decreased 4.7% year on year to ¥98,933 million as a result of a drop in sales. Net sales of Company-owned stores declined 14.9% year on year to ¥83,106 million, as Company-owned stores were reduced as a policy objective. Consequently, operating revenue decreased 9.0% to ¥194,143 million.

Consolidated selling, general and administrative (SG&A) expenses decreased 0.6% year on year to ¥114,583 million, due to the pursuit of cost effectiveness and rigorous efforts to reduce inefficiencies. This was despite higher projected SG&A expenses based on related spending accompanying large investments made until the previous fiscal year. The main factors behind the change in SG&A expenses were as follows. There was an increase of 31.5% in depreciation following the deployment of new systems and services. Another factor was an increase of 1.3% in rental and lease expenses, despite a drop in expenses due to the adoption of

Markups (Gross Margin) for Major Convenience Store Chains Over the Past Three Years



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

new lease accounting standards from the fiscal year under review. The increase was mainly attributable to higher rental and lease expenses mainly due to an increase in the number of Type C franchise agreement stores, and the promotion of store relocations. Meanwhile, payroll and remuneration expenses rose 3.1% due to an increase in provisions to the retirement benefit liability. On the other hand, advertising and sales promotion expenses declined 21.5% mainly due to reduced expenses for prizes and TV and radio commercials. There was also a large decrease in management consignment fees due to the reduction in Company-owned stores. As a result of the foregoing, consolidated operating income decreased 33.9% to ¥15,200 million.

In the fiscal year ended February 28, 2010, Circle K Sunkus closed 10 fewer stores than in the previous fiscal year. Consequently, Circle K Sunkus posted sharp decreases in expenses related to store closures, specifically declines of 77.7% in the loss on sales or disposal of property and equipment, and 21.2% in lease contract cancellation expenses and the loss on cancellation of lease contracts. Meanwhile, the Company booked an impairment loss on fixed assets of ¥3,529 million, up 9.4% year on year. As a result of the foregoing, income before income taxes and minority interests declined 40.0% to ¥10,781 million. There was an impact of ¥65 million from the adoption of new lease accounting standards at the income before income taxes and minority interests level. Net income decreased 41.1% to ¥5,555 million. Net income per share amounted to ¥66.32.

Looking at projections for the fiscal year ending February 28, 2011, Circle K Sunkus expects operating revenue to increase 0.1% to ¥194,300 million, mainly reflecting the addition of one consolidated subsidiary. In the fiscal year ending February 28, 2011, although Circle K Sunkus will drastically reduce operating expenses by streamlining the Head Office and rigorously reducing inefficiencies, the Company expects to increase spending on measures to help franchisees boost their sales and earnings, as well as bear additional expenses from a newly consolidated subsidiary. Consequently, SG&A expenses are projected to increase 2.0%. As a result, operating income is projected to fall 5.9% to ¥14,300 million, while net income for the fiscal year ending February 28, 2011 is projected to decrease 8.4% to ¥5,090 million.

Consolidated Subsidiaries

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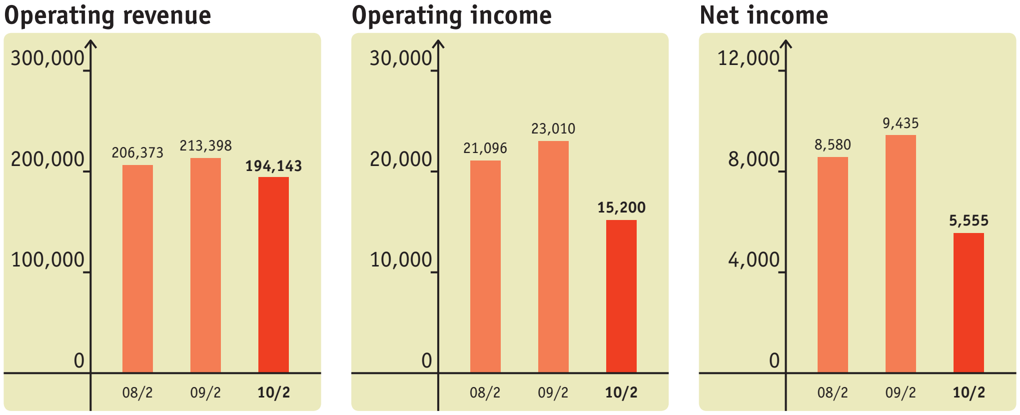
In the fiscal year ended February 28, 2010, Circle K Sunkus had seven consolidated subsidiaries, comprising Retail Staff Co., Ltd., which is engaged in staffing services and became

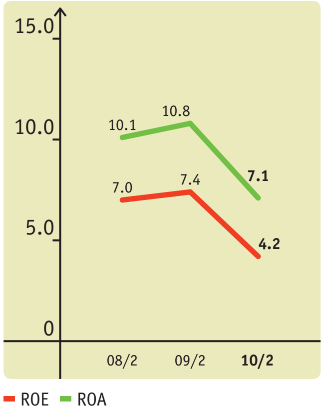
Consolidated Operating Results

(millions of yen)



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

(%)



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

a consolidated subsidiary in the fiscal year under review; four area franchisers; ZERO NETWORKS Co., Ltd., which is contracted to conduct ATM operations; and 99 ICHIBA Co., Ltd., which operates small fresh food supermarkets.

The four area franchisers posted a year-on-year decrease of 0.5% in net sales and an operating loss of ¥165 million, reflecting the end of the taspo card effect, a mild summer and the impact of weak consumer spending. ZERO NETWORKS Co., Ltd. began installing ATMs in nine new prefectures. As of February 28, 2010, the company had installed a total of 3,955 ATMs, an increase of 492 ATMs compared with February 28, 2009. With steady increases in ATM transactions, the company posted operating income of ¥375 million, largely as planned. On the other hand, 99 ICHIBA Co., Ltd. posted an operating loss of ¥428 million as it worked to enhance its earnings structure by opening stores at a slower pace. However, this operating loss was around ¥90 million smaller than in the previous fiscal year. Retail Staff Co., Ltd., a newly consolidated subsidiary, posted operating income of ¥39 million, exceeding its forecast.

In the fiscal year ending February 28, 2011, Sunkus Hokuria Co., Ltd., an area franchiser, will become a consolidated subsidiary. Circle K Sunkus' five area franchisers expect to post an operating loss of ¥377 million, mainly due to higher selling, general and administrative (SG&A) expenses from the newly consolidated subsidiary. ZERO NETWORKS Co., Ltd. expects operating income to decrease 7.5% to ¥347 million based on increased SG&A expenses related to new ATM installations. In the fiscal year ending February 28, 2011, 99 ICHIBA Co., Ltd. aims to further reduce its operating loss by continuing to enhance its earnings structure.

Consolidated Financial Position

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Total current assets decreased ¥2,408 million from the previous fiscal year-end to ¥89,920 million. This reflected a decrease of ¥3,100 million in short-term investments, due to a decline of ¥3,000 million in a commingled monetary trust fund established for investment purposes. Another factor was a decrease of ¥643 million in deferred tax assets.

Net property and equipment rose ¥10,496 million from the previous fiscal year-end to ¥60,069 million. This mainly reflected an increase of ¥3,076 million in buildings and structures, as Type C franchise agreements, where Circle K Sunkus supplies new stores for franchisees, account for more than 90% of all new stores. Following the adoption of new lease accounting standards, Circle K Sunkus recorded leased assets of ¥12,633 million.

Investments and other assets decreased ¥5,549 million from a year earlier to ¥74,855 million. Following the adoption of new lease accounting standards, store leasehold

Business Performance of Consolidated Subsidiaries

(stores, millions of yen)

	2010/2				2011/2 (Forecast)			
	Four area franchisers total	99 ICHIBA	ZERO NETWORKS	Retail Staff	Five area franchisers total	99 ICHIBA	ZERO NETWORKS	Retail Staff
Stores opened	21	10	–	–	36	2	–	–
Stores closed	8	3	–	–	16	6	–	–
Fiscal year–end	276	68	–	–	396	64	–	–
Total store sales	39,477	10,685	–	–	57,823	11,087	–	–
Total operating revenues	8,025	10,692	5,584	1,546	11,857	11,087	5,850	1,898
Operating income	–165	–428	375	39	–377	–201	347	7

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

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

deposits are now recorded as leased assets, whereas previously they were recorded as long-term leasehold deposits. Consequently, long-term leasehold deposits decreased by ¥3,769 million.

Total current liabilities decreased ¥5,135 million from a year ago to ¥71,957 million. This mainly reflected a decrease of ¥1,503 million in trade accounts payable in line with lower total store sales. Another factor was a drop of ¥3,633 million in income taxes payable due to a decrease in taxable income from the previous year.

Total long-term liabilities increased ¥5,498 million from a year earlier to ¥20,055 million. This mainly reflected the recording of lease obligations of ¥6,061 million, as a result of recording finance lease agreements for furniture, fixtures and other property as leased assets, following the adoption of new lease accounting standards.

As a result of the foregoing, total equity increased ¥2,176 million to ¥132,832 million. This change was attributable to an increase of ¥2,202 million in retained earnings from a year earlier, which reflected net income of ¥5,555 million, despite payments of ¥3,350 million for dividends. Consequently, the equity ratio was 59.1%, and total equity per share was ¥1,585.98.

Capital Expenditures

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In the fiscal year ended February 28, 2010, system investments were ¥2,816 million, ¥7,731 million less than in the previous fiscal year, despite the roll-out of *KARUWAZA STATION* in-store multimedia terminals through the first half of the fiscal year. The drop in system investments reflected the end of a series of large-scale system investments through the fiscal year ended February 28, 2009. Consequently, total investments, including investments treated as leases, decreased ¥10,870 million to ¥26,437 million. Meanwhile depreciation and amortization increased in line with large-scale system investments from the fiscal year ended February 29, 2008 to the first half of the fiscal year ended February 28, 2010.

In the fiscal year ending February 28, 2011, Circle K Sunkus expects to further reduce system investments. Accordingly, the Company is budgeting for total investments of ¥24,680 million.

Consolidated Cash Flows

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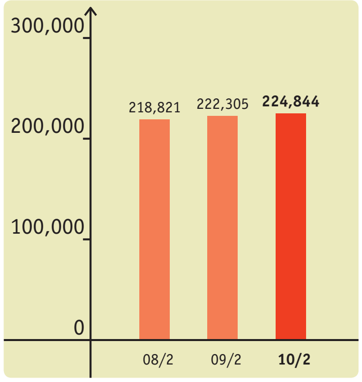
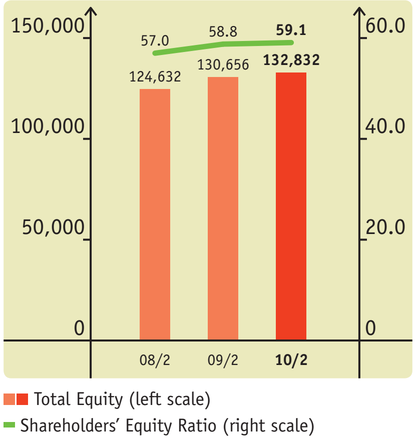
In the fiscal year ended February 28, 2010, operating activities provided net cash of ¥15,921 million, ¥6,605 million less than in the previous fiscal year. This decrease mainly reflected a drop of ¥7,175 million in income before



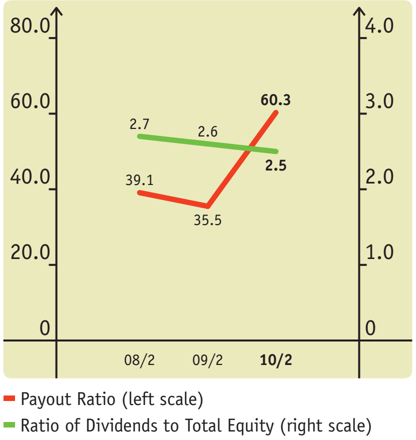
Total Assets

(millions of yen)



Total Equity/ Shareholders' Equity Ratio

(millions of yen, %)



Payout Ratio/ Ratio of Dividends to Total Equity

(%)

income taxes and minority interests due to reduced sales, despite a change in money held as agent of ¥2,732 million, for payment of utility and other bills, and for money held in conjunction with sales from the Sports Promotion Lottery "toto" using *KARUWAZA STATION* in-store multimedia terminals.

Net cash used in investing activities was ¥10,896 million, ¥11,836 million less than in the previous fiscal year. This mainly reflected a decrease of ¥3,291 million in acquisition of long-term investments and other assets, mainly for software development for the next-generation franchise accounting system and for launching new content for in-store multimedia terminals. Another factor was a decrease of ¥3,465 million in the payment of long-term leasehold deposits. These factors were partly offset by an increase of ¥1,873 million in acquisition of property and equipment, chiefly to open new stores and improve the functions of existing ones.

Consequently, free cash flow, which is net cash provided by operating activities minus net cash used in investing activities, was ¥5,025 million, an increase of ¥5,231 million from the previous fiscal year.

Net cash used in financing activities was ¥4,631 million, up ¥991 million year on year. This reflected dividends paid of ¥3,350 million, and the repayment of guarantee deposits received of ¥1,120 million, mainly due to store closures. Cash was also used for the repayment of ¥894 million in lease obligations following the adoption of new lease accounting standards.

As a result of the foregoing, as of February 28, 2010, cash and cash equivalents were ¥63,499 million, up ¥582 million, from the end of the previous fiscal year.

Returning Profits to Shareholders

Investors' Guide P.2/P.20

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

In the fiscal year ended February 28, 2010, Circle K Sunkus declared interim and year-end dividends of ¥20 per share. As a result, the annual dividend for the fiscal year ended February 28, 2010 was ¥40 per share, representing a dividend payout ratio of 60.3% and a ratio of dividends to total equity of 2.5%.

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

Capital Expenditures

(millions of yen)

	2008/2	2009/2	**2010/2**	2011/2 (Forecast)
New store investments	12,894	12,641	**12,485**	14,501
Existing store investments	2,668	2,953	**1,803**	1,940
System investments	4,402	10,547	**2,816**	1,694
Head office investments	741	215	**1,218**	615
Capital expenditure < 1 >	20,705	26,358	**18,322**	18,750
Leasing expenditures < 2 >	13,992	10,949	**8,115**	5,930
Total investments < 1+2 >	34,697	37,307	**26,437**	24,680
Depreciation and amortization	6,804	7,887	**10,372**	12,340

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.

Outlook

In the fiscal year ending February 28, 2011, the Japanese economy is expected to remain flat through the first half of the year, mainly due to weak consumer spending. In the second half of the fiscal year, Japan should see an economic recovery, mainly driven by additional stimulus from government financial policies, including a child support allowance, and improving employment and personal income conditions. Nonetheless, economic growth is projected to be marginal as the economy offers no prospect of any sharp improvement in consumer spending.

The convenience store industry faces an increasingly challenging earnings environment, reflecting intensifying competition across traditional and nontraditional business formats such as food service establishments and drug stores. In this climate, Circle K Sunkus will continue to implement measures to support improved earnings at franchisees by pursuing further cost reductions and improving productivity, so that franchisees and Head Office can work as one to expand one another's earnings.

Our approach is to establish a new budget for supervisor-franchisee sales promotion expenses to implement sales-boosting initiatives that are more in line with actual conditions at each individual store. The goal of this approach is to enhance sales capabilities at each individual franchised store. On the product development front, Circle K Sunkus will further enhance its hallmark *Cherie Dolce* original dessert brand. One new initiative will see us offer a new series of chilled beverages, including sweets that can be enjoyed as beverages. In addition, to address fewer customers visiting stores during morning and night time periods, we will conduct bold sales-promotion measures focused on these particular time periods. Regarding new services, we plan to begin accepting new methods of payment, including payment via QUO Cards from July, as well as Suica cards offered by East Japan Railway Company (JR East). Partnerships with the membership organizations of JR East and other partner companies will also be bolstered through incentive-point exchange programs and other means. We will strive to ensure that these and other measures help us to win new customers and boost customer footfall at our stores. In addition, Circle K Sunkus will continue to open stores with an emphasis on store profitability, while maintaining net increases in the number of stores.

In the fiscal year ending February 28, 2011, although Circle K Sunkus will streamline Head Office operations, rigorously reduce inefficiencies, and cut operating expenses related to Company-owned stores, the Company is projecting decreased earnings, mainly based on higher costs related to franchisee support measures and to an increase in consolidated subsidiaries. Looking ahead, we will continue working to bolster our sales capabilities and transform our earnings structure, with the aim of restoring earnings growth as early as possible.

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.

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 28, 2010, the Circle K Sunkus Group had 13 area franchisers who operated 1,261 stores in 20 prefectures. In the fiscal year ended February 28, 2010, area franchisers posted sales of ¥198,934 million, down 2.6% year on year.

In the fiscal year ending February 28, 2011, Sunkus Hokuria Co., Ltd. will become a newly consolidated subsidiary, bringing the total number of consolidated subsidiaries among area franchisers to five.

Business Risks

The Circle K Sunkus Group's Risk Management Guidelines set forth Company-wide risks that, if they materialize, may impede efforts to achieve Group-wide objectives. Three major risk areas have been identified: (1) reliability of financial reporting; (2) compliance with laws and regulations concerning business activities; and (3) business activities. As of February 28, 2010, 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.

Area Franchisers

(As of February 28, 2010)

Company	Equity interest	Date of agreement	2010/2				Area license fees (millions of yen)
			Number of stores	Change	Sales (millions of yen)	Change	
Sunkus Aomori Co., Ltd.*	100.0%	1994. 3. 1	67	3	¥ 9,402	1.2%	
Sunkus Nishi-Saitama Co., Ltd.*	100.0%	1987. 2.28	84	4	12,572	1.0%	
SUNKUS KITAKANTO Co., Ltd.*	100.0%	1997. 3.12	40	4	5,323	–1.7%	
Sunkus Nishi-Shikoku Co., Ltd.*	100.0%	1992. 8.27	85	2	12,178	–2.8%	
Circle K Shikoku Co., Ltd.	35.0%	1996. 5.14	164	12	25,322	–0.8%	
Sunkus Higashi-Saitama Co., Ltd.	19.0%	1988. 7.19	68	1	10,114	2.6%	
Sunkus Tokai Co., Ltd.	19.0%	1989. 9. 6	109	6	16,117	–3.6%	
Sunkus Keihanna Co., Ltd.	19.0%	1989.10.26	103	4	17,217	–2.0%	
Sunkus and Associates Higashi-Shikoku Co., Ltd.	19.0%	1995. 1.12	127	–7	19,563	–4.9%	
Sunkus Hokuria Co., Ltd.	19.0%	1995. 1.24	100	7	16,459	0.2%	
Sunkus and Associates Toyama Co., Ltd.	19.0%	1996. 7. 2	78	±0	12,660	–8.3%	
Minami-Kyushu Sunkus Co., Ltd.	19.0%	1998. 8.21	106	3	15,335	–0.7%	
CVS Bay Area Inc.	2.4%	1997. 1.14	130	–5	26,666	–7.2%	
Total			**1,261**	**34**	**¥198,934**	**–2.6%**	**¥2,918**

* Consolidated subsidiaries

Note: On June 4, 2010, Circle K Sunkus newly acquired additional shares of Sunkus and Associates Higashi-Shikoku Co., Ltd. Consequently, Circle K Sunkus currently holds an equity interest of 31.0% in Sunkus and Associates Higashi-Shikoku Co., Ltd.

[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 Consolidated Subsidiaries
February 28, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars
ASSETS	**2010**	2009	**2010**
Current assets:			
Cash and cash equivalents	**¥ 63,499**	¥ 62,917	**$ 713,472**
Short-term investments (Note 3)	**3,000**	6,100	**33,708**
Accounts receivable:			
Due from franchised stores (Note 4)	**3,496**	3,542	**39,281**
Other	**8,080**	7,576	**90,787**
	11,576	11,118	**130,068**
Inventories	**1,990**	2,494	**22,360**
Deferred tax assets (Note 14)	**646**	1,289	**7,258**
Prepaid expenses and other current assets	**9,436**	8,761	**106,022**
Allowance for doubtful accounts	**(227)**	(351)	**(2,551)**
Total current assets	**89,920**	92,328	**1,010,337**
Property and equipment (Notes 5 and 6)**:**			
Property and equipment, at cost	**102,797**	87,984	**1,155,023**
Less accumulated depreciation	**(42,728)**	(38,411)	**(480,090)**
Net property and equipment	**60,069**	49,573	**674,933**
Investments and other assets:			
Investment securities (Note 3)	**3,037**	3,845	**34,124**
Investments in and long-term loans to unconsolidated subsidiaries and affiliates (Note 7)	**977**	1,125	**10,977**
Long-term leasehold deposits	**50,141**	53,910	**563,382**
Software (Note 6)	**8,237**	7,594	**92,550**
Deferred tax assets (Note 14)	**3,398**	3,275	**38,180**
Other (Note 6)	**10,316**	12,136	**115,910**
Allowance for doubtful accounts	**(1,251)**	(1,481)	**(14,056)**
Total investments and other assets	**74,855**	80,404	**841,067**
Total assets	**¥224,844**	¥222,305	**$2,526,337**

See accompanying Notes to Consolidated Financial Statements.

	Millions of yen		Thousands of U.S. dollars
LIABILITIES AND EQUITY	**2010**	2009	**2010**
Current liabilities:			
Lease obligations	**¥ 1,287**	¥ –	**$ 14,461**
Accounts payable:			
Trade	**32,779**	34,282	**368,303**
Due to franchised stores (Note 8)	**1,901**	2,038	**21,360**
Other	**6,296**	8,129	**70,742**
	40,976	44,449	**460,405**
Income taxes payable	**841**	4,474	**9,449**
Money held as agent	**25,877**	24,931	**290,753**
Other current liabilities	**2,976**	3,238	**33,438**
Total current liabilities	**71,957**	77,092	**808,506**
Long-term liabilities:			
Lease obligations	**6,061**	–	**68,101**
Guarantee deposits received	**10,823**	10,978	**121,607**
Employee retirement benefit liability (Note 9)	**308**	375	**3,461**
Other long-term liabilities	**2,863**	3,204	**32,168**
Total long-term liabilities	**20,055**	14,557	**225,337**
Commitments and Contingent liabilities (Notes 11, 12 and 13)**:**			
Equity (Note 10)**:**			
Common stock:			
Authorized: 180,000,000 shares in 2010 and 2009			
Issued: 86,183,226 shares in 2010 and 2009	**8,380**	8,380	**94,157**
Capital surplus	**36,093**	36,093	**405,539**
Retained earnings	**92,923**	90,721	**1,044,079**
Less treasury stock, at cost:			
2,429,263 shares in 2010 and 2,427,385 shares in 2009	**(5,030)**	(5,028)	**(56,517)**
Total shareholders' equity	**132,366**	130,166	**1,487,258**
Other components of equity	**466**	490	**5,236**
Total equity	**132,832**	130,656	**1,492,494**
Total liabilities and equity	**¥224,844**	¥222,305	**$2,526,337**

Consolidated Statements of Income

Circle K Sunkus Co., Ltd. and Consolidated Subsidiaries
For the Years Ended February 28, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Operating revenue:			
Franchise commissions from franchised stores	¥ 98,933	¥103,818	$1,111,607
Net sales of Company-owned stores	83,106	97,637	933,775
Other operating revenue	12,104	11,943	136,000
	194,143	213,398	2,181,382
Operating costs and expenses (Note 15)**:**			
Cost of goods sold	64,360	75,112	723,146
Selling, general and administrative expenses	114,583	115,276	1,287,449
	178,943	190,388	2,010,595
Operating income	15,200	23,010	170,787
Other income (expenses):			
Interest and dividend income	640	764	7,191
Interest expenses	(186)	(43)	(2,090)
Loss on sales or disposal of property and equipment	(223)	(999)	(2,505)
Loss on cancellation of lease contracts	(1,503)	(1,907)	(16,888)
Impairment loss on fixed assets (Note 6)	(3,529)	(3,226)	(39,652)
Miscellaneous, net (Note 3)	382	357	4,292
	(4,419)	(5,054)	(49,652)
Income before income taxes and minority interests	10,781	17,956	121,135
Income taxes (Note 14)	5,226	8,545	58,719
Minority interests in losses of consolidated subsidiaries	–	(24)	–
Net income	¥ 5,555	¥ 9,435	$ 62,416

	Yen		U.S. dollars
Per share:			
Net income	¥66.32	¥112.65	$0.75
Cash dividends	40.00	40.00	0.45

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Equity

Circle K Sunkus Co., Ltd. and Consolidated Subsidiaries
For the Years Ended February 28, 2010 and 2009

		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 29, 2008	86,183,226	¥ 8,380	¥ 36,094	¥ 84,636	¥ (5,026)	¥ 124,084	¥ 524	¥ 524	¥ 24	¥124,632
Net income	–	–	–	9,435	–	9,435	–	–	–	9,435
Cash dividends	–	–	–	(3,350)	–	(3,350)	–	–	–	(3,350)
Net change in treasury stock	–	–	(1)	–	(2)	(3)	–	–	–	(3)
Changes other than shareholders' equity for the year	–	–	–	–	–	–	(34)	(34)	(24)	(58)
Balance at February 28, 2009	86,183,226	8,380	36,093	90,721	(5,028)	130,166	490	490	–	130,656
Net income	–	–	–	5,555	–	5,555	–	–	–	5,555
Cash dividends	–	–	–	(3,350)	–	(3,350)	–	–	–	(3,350)
Net change in treasury stock	–	–	(0)	–	(2)	(2)	–	–	–	(2)
Decrease in retained earnings through inclusion of additional subsidiaries on consolidation	–	–	–	(3)	–	(3)	–	–	–	(3)
Changes other than shareholders' equity for the year	–	–	–	–	–	–	(24)	(24)	–	(24)
Balance at February 28, 2010	**86,183,226**	**¥8,380**	**¥36,093**	**¥92,923**	**¥(5,030)**	**¥132,366**	**¥466**	**¥466**	**¥ –**	**¥132,832**
		Thousands of U.S. dollars								
Balance at February 28, 2009		$ 94,157	$ 405,539	$ 1,019,337	$ (56,494)	$ 1,462,539	$ 5,506	$ 5,506	$ –	$ 1,468,045
Net income		–	–	62,416	–	62,416	–	–	–	62,416
Cash dividends		–	–	(37,640)	–	(37,640)	–	–	–	(37,640)
Net change in treasury stock		–	(0)	–	(23)	(23)	–	–	–	(23)
Decrease in retained earnings through inclusion of additional subsidiaries on consolidation		–	–	(34)	–	(34)	–	–	–	(34)
Changes other than shareholders' equity for the year		–	–	–	–	–	(270)	(270)	–	(270)
Balance at February 28, 2010		**$94,157**	**$405,539**	**$1,044,079**	**$(56,517)**	**$1,487,258**	**$5,236**	**$5,236**	**$ –**	**$1,492,494**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Circle K Sunkus Co., Ltd. and Consolidated Subsidiaries
For the Years Ended February 28, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 10,781	¥ 17,956	$ 121,135
Adjustments for:			
Depreciation and amortization	11,051	8,614	124,169
Impairment loss on fixed assets	3,529	3,226	39,652
Loss on sales or disposal of property and equipment	223	999	2,505
Loss on cancellation of lease contracts	729	849	8,191
Increase (decrease) in trade receivables	(331)	1,997	(3,719)
Decrease in inventories	505	48	5,674
Decrease in trade payables	(1,640)	(2,265)	(18,427)
Decrease (increase) in other accounts payable and accrued expenses	(877)	1,466	(9,854)
Increase (decrease) in money held as agent	1,129	(1,603)	12,685
Decrease in employee retirement benefit liabilities	(66)	(334)	(742)
Other, net	(942)	(2,163)	(10,584)
Subtotal	24,091	28,790	270,685
Interest and dividends received	359	473	4,034
Interest paid	(148)	(1)	(1,663)
Income taxes paid	(8,381)	(6,736)	(94,168)
Net cash provided by operating activities	15,921	22,526	178,888
Cash flows from investing activities:			
Acquisition of property and equipment	(13,635)	(11,762)	(153,202)
Acquisition of long-term investments and other assets	(5,352)	(8,643)	(60,135)
Proceeds from sales of property, long-term investments and other assets	2,738	1,820	30,764
Payments for long-term leasehold deposits	(2,484)	(5,949)	(27,910)
Proceeds from redemption of long-term leasehold deposits	4,732	4,645	53,169
Net decrease (increase) in short-term investments	3,100	(3,000)	34,831
Other	5	157	56
Net cash used in investing activities	(10,896)	(22,732)	(122,427)
Cash flows from financing activities:			
Payments for long-term lease obligations	(894)	–	(10,045)
Proceeds from guarantee deposits received	735	967	8,258
Repayments for guarantee deposits received	(1,120)	(1,253)	(12,584)
Dividends paid	(3,350)	(3,351)	(37,640)
Purchase of treasury stock	(3)	(5)	(34)
Other	1	2	11
Net cash used in financing activities	(4,631)	(3,640)	(52,034)
Net increase (decrease) in cash and cash equivalents	394	(3,846)	4,427
Cash and cash equivalents at beginning of year	62,917	66,763	706,933
Increase in cash and cash equivalents upon inclusion of additional subsidiaries on consolidation	188	–	2,112
Cash and cash equivalents at end of year	¥ 63,499	¥ 62,917	$ 713,472

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Circle K Sunkus Co., Ltd. and Consolidated Subsidiaries
For the Years Ended February 28, 2010 and 2009

1. Basis of Consolidated Financial Statements

(a) Basis of presenting consolidated financial statements

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

(b) Principal shareholder

UNY CO., LTD. (“UNY”) directly owned 40,746 thousand shares of the common stock of the Company at February 28, 2010, an amount which represented 48.8% of the total voting interests in the Company at the balance sheet date. UNY also had, and continues to have, significant influence over the Company. Accordingly, the Company is a subsidiary of UNY.

(c) U.S. dollar amounts

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing approximate exchange rate at February 28, 2010, which was ¥89 to U.S. $1.00. The translation should not be construed as a representation that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

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

The number of consolidated subsidiaries, unconsolidated subsidiaries and affiliates for the years ended February 28, 2010 and 2009 was as follows:

	2010	2009
Consolidated subsidiaries	**7**	6
Unconsolidated subsidiaries, accounted for by the equity method	**1**	1
Unconsolidated subsidiaries, stated at cost	**5**	6
Affiliates, stated at cost	**9**	9

(b) Franchise agreements and basis of recognizing franchise commissions

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

For the years ended February 28, 2010 and 2009, net sales, which were reported by franchised stores as the basis for calculating franchise commissions, were ¥824,442 million ($9,263,393 thousand) and ¥847,490 million, respectively.

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

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

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

(c) Area franchise agreements

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

(d) Cash equivalents

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

(e) Inventories

In July 2006, the Accounting Standards Board of Japan (ASBJ) issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories." As permitted under the superseded accounting standard, the Circle K Sunkus Group previously stated merchandise inventories at cost, determined by the retail method. Supplies are stated at cost, determined by the last purchase price.

The new accounting standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net realizable value. As a result of the adoption of ASBJ Statement No. 9, operating income and income before income taxes and minority interests were ¥80 million ($899 thousand) less for the year ended February 28, 2010, than the amounts that would have been recorded under the previous accounting method.

(f) Investments and marketable securities

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

(g) Allowance for doubtful accounts

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

(h) Property and equipment and depreciation

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

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

For property and equipment acquired before April 1, 2007, the Circle K Sunkus Group previously depreciated up to the depreciable limit of 5% of the acquisition cost in accordance with the Corporation Tax Law of Japan. Effective from the year ended February 29, 2008, the remaining residual value is depreciated over five years using the straight-line method from the fiscal year in which the depreciable limit of 5% of the acquisition cost is reached, pursuant to the amended Corporation Tax Law of Japan. As a result, operating income and income before income taxes and minority interests for the year ended February 28, 2009 was ¥58 million less than it would have been with the previous accounting method.

(i) Leases

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

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

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

The Circle K Sunkus Group applied the revised accounting standard effective March 1, 2009. The effect of this change was to increase operating income by ¥81 million ($910 thousand), and decrease income before income taxes and minority interests by ¥65 million ($730 thousand) for the year ended February 28, 2010, from the amounts that would have been recorded without the application of the revised standard.

For the year ended February 28, 2010, for finance leases which did not transfer ownership of the leased property to the lessee, lease assets were amortized by the straight-line method over the lease period. In addition, the Circle K Sunkus Group accounted for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions.

(j) Software

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

(k) Impairment of fixed assets

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

(l) Employee retirement benefit liability

Employees who terminate their service with the Circle K Sunkus Group are entitled to retirement and severance benefits determined by the basic rate of pay at the time of termination, length of service and conditions under which the termination occurs. Such retirement and severance benefits for employees are covered by a noncontributory pension plan organized by UNY, its subsidiaries and affiliates (together, the "UNY" Group), including the Company. Consolidated subsidiaries have lump-sum retirement benefit plans. The Circle K Sunkus Group principally recognizes retirement benefits, including pension cost and related liability, based on the actuarial present value of projected benefit obligation using an actuarial appraisal approach and the value of pension plan assets available for benefits at the fiscal year-end. Unrecognized actuarial differences arising from the actual benefit obligation or value of pension plan assets being different from that projected or from changes in the underlying assumptions are amortized on a straight-line basis over eight to ten years, a period within the remaining service years of the employees, from the year following the year in which they arise. Unrecognized past service costs are amortized on a straight-line basis over ten years, a period within the remaining service years of the employees.

(m) Directors' bonuses

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

(n) Allowance for incentive points

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

(o) Income taxes

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

(p) Enterprise taxes

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

(q) Consumption tax

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

(r) Appropriation of retained earnings

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

(s) Per share data

Net income per share is computed by dividing income available to common shareholders by the weighted average number of shares of common stock outstanding during the respective years. Diluted net income per share is not disclosed because the Circle K Sunkus Group had no diluted common shares for the years ended February 28, 2010 or 2009. Cash dividends per share shown for each fiscal year in the accompanying consolidated statements of income represent dividends declared as applicable to the respective year.

3. Investments

At February 28, 2010 and 2009, short-term investments consisted of a joint money trust.

At February 28, 2010 and 2009, investment securities consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Marketable securities:			
Equity securities	**¥1,634**	¥1,690	**$18,360**
Bonds	**1,195**	1,977	**13,427**
Total marketable securities	**2,829**	3,667	**31,787**
Other nonmarketable securities	**208**	178	**2,337**
	¥3,037	¥3,845	**$34,124**

During the years ended February 28, 2010 and 2009, the Circle K Sunkus Group recorded a loss on the write-down of available-for-sale securities and investments in unconsolidated subsidiaries and affiliates due to a permanent diminution in value in the amount of ¥4 million ($45 thousand) and ¥92 million, respectively. This loss is reflected in the accompanying consolidated statements of income.

Marketable securities are classified as available-for-sale and are stated at fair value, with unrealized gains and losses excluded from current earnings and reported as a net amount in an equity account until realized. At February 28, 2010 and 2009, 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 28, 2010:				
Marketable securities:				
Equity securities	**¥ 843**	**¥800**	**¥ (9)**	**¥1,634**
Bonds	**1,200**	**1**	**(6)**	**1,195**
	¥2,043	**¥801**	**¥(15)**	**¥2,829**
At February 28, 2009:				
Marketable securities:				
Equity securities	¥ 847	¥852	¥ (9)	¥1,690
Bonds	2,000	2	(25)	1,977
	¥2,847	¥854	¥(34)	¥3,667
	Thousands of U.S. dollars			
At February 28, 2010:				
Marketable securities:				
Equity securities	**$ 9,472**	**$8,989**	**$(101)**	**$18,360**
Bonds	**13,483**	**11**	**(67)**	**13,427**
	$22,955	**$9,000**	**$(168)**	**$31,787**

At February 28, 2010, 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**	**$33,708**
Due after one year through five years	**1,195**	**13,427**
	¥4,195	**$47,135**

4. Accounts Receivable: Due from Franchised Stores

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

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

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

5. Property and Equipment

At February 28, 2010 and 2009, property and equipment consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Land	**¥ 8,399**	¥ 8,505	**$ 94,371**
Buildings and structures	**64,569**	61,493	**725,494**
Machinery, equipment and vehicles	**136**	137	**1,528**
Furniture and fixtures	**16,933**	17,044	**190,259**
Leased assets	**12,633**	–	**141,944**
Construction in progress	**127**	805	**1,427**
	102,797	87,984	**1,155,023**
Less accumulated depreciation	**(42,728)**	(38,411)	**(480,090)**
	¥ 60,069	¥ 49,573	**$ 674,933**

6. Impairment of Fixed Assets

For the purpose of recognition and measurement of an impairment loss, fixed assets of the Circle K Sunkus Group are grouped principally into cash generating units, such as stores. The Circle K Sunkus Group determines whether assets are impaired based on an analysis of significant decreases in the fair value of land, the schedules of closing stores and ongoing operating losses of stores. An impairment loss is recognized if undiscounted expected cash flows are less than the carrying amount of an asset. The recoverable amounts of assets were measured based on net selling prices primarily from appraisal valuations or amounts of operating cash flows discounted by interest rates of 2.7% and 7.4% for the years ended February 28, 2010 and 2009, respectively. For the year ended February 28, 2009, the Circle K Sunkus Group recognized an impairment loss on goodwill after assuming the recoverable amount to be nil due to a significant decline in actual value.

For the years ended February 28, 2010 and 2009, the Circle K Sunkus Group recognized impairment loss on fixed assets of ¥3,529 million ($39,652 thousand) and ¥3,226 million, respectively, as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Convenience stores:			
Land	**¥ 208**	¥ 41	**$ 2,337**
Buildings and structures	**2,004**	1,873	**22,517**
Furniture, fixtures and equipment	**415**	233	**4,663**
Software	**–**	30	**–**
Goodwill	**–**	58	**–**
Leased property and equipment	**618**	722	**6,944**
Other	**284**	269	**3,191**
Total	**¥3,529**	¥3,226	**$39,652**

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

At February 28, 2010 and 2009, investments in and long-term loans to unconsolidated subsidiaries and affiliates consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Investments in:			
Unconsolidated subsidiaries and affiliates stated at cost	**¥974**	¥1,107	**$10,944**
Interest bearing long-term loans	**3**	18	**33**
	¥977	¥1,125	**$10,977**

8. Accounts Payable: Due to Franchised Stores

The cost of merchandise supplied to franchised stores is debited as “Accounts receivable: Due from franchised stores” as described in Note 4.

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

9. Employee Retirement Benefits

The following table reconciles the benefit obligation and net periodic retirement benefit expense as of and for the years ended February 28, 2010 and 2009:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Projected benefit obligation	**¥ 9,774**	¥ 9,373	**$109,820**
Fair value of pension plan assets at end of year	**(7,926)**	(6,627)	**(89,056)**
Projected benefit obligation in excess of pension plan assets	**1,848**	2,746	**20,764**
Less unrecognized actuarial differences (loss)	**(2,625)**	(3,631)	**(29,494)**
Unrecognized past service costs	**1,085**	1,260	**12,191**
Net amount of employee retirement benefit liability recognized on the consolidated balance sheets	**¥ 308**	¥ 375	**$ 3,461**

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Components of net periodic retirement benefit expense:			
Service cost	**¥ 603**	¥ 600	**$ 6,775**
Interest cost	**186**	196	**2,090**
Expected return on pension plan assets	**(263)**	(351)	**(2,955)**
Amortization of actuarial differences	**612**	386	**6,876**
Amortization of past service costs	**(175)**	(175)	**(1,966)**
Net periodic retirement benefit expense	**¥ 963**	¥ 656	**$10,820**

Major assumptions used in the calculation of the above information for the years ended February 28, 2010 and 2009 were as follows:

	2010	2009
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 period of actuarial differences	**8 to 10 years**	8 to 10 years
Amortization period of past service costs	**10 years**	10 years

10. Equity

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

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

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

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

At February 28, 2010 and 2009, capital surplus consisted principally of additional paid-in capital. In addition, retained earnings included legal reserve of the Company in the amount of ¥688 million ($7,730 thousand) and ¥688 million at February 28, 2010 and 2009, respectively.

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

At the annual shareholders' meeting held on May 26, 2010, the shareholders approved cash dividends amounting to ¥1,675 million ($18,820 thousand). Such appropriations have not been accrued in the consolidated financial statements as of February 28, 2010, but are recognized in the period in which they are approved by the shareholders.

11. Lease Commitments

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

As discussed in Note 2 (i), the Circle K Sunkus Group accounts for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions. If such leased property of the Circle K Sunkus Group had been capitalized, amounts in the related accounts would have been increased (decreased) at February 28, 2010 and 2009 as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Property and equipment, net of accumulated depreciation *1	**¥20,531**	¥28,415	**$230,685**
Lease obligations as liabilities *2	**22,031**	29,783	**247,539**
Allowance for impairment loss on leased property	**(775)**	(818)	**(8,708)**
Net effect on retained earnings at year-end	**¥ (725)**	¥ (550)	**$ (8,146)**

Additionally, for the years ended February 28, 2010 and 2009, income before income taxes and minority interests would have been ¥175 million ($1,966 thousand) and ¥49 million less, respectively.

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

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

Future minimum payments for noncancelable finance leases, excluding imputed interest, and operating leases at February 28, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Finance leases:			
Due within one year	**¥ 6,319**	¥ 7,713	**$ 71,000**
Due after one year	**15,712**	22,070	**176,539**
	¥22,031	¥29,783	**$247,539**
Operating leases:			
Due within one year	**¥ 767**	¥ 904	**$ 8,618**
Due after one year	**413**	728	**4,640**
	¥ 1,180	¥ 1,632	**$ 13,258**

12. Contingent Liabilities

At February 28, 2010 and 2009, contingent liabilities in respect to guarantees of indebtedness of unconsolidated subsidiaries and affiliates, franchisees and others amounted to ¥4,051 million ($45,517 thousand) and ¥3,615 million, respectively.

13. Derivative Instruments

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

14. Income Taxes

Income taxes for the years ended February 28, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Income taxes:			
Current	**¥4,696**	¥7,876	**$52,764**
Deferred	**530**	669	**5,955**
	¥5,226	¥8,545	**$58,719**

The tax effects of temporary differences that give rise to a significant portion of deferred tax assets at February 28, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Deferred tax assets:			
Enterprise tax accruals	**¥ 126**	¥ 371	**$ 1,416**
Allowance for doubtful accounts	**488**	627	**5,483**
Accrued bonuses	**328**	333	**3,685**
Depreciation	**48**	35	**539**
Employee retirement benefit liability	**125**	151	**1,404**
Impairment loss on fixed assets	**3,058**	2,619	**34,360**
Long-term deferred income	**740**	847	**8,315**
Write-down of investment securities	**452**	449	**5,079**
Long-term deferred credit	**465**	466	**5,225**
Other	**1,570**	1,442	**17,640**
Less valuation allowance	**(3,036)**	(2,446)	**(34,112)**
	4,364	4,894	**49,034**
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	**(320)**	(330)	**(3,596)**
	(320)	(330)	**(3,596)**
Net deferred tax assets	**¥ 4,044**	¥ 4,564	**$ 45,438**

In assessing the realizability of deferred tax assets, management of the Circle K Sunkus Group considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which these temporary differences become deductible. At February 28, 2010 and 2009, a valuation allowance was established to reduce the deferred tax assets to the amount management believed could be realized.

The reconciliation of the difference between the Japanese statutory effective tax rate and the effective income tax rate on pre-tax income reflected in the accompanying consolidated statements of income for the years ended February 28, 2010 and 2009 was as follows:

	Percentage of pre-tax income	
	2010	2009
Japanese statutory effective tax rate	**40.69%**	40.25%
Increase (decrease) due to:		
Permanently nondeductible expenses	**1.09**	0.90
Tax exempt income	**(0.23)**	(0.27)
Local minimum taxes per capita levy	**1.26**	0.70
Change in valuation allowance	**5.60**	6.16
Other	**0.07**	(0.15)
Effective income tax rate	**48.48%**	47.59%

15. Additional Income Statement Information

Additional income statement information for the years ended February 28, 2010 and 2009 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Payroll and remuneration expenses	**¥22,464**	¥21,795	**$252,404**
Advertising expenses	**7,151**	9,109	**80,348**
Depreciation	**10,372**	7,887	**116,539**
Utility expenses	**2,011**	2,417	**22,596**
Rental and lease expenses	**50,301**	49,650	**565,180**

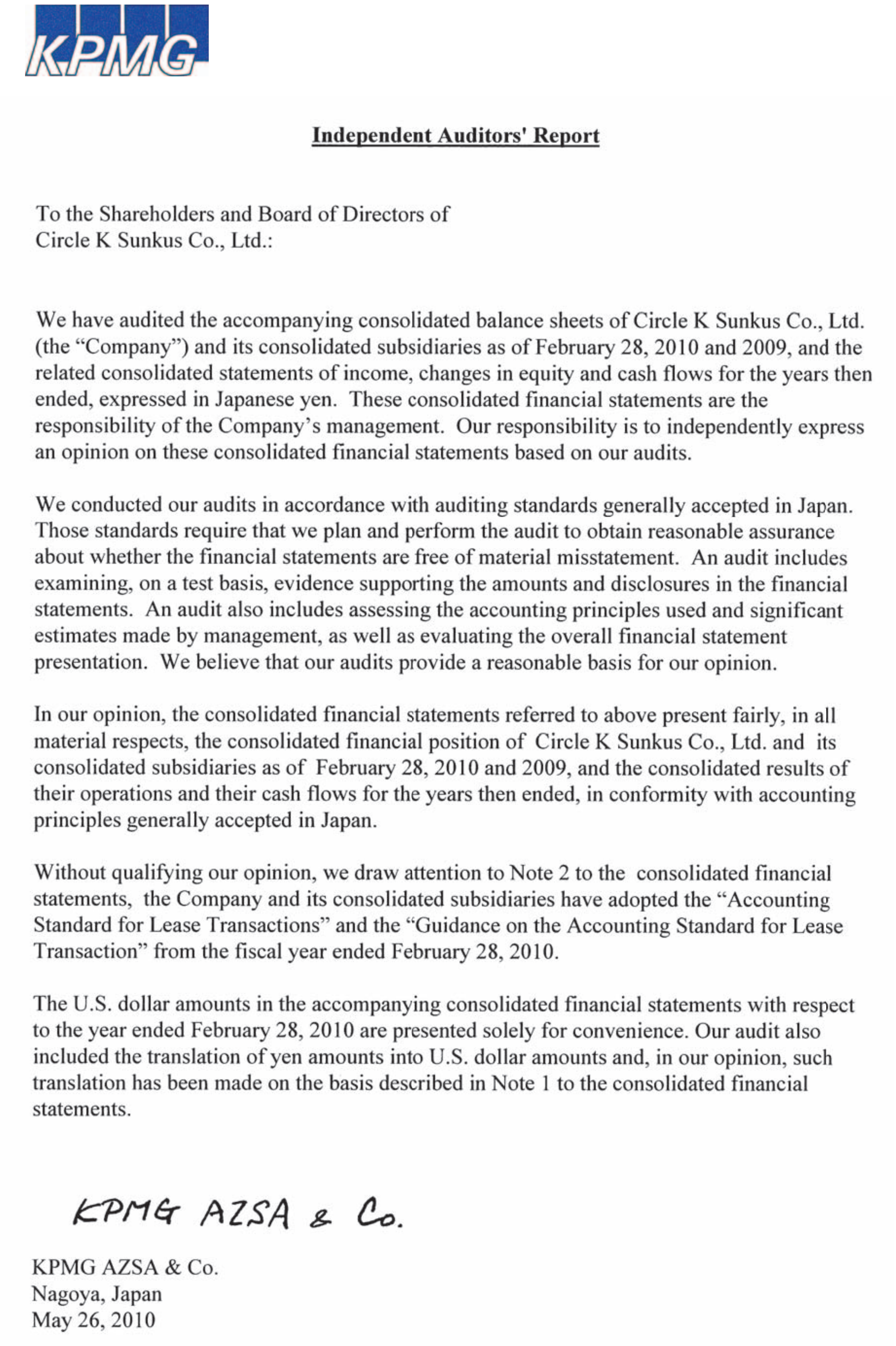
16. Related Party Transactions

During the years ended February 28, 2010 and 2009, the Circle K Sunkus Group had operational transactions with unconsolidated subsidiaries, affiliates and the UNY Group companies. A summary of the significant transactions with these related parties for the years ended February 28, 2010 and 2009 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Sale of investment securities	**¥ –**	¥ 140	**$ –**
Property and equipment lease contract cancellation expenses	**–**	167	**–**
Acceptance of commercial paper	**24,496**	24,495	**275,236**

17. Segment Information

The primary business of the Circle K Sunkus Group is the management of stores and franchise operations in respect to the Circle K and Sunkus convenience store chains. Segment information is not shown because the Circle K Sunkus Group operated predominantly in a single industry during the years ended February 28, 2010 and 2009.



KPMG

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Circle K Sunkus Co., Ltd. (the "Company") and its consolidated subsidiaries as of February 28, 2010 and 2009, and the related consolidated statements of income, changes in equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Circle K Sunkus Co., Ltd. and its consolidated subsidiaries as of February 28, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements, the Company and its consolidated subsidiaries have adopted the "Accounting Standard for Lease Transactions" and the "Guidance on the Accounting Standard for Lease Transaction" from the fiscal year ended February 28, 2010.

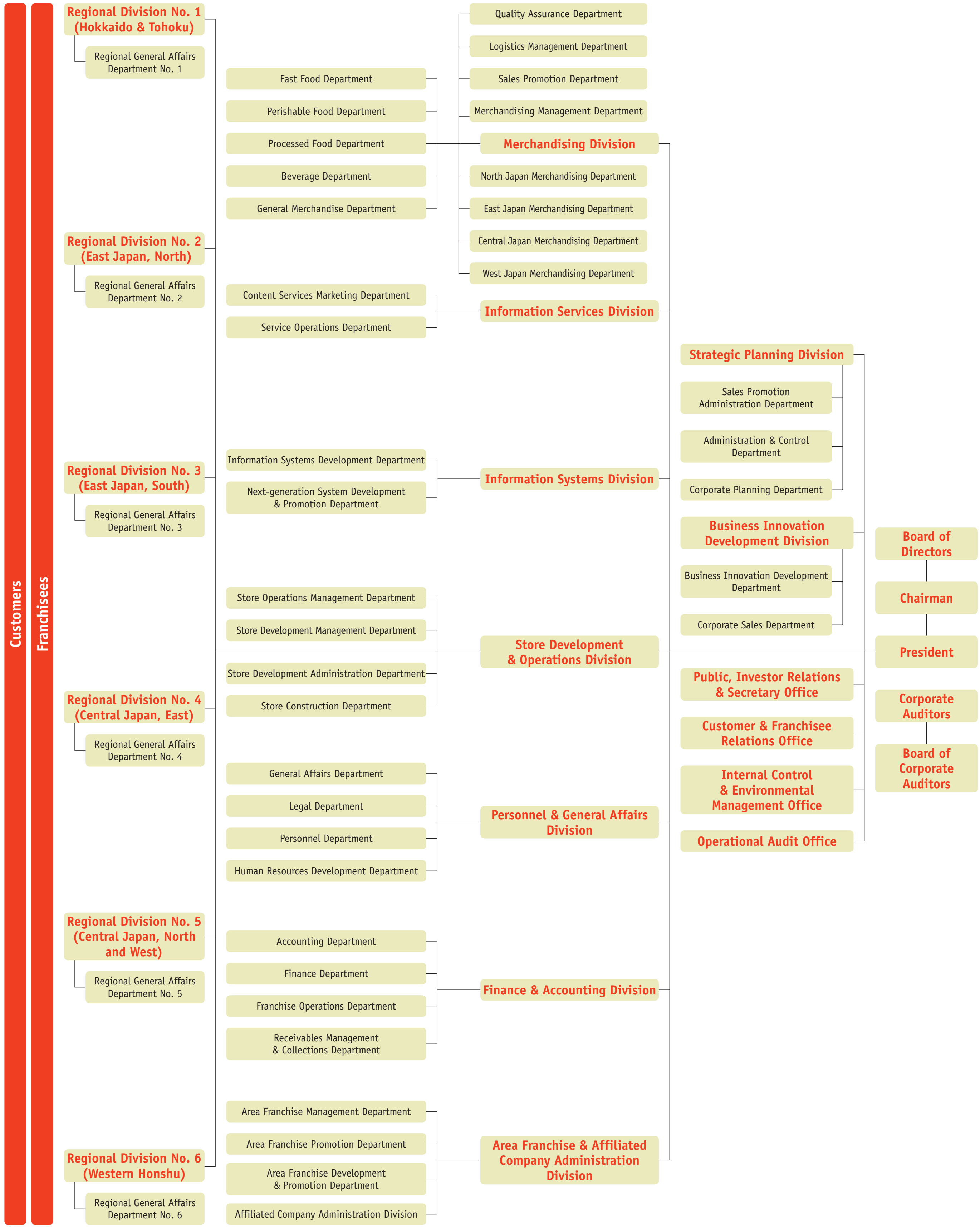
The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended February 28, 2010 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

KPMG AZSA & Co.
Nagoya, Japan
May 26, 2010

Organization

(As of March 1, 2010)



- **Board of Directors**
- **Chairman**
- **President**
- **Corporate Auditors**
- **Board of Corporate Auditors**

- **Strategic Planning Division**
  - Sales Promotion Administration Department
  - Administration & Control Department
  - Corporate Planning Department
- **Business Innovation Development Division**
  - Business Innovation Development Department
  - Corporate Sales Department
- **Public, Investor Relations & Secretary Office**
- **Customer & Franchisee Relations Office**
- **Internal Control & Environmental Management Office**
- **Operational Audit Office**

- **Merchandising Division**
  - Quality Assurance Department
  - Logistics Management Department
  - Sales Promotion Department
  - Merchandising Management Department
  - Fast Food Department
  - Perishable Food Department
  - Processed Food Department
  - Beverage Department
  - General Merchandise Department
  - North Japan Merchandising Department
  - East Japan Merchandising Department
  - Central Japan Merchandising Department
  - West Japan Merchandising Department
- **Information Services Division**
  - Content Services Marketing Department
  - Service Operations Department
- **Information Systems Division**
  - Information Systems Development Department
  - Next-generation System Development & Promotion Department
- **Store Development & Operations Division**
  - Store Operations Management Department
  - Store Development Management Department
  - Store Development Administration Department
  - Store Construction Department
- **Personnel & General Affairs Division**
  - General Affairs Department
  - Legal Department
  - Personnel Department
  - Human Resources Development Department
- **Finance & Accounting Division**
  - Accounting Department
  - Finance Department
  - Franchise Operations Department
  - Receivables Management & Collections Department
- **Area Franchise & Affiliated Company Administration Division**
  - Area Franchise Management Department
  - Area Franchise Promotion Department
  - Area Franchise Development & Promotion Department
  - Affiliated Company Administration Division

- **Regional Division No. 1 (Hokkaido & Tohoku)**
  - Regional General Affairs Department No. 1
- **Regional Division No. 2 (East Japan, North)**
  - Regional General Affairs Department No. 2
- **Regional Division No. 3 (East Japan, South)**
  - Regional General Affairs Department No. 3
- **Regional Division No. 4 (Central Japan, East)**
  - Regional General Affairs Department No. 4
- **Regional Division No. 5 (Central Japan, North and West)**
  - Regional General Affairs Department No. 5
- **Regional Division No. 6 (Western Honshu)**
  - Regional General Affairs Department No. 6

Franchisees

Customers

Investor Information

(As of February 28, 2010)

Number of shares

Authorized: 180,000,000

Issued: 86,183,226

Securities code number

3337

Securities traded (Common stock)

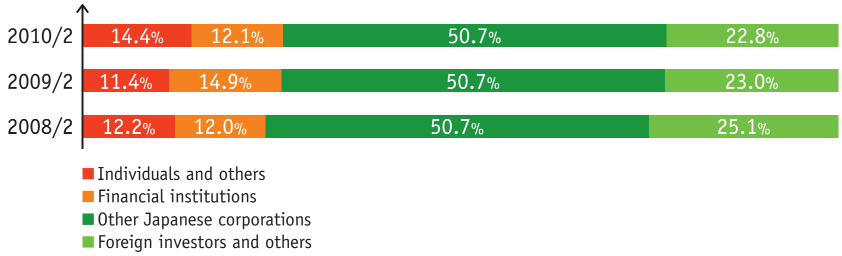
First Section, Tokyo and Nagoya stock exchanges

Transfer agent

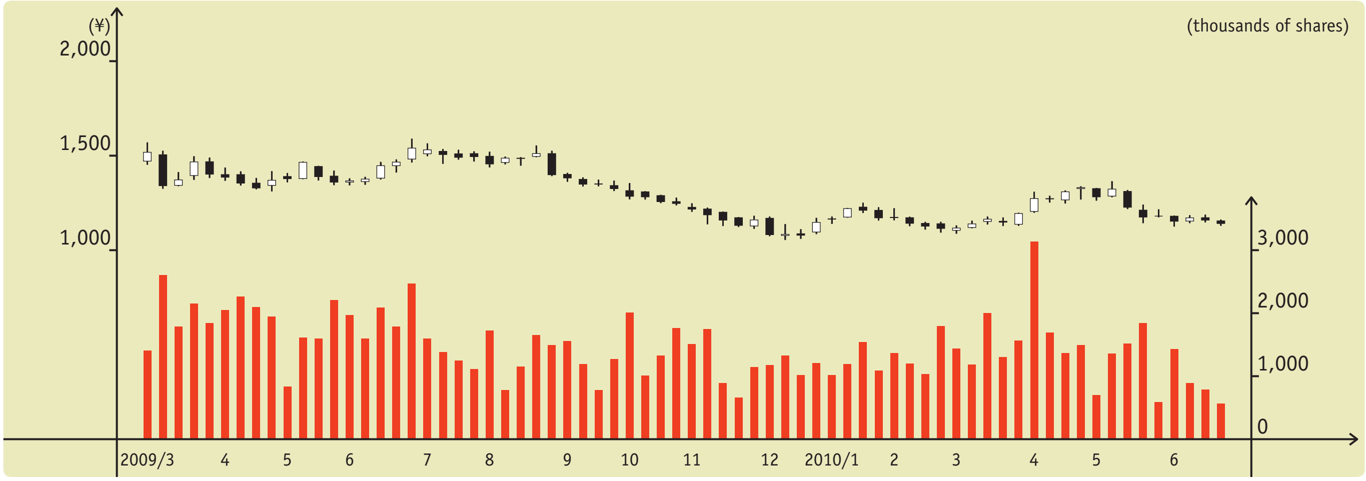
The Sumitomo Trust and Banking Co., Ltd.
5-33, Kitahama 4-chome, Chuo-ku, Osaka 540-8639, Japan

Number of shareholders

Breakdown by type of investors



Stock price/Turnover



Corporate Data

(As of February 28, 2010)

Corporate name
Circle K Sunkus Co., Ltd.

Commencement of operations
September 1, 2004

Capital
¥8,380 million

Fiscal year-end
End of February

Number of employees
1,759 (non-consolidated)

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

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

Telephone
+81-3-6220-9000 (main)

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

Total store sales
¥1,051,088 million (Figure includes area franchisers)

Number of stores
6,219 (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.
Retail Staff Co., Ltd.

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.

The UNY Group

(As of February 20, 2010)

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

Consolidated Subsidiaries
Sagami Co., Ltd. (kimono retailing)
Molie Co., Ltd. (high-quality women's wear)
Palemo Co., Ltd. (young women's apparel and accessories)
Suzutan Co., Ltd. (young women's apparel and accessories)
Uny (HK) Co., Ltd. (superstore)
U Life Co., Ltd. (real-estate rental business)
Tomei Crown Kaihatsu Co., Ltd. (real-estate rental business)
Sun Sogo Maintenance Co., Ltd. (facility management)
Sun Reform Co., Ltd. (reform and repair)


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

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

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

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