

## Summary of Consolidated Financial Statements for the year ended February 28, 2007. (March 1, 2006 to February 28, 2007)

### Circle K Sunkus Co., Ltd.

Securities Code Number: 3337

URL: <http://www.circleksunkus.jp>

Representative: Kiyoshi Hijikata, President

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Stock exchange listings: The first section of the Tokyo Stock Exchange and Nagoya Stock Exchange

Date of the board of directors meeting to settle accounts: April 10, 2007

Parent company: UNY Co., Ltd. (Securities Code No.8270) Ownership of parent company: 48.8%

Prepared in accordance with the financial accounting standards in Japan.

### 1. Results for the Fiscal Year Ended February 28, 2007 (March 1, 2006 to February 28, 2007)

#### (1) Consolidated Operating Results

Notes: All amounts less than one million yen have been omitted.

|                  | Total operating revenues [ Total sales ] |               | Operating income |          | Recurring profit |          |
|------------------|--|---------------|------------------|----------|------------------|----------|
|                  | Millions of yen                          | Change %      | Millions of yen  | Change % | Millions of yen  | Change % |
| 2007 fiscal year | 194,392 [ 911,281 ]                      | 5.5 [ (0.9) ] | 23,113           | (10.4)   | 22,110           | (11.7)   |
| 2006 fiscal year | 184,190 [ 919,824 ]                      | 32.9 [ 28.6 ] | 25,785           | 39.2     | 25,031           | 41.3     |

|                  | Net Income      |          | Net income per share | Diluted net income per share |
|------------------|-----------------|----------|----------------------|------------------------------|
|                  | Millions of yen | Change % | Yen                  | Yen                          |
| 2007 fiscal year | 10,237          | (11.0)   | 119.92               | -                            |
| 2006 fiscal year | 11,498          | 22.7     | 132.77               | -                            |

|                  | Return on equity | Recurring profit ratio of total assets | Recurring profit ratio of total operating revenues |
|------------------|------------------|--|--|
|                  | %                | %                                      | %  |
| 2007 fiscal year | 8.7              | 10.4                                   | 11.9   |
| 2006 fiscal year | 10.1             | 12.1                                   | 13.6   |

- (Note) 1. Equity in earnings or losses of investees
- |                  |             |
|------------------|-------------|
| 2007 fiscal year | ¥ - million |
| 2006 fiscal year | ¥ - million |
2. Average number of shares (Consolidated) during
- |                  |                   |
|------------------|-------------------|
| 2007 fiscal year | 85,371,299 shares |
| 2006 fiscal year | 86,150,714 shares |
3. Change in accounting policies
- None
4. Figures for the percent columns indicate percentage changes in total operating revenues, total sales excluding ZERO NETWORKS Co., Ltd. and non-consolidated area franchisers, operating income, recurring profit and net income compared with the same interim period of the previous year.

## (2) Consolidated Financial Position

|                  | Total assets    | Shareholders' equity | Shareholders' equity ratio | Shareholders' equity Per share |
|------------------|-----------------|----------------------|----------------------------|--------------------------------|
|                  | Millions of yen | Millions of yen      | %                          | Yen                            |
| 2007 fiscal year | 212,377         | 119,883              | 56.4                       | 1,431.27                       |
| 2006 fiscal year | 211,767         | 118,392              | 55.9                       | 1,373.59                       |

(Note) Average number of shares (Consolidated) end of the fiscal year  
2007 fiscal year 83,759,637 shares  
2006 fiscal year 86,148,930 shares

## (3) Consolidated Cash Flows

|                  | Cash flows from operating activities | Cash flows from investing activities | Cash flows from financing activities | Cash and cash equivalents at end of period |
|------------------|--------------------------------------|--------------------------------------|--------------------------------------|--|
|                  | Millions of yen                      | Millions of yen                      | Millions of yen                      | Millions of yen                            |
| 2007 fiscal year | 19,701                               | (15,209)                             | (9,856)                              | 64,957                                     |
| 2006 fiscal year | 27,210                               | (13,229)                             | (3,998)                              | 68,803                                     |

## (4) Scope of consolidated subsidiaries

Consolidated subsidiaries : 5      Subsidiaries or affiliates applicable of equity method: None

## (5) Change in scope of consolidation and equity method

Consolidation : (Inclusion) 3      (Exclusion) None

## 2. Forecast of Consolidated Results for the Year Ending February 29, 2008

|                     | Total operating revenues [Total sales] | Recurring profit | Net income      |
|---------------------|--|------------------|-----------------|
|                     | Millions of yen                        | Millions of yen  | Millions of yen |
| 2008 interim period | 102,660 [ 467,340 ]                    | 10,640           | 3,340           |
| 2008 fiscal year    | 198,400 [ 913,570 ]                    | 20,000           | 7,600           |

(Reference) Projected net income per share for Fiscal Year ending February 29,2008 : JPY 90.74

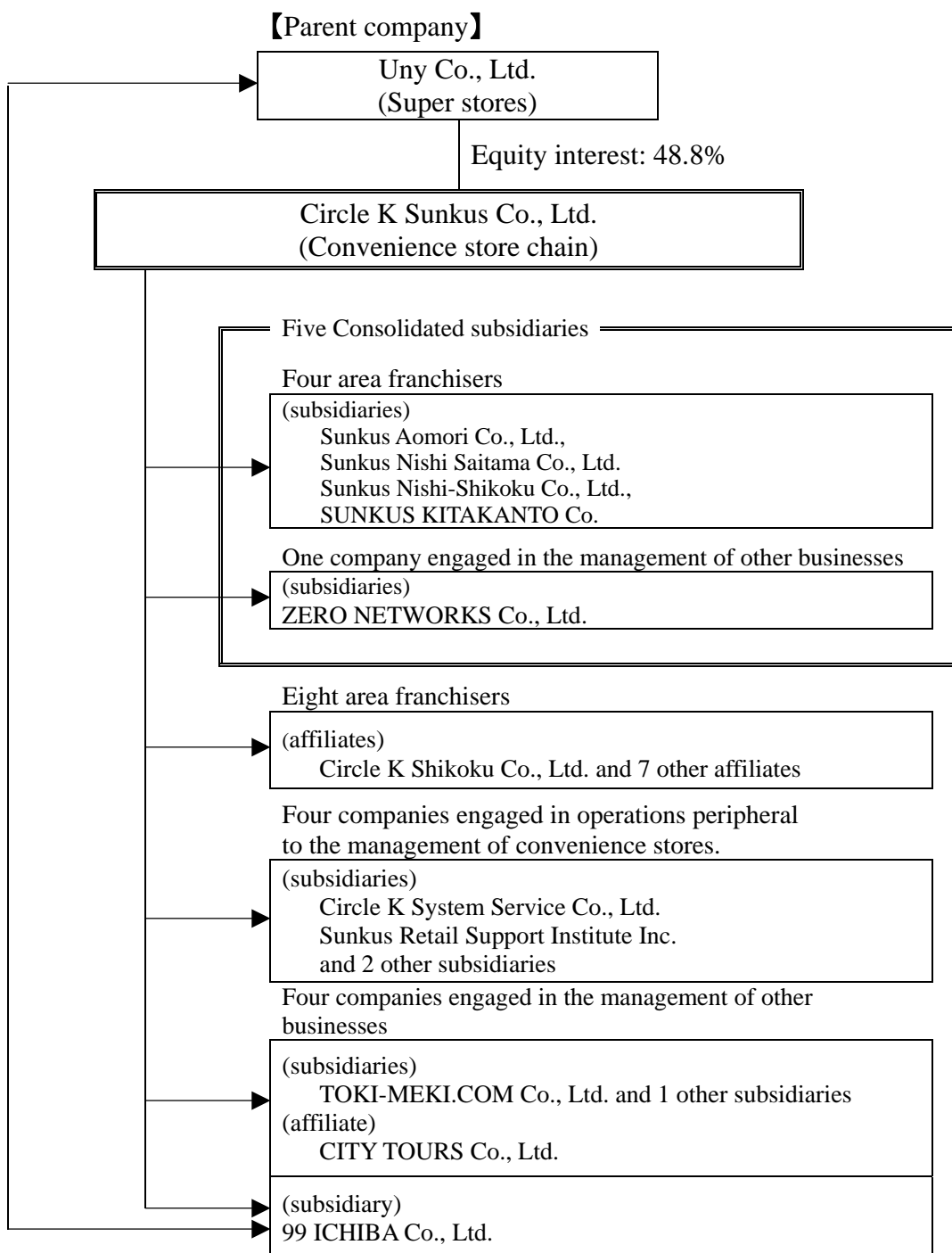
(Note) The above-mentioned forecast is based on projections and plans derived from assumptions based on current market conditions. Actual results may differ materially from these projections due to changes in a number of factors that could not be foreseen at the time of the projections.

### 3. Group Organization

The Circle K Sunkus Group is a member of the UNY Group, an operator of several major superstore chains, and comprises a total of 22 companies: Circle K Sunkus Co., Ltd., five consolidated subsidiaries, Sunkus Aomori Co., Ltd. and Sunkus Nishi-Saitama Co., Ltd., SUNKUS KITAKANTO Co., Ltd., Sunkus Nishi-Shikoku Co., Ltd. and ZERO NETWORKS Co., Ltd. As a result, we have 7 other subsidiaries and 9 affiliates. It is primarily engaged in the development of convenience store franchises.

With a store network extending from Hokkaido to Kagoshima, the Circle K Sunkus Group, including area franchisers, had a presence in 37 prefectures as of February 28, 2007.

The following chart depicts the Circle K Sunkus Group.



## 4. Management Policies

### **(1) Basic Management Policies**

#### **1) Management Philosophy**

Circle K Sunkus established the following management philosophy at the time of its formation through a merger in September 2004: “We aim to be a company that achieves sustainable growth, while earning the trust of society.” Guided by this philosophy, we are committed to providing safe, high-quality and great-tasting products that engender peace of mind through our mainstay convenience store business, while also remaining earnestly engaged in social contribution and environmental protection activities. Circle K Sunkus will also fulfill social responsibilities commensurate with the size of its organization in terms of compliance, fair disclosure and in other areas. Through further reforms and creativity, Circle K Sunkus will raise its corporate value with the desire to continuously deliver value to shareholders, customers, local communities, franchisees, business partners, employees and all individual and institutional stakeholders.

#### **2) Management Vision**

Since the merger, Circle K Sunkus has worked to realize its vision of “steady, sustainable growth.” However, the convenience store industry faces an increasingly competitive environment where customer needs are diversifying beyond our expectations due to changes in Japan’s social structure, such as an aging population and fewer births. To satisfy customer needs and expectations as convenience stores enter a new stage, Circle K Sunkus has decided to revise the management vision formulated at the time of the merger, as outlined below. Under this new vision, Circle K Sunkus is committed to offering reliable, safe, healthy and great-tasting products and convenient and enjoyable services. The overarching goal is to make Circle K Sunkus the convenience store of choice for our customers.

#### **New Management Vision:**

**“Raising Quality” “Becoming a Truly Exciting (WAKU WAKU) Enterprise”**

#### **(2) Basic Earnings Distribution Policy**

Circle K Sunkus’ basic policy is to return profits to shareholders based on earnings growth, while building up retained earnings to bolster the operating base as necessary to sustain business growth into the future. The Company views dividends as the most important means of returning earnings to shareholders. More specifically, Circle K Sunkus considers the maintenance of stable dividends its first priority and aims to pay out 25% of consolidated net income in the form of dividends. The Company intends to raise the dividend payout ratio to 30% in the future.

Based on this basic policy, Circle K Sunkus paid an interim dividend of ¥19 per share for the first half of fiscal 2007, the year ended February 28, 2007. In addition, Circle K Sunkus plans to pay a year-end dividend of ¥19 per share, bringing the annual dividend for fiscal 2007 to ¥38 per share. Consequently, the Company is projecting a dividend payout ratio (on a consolidated basis) of 31.7% for fiscal 2007.

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.

#### **(3) Management Targets**

Circle K Sunkus’ management targets are to increase average daily sales per store to ¥500,000 or more on an all-store basis, and generate operating income of 3% or more of total store sales. These

management targets will help the Company to quantitatively gauge progress toward realizing its new management vision. Another priority is to improve ROE by efficiently using shareholders' equity to increase shareholder value.

#### **(4) Medium-term Management Strategy**

Competition in the retail sector is becoming complex and multi-faceted, cutting across industry and business lines. In the convenience store industry, larger companies are expected to rapidly outdistance medium-sized and smaller ones by capturing a growing share of the market. Furthermore, as Japan's aging population and declining birthrate lead to a falling population and changing social structure, the main customer base of convenience stores is tending to shift from younger to middle-aged and elderly customers. This means that Circle K Sunkus will need to satisfy new types of customer needs going forward. Furthermore, in response to growing public interest in corporate social responsibility (CSR), Circle K Sunkus will establish a management framework grounded on compliance by crafting and implementing an internal control system. Meanwhile, Circle K Sunkus also recognizes that CSR priorities, including environmental initiatives and community projects, must be reflected in management actions.

In this context, Circle K Sunkus will move forward on three different fronts. The first is to prioritize growth in operating income as a percentage of sales over growth in total store sales. The second is to prioritize quality improvements (i.e. increasing average daily sales per store) at individual stores over simply expanding the store network. The third is to prioritize winning a larger market share in prefectures where Circle K and Sunkus currently have stores, to become the market-share leader in more prefectures. To do so, we will boldly implement various reforms and improvements based on the following key management strategies:

- 1) Realize "steady, sustainable growth" through management practices focused on cash flows and return on equity (ROE) to ensure returns commensurate with investments and low-cost operations by monitoring progress toward earnings targets by region.
- 2) Improve Circle K Sunkus' image by providing reliable, safe, healthy and great-tasting products and by implementing sales promotions supported by customers.
- 3) Restore unprofitable stores and regions to profitability by stepping up relocations and the scrap-and-build program, while investing significantly in new stores in profitable regions, to increase the overall quality of both convenience store chains in terms of average daily sales per store.
- 4) Establish trust and win-win relationships between the Head Office and franchised stores by offering stronger support for recruiting and training (temporary and part-time) store staff and investing more in revitalizing stores.
- 5) Reinforce the development of products that satisfy customer needs, especially original and regional products, through marketing innovation. Bolster R&D in new-concept convenience stores tailored to location and customer characteristics.
- 6) Conduct management focused on compliance by raising the efficiency of and optimizing operating processes, while establishing an internal control system and corporate governance structure.
- 7) Explore possibilities for revitalizing existing stores by developing and nurturing new businesses and business formats while providing feedback on some aspects of these operations to existing convenience stores on a trial basis.
- 8) Nurture area franchisers and carefully oversee the management of their business operations.

#### **(5) Issues to Be Addressed**

Based on the above strategies, Circle K Sunkus aims to strengthen sales capabilities across a diverse

array of operations, including store operations, and store and product development, and shift to an “intensive, quality-driven growth path” by tackling the following pressing issues:

**1) Promote regional strategies and more carefully track progress toward earnings targets by region**

By working to integrate its organization and optimizing business processes, Circle K Sunkus will raise management efficiency by reducing costs, and reorganizing and reassigning redundant personnel in regions where the opening of Circle K and Sunkus stores overlap. Circle K Sunkus will also implement meticulous regional strategies and more carefully track progress against earnings targets in each region.

**2) Strengthen store operations**

Leveraging strong bonds of trust between Head Office and franchised stores, Circle K Sunkus will work to further promote the principles of the “Six Stages of Store Operations,” encouraging franchisees to create stores that reflect their own thinking and actions. In parallel, the Company aims to make Circle K and Sunkus the leading convenience store chains in terms of customer satisfaction by improving ordering and product lineups based on the characteristics of customers at each store.

**3) Strengthen store development capabilities**

Circle K Sunkus will review its strategies for opening stores in each region. In regions with weak sales, the Company will step up relocations and its scrap-and-build program. In parallel, the Company will also reestablish a dominant presence in terms of stores by significantly investing in new stores in profitable regions. Through these initiatives, Circle K Sunkus aims to increase the overall profitability of both its convenience store chains. Furthermore, Circle K Sunkus will open new stores with an emphasis on low-cost, ROI-intensive operations as it gives top priority to the quality of stores in terms of average daily sales per store and profitability.

**4) Reinforce product and service development capabilities**

Efforts will be focused on satisfying diverse customer needs in terms of product lineups and pricing based on the characteristics of customers at each location. Circle K Sunkus will develop reliable, safe, healthy and great-tasting original products reflecting regional tastes and ingredient preferences that satisfy customers. Furthermore, Circle K Sunkus will enhance the development of convenient and enjoyable services that increase customer footfall, including ATM services and the acceptance of various forms of electronic money. These and other services enable convenience stores to serve as vital elements of the social infrastructure.

**5) Nurture new-concept stores and other new business formats**

Circle K Sunkus has opened a new-concept store called Fork Talk on a trial basis, targeting working women as its primary customer base. Subsidiary 99 Ichiba Co., Ltd. is also developing the 99 Ichiba small supermarket format featuring fresh foods mainly priced at ¥99. 99 Ichiba is enjoying strong support from women, namely housewives, and senior citizens. Going forward, Circle K Sunkus will carefully study product lineups, prices, and store formats tailored to location and the characteristics of customer segments, to satisfy a more diverse spectrum of customer needs that are not fully satisfied by existing convenience stores. The Company will also feed back some best practices at these new-concept stores and other new business formats to existing convenience stores, with the aim of revitalizing their operations and increasing sales.

**(6) Parent Company**

**1) Name of Parent Company**

| Parent company | Affiliation    | Voting interest of parent company (%) | Stock listings of parent company  |
|----------------|----------------|---------------------------------------|---|
| Uny Co., Ltd.  | Parent company | 48.8%                                 | First Section, Tokyo Stock Exchange<br>First Section, Nagoya Stock Exchange |

## 2) Positioning of Listed Company in Parent Company Group and Relationships Between Other Listed Companies and Parent Company Group

Circle K Sunkus is a member of the Uny Group, a retailing group mainly comprising retailers, most notably Uny Co., Ltd. and specialty stores. Uny holds a voting interest of 47.4% in Circle K Sunkus. Circle K Sunkus works closely with Uny in fields such as product development, where the two can combine strengths within the Group, and through business alliances. Although Uny and Circle K Sunkus both operate in the retail sector, the two companies have different business models—superstores and convenience stores, respectively. Accordingly, the parent company respects the autonomy of Circle K Sunkus in respect to management strategy in the operation of convenience stores. With the exceptions of concurrent directorships between the Company and Uny, there is no exchange of personnel or funds between the two companies at this time.

## 5. Consolidated Operating Results and Financial Position

### (1) Operating Results

#### 1) Overview of Fiscal 2007 (March 1, 2006 to February 28, 2007)

In fiscal 2007, the Japanese economy continued to stage a gradual recovery, underpinned by strong corporate earnings. Improved employment and income levels also helped to drive a moderate upturn in consumer spending. However, household expenditures on the whole remained weak, reflecting lower disposable income due to the elimination of proportional tax deductions, rising social insurance premiums and other factors. In this climate, sales of winter apparel slowed at department stores and supermarkets partly because of weather-related factors, such as this year's unusually warm winter. As a result, there was no overall improvement in retail performance. Meanwhile, in the convenience store industry, customer needs continued to diversify due to changes in Japan's social structure, such as its shrinking population driven by an aging society with fewer births. Circle K Sunkus continues to face a challenging business environment characterized by intensifying competition transcending industry lines, involving not only rival convenience store chains but also traditional industry outsiders such as restaurants, supermarkets, drug stores, and discount retailers.

Circle K Sunkus' management policy for fiscal 2007 was to promote structural reforms so that it could achieve steady, sustainable growth. More specifically, Circle K Sunkus moved onto the offensive and sped up innovation to boost sales capabilities across a diverse array of operations including store operations, and store and product development.

Against this backdrop, in fiscal 2007, total operating revenues at Circle K Sunkus rose 5.5% year on year to ¥194,392 million on a consolidated basis, mainly due to the increase in consolidated subsidiaries. However, operating income declined 10.4% year on year to ¥23,113 million, partly due to a decrease in revenues from franchised stores, and an increase in SG&A expenses, namely sales promotion and advertising expenses. Recurring profit decreased 11.7% to ¥22,110 million reflecting a larger loss on the cancellation of lease contracts as the Company actively closed Company-owned and unprofitable stores. Despite a 36.8% drop in extraordinary losses, which mainly stemmed from lower impairment losses, net income was down 11.0% at ¥10,237 million.

The following is an overview of Circle K Sunkus' businesses by segment.

### [Convenience Store Business]

In fiscal 2007, existing store sales showed signs of improvement due to favorable weather conditions from October 2006 onwards, especially the year's warm winter. However, this could not compensate for a slowdown in holiday-related demand due to lower temperatures on many days in early spring of 2006, and weaker sales of seasonal summer products due to a long rainy season later in the year. Combined with the termination of prepaid highway toll cards in September 2005, existing store sales decreased 3.3% year on year on a non-consolidated basis.

As a result of the foregoing, total store sales on a consolidated basis, a figure encompassing the combined sales of the Circle K Sunkus Group's consolidated subsidiaries in the convenience store business, were ¥911,281 million. Meanwhile, total store sales on a Group-wide basis, including sales of non-consolidated area franchisers, were ¥1,068,585 million.

The average product markup for Circle K Sunkus in fiscal 2007 was 28.97%, down 0.08 of a percentage point from the previous fiscal year. This was primarily due to an increase in lower-margin tobacco and ticket sales, which negated contributions from the integration of vendor and logistics networks in the fast foods and perishable foods categories and the termination of prepaid highway toll cards.

#### Summary of Store Performance (March 1, 2006 to February 28, 2007)

|  | Circle K | Sunkus  | Circle K<br>Sunkus total | Consolidated<br>subsidiaries total | Consolidated<br>total |
|--|----------|---------|--------------------------|------------------------------------|-----------------------|
| Total store sales (¥ million)          | 496,948  | 375,858 | 872,844                  | 38,437                             | 911,281               |
| Year-on-year(YoY) change (%)           | -1.6     | -4.5    | -2.9                     | -                                  | -0.9                  |
| YoY change in existing store sales (%) | -3.0     | -3.8    | -3.3                     | -5.3                               | -3.4                  |
| Average product markup (%)             | -        | -       | 28.97                    | -                                  | -                     |
| Stores opened                          | 187      | 119     | 307                      | 21                                 | 328                   |
| Stores closed                          | 180      | 177     | 357                      | 29                                 | 386                   |
| Total stores at period-end             | 2,898    | 2,205   | 5,104                    | 265                                | 5,369                 |

\*The above consolidated subsidiaries total is the sum of results of four consolidated subsidiaries, namely Sunkus Nishi-Saitama Co., Ltd., Sunkus Aomori Co., Ltd., Sunkus Kitakanto Co., Ltd. and Sunkus Nishi-Shikoku Co., Ltd.

\*Circle K Sunkus totals for stores opened and total stores at period-end include one new-concept store. The sum of the corresponding figures for Circle K and Sunkus therefore do not match these figures.

The following is an overview of Circle K Sunkus' businesses during fiscal 2007.

In store operations, Circle K Sunkus worked to more deeply ingrain the principles of the "Six Stages of Store Operations" at all stores. The goal is to implement reforms that create stores offering the highest level of customer satisfaction by upgrading the skills of franchisee storeowners and part-time and temporary store staff, putting in place a highly precise ordering system, improving customer service and taking other steps. Efforts were also focused on reinforcing the Head Office's ability to provide guidance to franchised stores by centralizing and sharing the expertise and best practices of store supervisors. Furthermore, Circle K Sunkus established the General Operations Headquarters in fiscal 2007 to oversee both the Store Operations Division and the Marketing, Services & Merchandising Division. With this step, Circle K Sunkus aims to reinforce its sales and product development capabilities by forging stronger ties between store operations and product departments.

On the store development front, Circle K Sunkus worked to reestablish a dominant presence in areas served by existing stores, while prioritizing three major urban areas, namely Tokyo, Nagoya and Osaka, as key regions for opening new stores. Meanwhile, the Company opened stores in Gunma Prefecture for the first time. Circle K Sunkus also stepped up relocations and its scrap-and-build program for stores in regions with slowing sales. The highest priority for opening new stores was to ensure profitability. To avoid opening stores with low average daily sales, Circle K Sunkus rolled out a new location assessment system in fiscal 2007 called Circle K Sunkus Research. It also reinforced its two-tier checking system for prospective store locations involving the Store Operations Division and Store Development Division. Also, a new employment format called the “Venture Employee System,” was unveiled. Under this format, Circle K Sunkus will employ prospective franchisees on temporary contracts premised on future franchise membership, as part of efforts to sign on talented franchisee candidates.

During fiscal 2007, Circle K Sunkus opened 328 stores, which was fewer than planned. The Company implemented its key strategy of actively relocating stores to optimal locations. In parallel, Circle K Sunkus closed 386 stores, focusing on stores unlikely to remain competitive in the future. As a result, Circle K Sunkus had a total of 5,369 stores as of February 28, 2007.

On the product front, Circle K Sunkus has begun integrating vendor and logistics networks in the fast foods and perishable foods categories. Integration was launched in April 2006 and was completed in the Chugoku, Shikoku, Hokuriku, and Kansai regions by November. In parallel with vendor and logistics consolidation, the Company is establishing its own network of dedicated food processing centers to integrate products and food ingredients. The goal is to reduce the cost of ingredients by reaping economies of scale while enhancing product quality.

In fast foods, Circle K Sunkus worked to reinforce best-selling items as part of its pursuit of great-tasting products by introducing new materials, food preparation methods, and safer and more reliable ingredients. Circle K Sunkus rolled out the THINK BODY project, offering products and services to support the health and fitness of customers. This project is aimed at meeting rapidly shifting customer needs. It targets the needs of customer segments that convenience stores have not yet been able to fully meet. These customer segments include women, who have a strong interest in health and beauty, and health-conscious middle-aged and elderly men. Circle K Sunkus is also working on creating products featuring regional tastes and ingredients by strengthening ties with regional vendors through integration of regional product departments in conjunction with vendor consolidation.

Turning to services, in April, Circle K Sunkus extended the purchase point system for users of Edy electronic money-enabled KARUWAZA CLUB cards to all stores nationwide. This step resulted in large increases in transaction volumes for KARUWAZA CLUB cards and card membership, helping Circle K Sunkus to capture more customers. Efforts were also focused on a diverse array of sales promotions such as discount services for customers using KARUWAZA CLUB cards, and electronic stamp services. The goals were to deliver greater customer convenience, as well as attract more customers to stores and set Circle K Sunkus apart from other convenience stores. Another highlight of the period was “Zero Bank” ATMs, an original Circle K Sunkus ATM service that enables withdrawals to be made free of charge during certain operating hours on weekdays. Installation of these ATMs was completed at all stores (some excluded) in Mie Prefecture in July 2006. Circle K Sunkus also began installing these ATMs in the Kanto region, (Tokyo and Kanagawa, Chiba and Saitama prefectures).

In addition to these initiatives, Circle K Sunkus opened the new concept store Fork Talk in September

as an experimental initiative aimed at responding more effectively to shifting customer needs accompanying Japan's changing social structure. Mainly targeting working women, Fork Talk features pasta and soups prepared in-store, an in-store dining area and other amenities. The Circle K Lucent Tower Store that opened in January incorporates some of Fork Talk's product and service offerings and has proved popular with customers. In another new business initiative, subsidiary 99 Ichiba Co., Ltd. is developing a chain of small supermarkets featuring uniformly priced fresh foods. (There were 18 99 Ichiba supermarkets as of February 28, 2007.) Circle K Sunkus aims to develop 99 Ichiba into a second pillar of operations to supplement convenience stores and reinforce initiatives with the view to capturing synergies with its core business.

#### **[Other Businesses]**

In other businesses, ZERO NETWORKS Co., Ltd. is contracted to conduct "Zero Bank" ATM operations. The company has formed an alliance with the Ogaki Kyoritsu Bank, Ltd. to offer "Zero Bank" ATM services, and is installing ATMs at Circle K and Sunkus stores in Aichi and Gifu prefectures. In May 2006, it also formed an alliance with The Mie Bank, Ltd., and installed ATMs at stores in Mie Prefecture. In July, ZERO NETWORKS teamed up with The Tokyo Star Bank, Ltd. to begin installing these ATMs at stores in the Kanto region (Tokyo and Kanagawa, Chiba and Saitama prefectures). As a result, the company had installed a total of 2,487 "Zero Bank" ATMs as of February 28, 2007. In fiscal 2007, ZERO NETWORKS recorded total operating revenues of ¥4,015 million.

#### **(2) Financial Position**

As of February 28, 2007, total assets were ¥212,377 million, an increase of ¥609 million from a year earlier. Net assets were ¥119,883 million, up ¥1,490 million from a year ago. Consequently, the equity ratio was 56.4% at February 28, 2007.

In fiscal 2007, operating activities provided net cash of ¥19,701 million, 27.6% less than in the previous fiscal year. The main components were income before income taxes and minority interest of ¥18,386 million, down 7.4%; impairment losses of ¥3,169 million, down 36.4%; an increase of ¥2,165 million in money held as agent for payments of utility and other bills that are accepted at convenience stores; and a decrease of ¥132 million, or 93.8%, in the allowance for employees' retirement benefits.

Net cash used in investing activities was ¥15,209 million, 15.0% more than in the previous fiscal year. Cash was used mainly for payments of ¥10,468 million for property and equipment, chiefly to open new stores and improve the functions of existing ones, and ¥7,318 million for the payment of long-term leasehold deposits. Another component was a ¥1,146 million payment for the purchase of investment securities mainly as an investment in subsidiaries.

Financing activities used net cash of ¥9,856 million, 146.5% more than the previous fiscal year, mainly reflecting dividends paid of ¥3,273 million, and the payment of ¥5,007 million for the purchase of own shares in accordance with a Board of Directors resolution on October 10, 2006 to buy back shares.

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

(Reference: Cash Flow-related Indices)

|   | Fiscal 2005 | Fiscal 2006 | Fiscal 2007 |
|---|-------------|-------------|-------------|
| Equity ratio (%)                                | 54.7        | 55.9        | 56.4        |
| Equity ratio using fair value (%)               | 105.0       | 110.0       | 86.6        |
| Ratio of cash flow to interest-bearing debt (%) | 12.8        | 6.0         | 14.2        |
| Interest coverage ratio (times)                 | 11,536.3    | 12,774.7    | 6,013.2     |

(Notes) Equity ratio = Shareholders' equity / Total assets

Equity ratio using fair value = Market capitalization / Total assets

Ratio of cash flow to interest-bearing debt = Interest-bearing debt / Operating cash flows

Interest coverage ratio = Operating cash flow / Interest payments

\*Each index is calculated using consolidated figures.

\*Market capitalization is calculated by multiplying the share price at the fiscal term-end by the number of shares issued and outstanding at the fiscal term-end, excluding treasury stock.

\*Operating cash flow represents net cash provided by (used in) operating activities as presented on the consolidated statement of cash flows. Interest-bearing debt represents liabilities shown on the balance sheet for which interest is paid by the Company. Interest payments represent interest paid as shown on the consolidated statements of cash flows.

### **(3) Outlook for Fiscal 2008**

Japan's economy is projected to remain on a gradual recovery course during the remainder of fiscal 2008, supported by strong corporate earnings. Despite signs of broader improvement in employment and income levels, a full-fledged turnaround in consumer spending is still expected to require more time, mainly due to concerns in the household sector over possible increases in social insurance premiums and taxes. Combined with intensifying competition, the convenience store industry expects to continue facing a difficult business environment.

To surmount these challenges, Circle K Sunkus' management policy for fiscal 2008 is to shift to an "intensive quality-driven growth path." While bolstering efforts to mitigate future risks associated with unprofitable stores, the Company will transform Circle K and Sunkus into more powerful convenience store chains by realizing stronger sales capabilities in store operations, and in store and product development.

In terms of organization, Circle K Sunkus will incorporate the Store Development Division into the General Operations Headquarters, which currently comprises the Marketing, Services & Merchandising Division and Store Operations Division. This move will enable store operations, store development and product divisions to work as one to strengthen sales capabilities. Furthermore, the Store Operations Division and Store Development Division will be reorganized into four regions to integrate the management of operations and development initiatives for both Circle K and Sunkus stores in each region. The goal is to more carefully track progress against earnings targets in each region. Circle K Sunkus also aims to raise management efficiency by reorganizing and reassigning redundant personnel in regions where Circle K and Sunkus stores overlap. Furthermore, the Central Japan Regional Product Department was established to better develop products tailored to regional characteristics.

In store operations, Circle K Sunkus will offer stronger support for franchised stores as they seek to increase sales by ramping up investment in revitalizing existing stores and conducting sales promotions that attract customers. The Head Office will also build stronger relationships of trust with them by increasing support through such means as helping them recruit and train part-time and

temporary store staff. Circle K Sunkus will also successively roll out its next-generation store information system starting in fiscal 2008, aiming to augment information exchange and communication functions, while supporting the implementation of single-item inventory management and the Four Basic Principles.

In store development, Circle K Sunkus will step up relocations and its scrap-and-build program while sharing information and cooperating with the Store Operations Division. Here, the goal is to accelerate the disposal of unprofitable stores. Meanwhile, aiming to open stores that prioritize quality (average daily store sales) and profitability, Circle K Sunkus will reinforce its two-tier checking system for prospective store locations involving the Store Operations Division and Store Development Division, improve the precision of its new location assessment system, and open low-cost and ROI-intensive stores. Furthermore, Circle K Sunkus will work to construct networks that provide information not only about store properties but also promising franchisee candidates. To this end, Circle K Sunkus will nurture strong franchisee candidates using the “Venture Employee System” launched in September 2006. It has also established a Corporate Owner Development Department to build stronger ties with leading companies.

Turning to product development, Circle K Sunkus plans to complete the integration of vendor and logistics networks in the fast foods and perishable foods categories in fiscal 2008. This move will set the stage for developing reliable, safe, healthy and great-tasting original products. The Company will also work to improve quality by establishing dedicated food processing centers and deploying cutting-edge cooking technologies at each center. By augmenting the functions of regional product departments, Circle K Sunkus will reinforce the development of regional products. In services development, the goal is to improve convenience for customers so as to increase customer footfall at stores. Accordingly, Circle K Sunkus plans to install ATMs at more stores, accept a more diverse range of electronic money, and pave the way for new services by conducting trials of in-store multimedia kiosk (MMK) terminals.

In fiscal 2008, 99 Ichiba Co., Ltd., which is developing 99 Ichiba supermarkets, will become a consolidated subsidiary of Circle K Sunkus. In addition to the above initiatives, 99 Ichiba will take steps to satisfy customer needs that are not fully met by existing convenience stores, such as those of younger and middle-aged women and senior citizens.

#### Store Operating Performance Forecasts (March 1, 2007 to February 29, 2008)

|   | Circle K | Sunkus | Circle K<br>Sunkus total | Consolidated<br>subsidiaries total | 99 Ichiba | Consolidated<br>total |
|---|----------|--------|--------------------------|------------------------------------|-----------|-----------------------|
| Total store sales (¥ million)             | -        | -      | 869,780                  | 37,903                             | 5,886     | 913,570               |
| Year-on-year(YoY) change (%)              | -        | -      | -0.4                     | -1.4                               | -         | 0.3                   |
| YoY change in existing store<br>sales (%) | -        | -      | -0.8                     | -                                  | -         | -                     |
| Average product markup (%)                | -        | -      | 29.11                    | -                                  | -         | -                     |
| Stores opened                             | 182      | 136    | 320                      | 33                                 | 35        | 388                   |
| Stores closed                             | 242      | 208    | 450                      | 30                                 | 3         | 483                   |
| Total stores at period-end                | 2,838    | 2,133  | 4,974                    | 268                                | 50        | 5,292                 |

\*The above consolidated subsidiaries total is the sum of results for four subsidiaries, namely Sunkus Nishi-Saitama Co., Ltd., Sunkus Aomori Co., Ltd., Sunkus Kitakanto Co., Ltd. and Sunkus Nishi-Shikoku Co., Ltd.

\*Circle K Sunkus totals for stores opened and total stores at period-end include new-concept stores. The sum of the corresponding projections for Circle K and Sunkus therefore do not match these figures.

Fiscal 2008 plan for new-concept stores: Stores to be opened: 2; Number of stores at year-end: 3

For fiscal 2008, Circle K Sunkus is forecasting total operating revenues on a consolidated basis of ¥198,400 million, an increase of 2.1% year on year. On the earnings front, Circle K Sunkus is projecting consolidated operating income of ¥23,300 million, up 0.8% year on year, recurring profit of ¥20,000 million, 9.5% lower, and net income of ¥7,600 million, a decrease of 25.8%.

#### **(4) Business Risks**

Risks related to the Circle K Sunkus Group's business and other activities may have a significant impact on investment decisions. Some of these are listed below. Forward-looking statements contained in this document are based on management's assumptions in light of information available as of August 31, 2006.

##### **1) Economic Trends, Natural Disasters and Other Factors**

The Circle K Sunkus Group manages its convenience store business based on its "dominant" strategy. The Group sees this business as playing an important role in society in the event of a disaster through the provision of vital support to affected communities. However, an unexpected disaster, unforeseen accident or similar event could halt the Group's logistics system, leading to opportunity losses. Additionally, the Group's operating results and financial position could be impacted by shifts in consumer spending due to domestic economic trends, or changes in the natural environment such as unseasonable weather.

##### **2) Food Product Safety**

The Circle K Sunkus Group gives the highest priority to food safety. The Group has already eliminated the use of preservatives and artificial coloring from mainstay products such as rice balls and boxed lunches. Circle K Sunkus also develops new products to consistently offer items that provide customers with peace of mind. Food safety is also ensured using an inspection and control system that involves the implementation of food safety and other inspections at stores. However, the food industry has faced a range of issues in recent years, including BSE, bird flu and genetically modified food products. Although Circle K Sunkus takes steps to identify and take preventive measures to deal with these and other risks, an unforeseen event could impact the Group's operating results and financial position.

##### **3) Information Systems**

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

##### **4) Laws, Regulations and Litigation**

The Circle K Sunkus Group is subject to laws and regulations concerning food safety, fair business practices, environmental protection and other areas, and is licensed by the authorities to conduct

certain businesses. 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 a Internal Control & Environmental Management Office to strengthen internal control systems. However, the Group may incur additional costs due to such factors as unforeseen revisions of laws and regulations or changes in public policies, and is exposed to the risk of litigation in the course of its operations. These changes or legal action taken against Circle K Sunkus, or the result of such action, could impact the operating results and financial position of the Group.

#### **5) Deterioration in Performance of 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. However, in light of changes in Japan's consumer culture, intensifying competition, and growing disparity in income levels and regional markets, deteriorating operating performance in some areas 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.

## 6. Consolidated Financial Statements

### (1) Consolidated Balance Sheets

Notes: All amounts less than one million yen have been omitted.

(Millions of yen)

| Fiscal period<br>Account item                                    | Previous fiscal year<br>(As of February 28, 2006) |                      | Current fiscal year<br>(As of February 28, 2007) |                      | Increase<br>(Decrease) |         |
|--|---|----------------------|--|----------------------|------------------------|---------|
|  | Amount  | Composition<br>ratio | Amount   | Composition<br>ratio | Amount                 |         |
| (ASSETS)   |   |                      |  |                      |                        |         |
| 1. Current assets  |   |                      |  |                      |                        |         |
| Cash and cash equivalents  | 54,800  |                      | 50,945   |                      |                        | (3,854) |
| Due from franchised stores                                       | 3,337   |                      | 3,404  |                      |                        | 66      |
| Marketable securities  | 14,704  |                      | 14,011   |                      |                        | (693)   |
| Inventories  | 2,122   |                      | 2,490  |                      |                        | 367     |
| Prepaid expenses   | 3,381   |                      | 3,612  |                      |                        | 230     |
| Deferred tax assets  | 1,137   |                      | 867  |                      |                        | (269)   |
| Other accounts receivable  | 9,138   |                      | 9,300  |                      |                        | 161     |
| Other current assets   | 3,883   |                      | 4,276  |                      |                        | 392     |
| Allowance for doubtful accounts                                  | (460)   |                      | (396)  |                      |                        | 64      |
| Total current assets   | 92,044  | 43.5                 | 88,511   | 41.7                 |                        | (3,533) |
| 2. Fixed assets  |   |                      |  |                      |                        |         |
| (1) Property and equipment                                       |   |                      |  |                      |                        |         |
| Buildings and equipment  | 50,244  |                      | 55,108   |                      | 4,863                  |         |
| Accumulated depreciation   | 20,869  | 29,375               | 22,670   | 32,437               | 1,801                  | 3,062   |
| Equipment  | 246   |                      | 197  |                      | (48)                   |         |
| Accumulated depreciation   | 227   | 18                   | 176  | 20                   | (51)                   | 2       |
| Furniture and fixtures   | 15,893  |                      | 16,023   |                      | 129                    |         |
| Accumulated depreciation   | 12,166  | 3,726                | 11,951   | 4,072                | (215)                  | 345     |
| Land   |   | 8,864                |  | 8,944                |                        | 80      |
| Construction in progress   |   | 466                  |  | 844                  |                        | 378     |
| Total property and equipment                                     | 42,451  | 20.0                 | 46,319   | 21.8                 |                        | 3,868   |
| (2) Intangible fixed assets                                      |   |                      |  |                      |                        |         |
| System software  | 3,202   |                      | 3,047  |                      |                        | (155)   |
| System software development<br>in progress                       | 8   |                      | 569  |                      |                        | 561     |
| Excess of cost investments over<br>equity in net assets acquired | 218   |                      | -  |                      |                        | (218)   |
| Goodwill   | -   |                      | 144  |                      |                        | 144     |
| Other intangible fixed assets                                    | 2,406   |                      | 2,590  |                      |                        | 183     |
| Total intangible fixed assets                                    | 5,836   | 2.8                  | 6,351  | 3.0                  |                        | 515     |
| (3) Investment and other assets                                  |   |                      |  |                      |                        |         |
| Investment in securities   | 7,318   |                      | 5,832  |                      |                        | (1,485) |
| Deferred tax assets  | 3,371   |                      | 3,644  |                      |                        | 272     |
| Long-term leasehold deposits                                     | 54,104  |                      | 54,053   |                      |                        | (51)    |
| Other investment   | 8,110   |                      | 9,117  |                      |                        | 1,007   |
| Allowance for doubtful accounts                                  | (1,469)   |                      | (1,454)  |                      |                        | 15      |
| Total investment and other assets                                | 71,435  | 33.7                 | 71,193   | 33.5                 |                        | (241)   |
| Total fixed assets   | 119,722   | 56.5                 | 123,865  | 58.3                 |                        | 4,142   |
| Total assets   | 211,767   | 100.0                | 212,377  | 100.0                |                        | 609     |

(Millions of yen)

| Fiscal period<br>Account item                                 | Previous fiscal year<br>(As of February 28, 2006) |                      | Current fiscal year<br>(As of February 28, 2007) |                      | Increase<br>(Decrease) |
|---|---|----------------------|--|----------------------|------------------------|
|   | Amount  | Composition<br>ratio | Amount   | Composition<br>ratio | Amount                 |
|   |   | %                    |  | %                    |                        |
| <b>(LIABILITIES)</b>  |   |                      |  |                      |                        |
| 1. Current liabilities  |   |                      |  |                      |                        |
| Trade payable   | 36,551  |                      | 36,470   |                      | (81)                   |
| Due to franchised stores                                      | 3,054   |                      | 2,672  |                      | (381)                  |
| Short-term borrowings   | 114   |                      | -  |                      | (114)                  |
| Other accounts payable  | 5,488   |                      | 5,738  |                      | 249                    |
| Income taxes payable  | 6,075   |                      | 3,617  |                      | (2,457)                |
| Money held as agent   | 21,335  |                      | 23,641   |                      | 2,305                  |
| Allowance for bonuses to employees                            | 768   |                      | 765  |                      | (2)                    |
| Allowance for bonuses to directors                            | -   |                      | 46   |                      | 46                     |
| Other current liabilities                                     | 3,316   |                      | 3,133  |                      | (183)                  |
| Total current liabilities                                     | 76,704  | 36.2                 | 76,086   | 35.8                 | (618)                  |
| 2. Long-term liabilities                                      |   |                      |  |                      |                        |
| Long-term borrowings  | 28  |                      | -  |                      | (28)                   |
| Allowance for employees' retirement benefits liability        | 2,399   |                      | 2,380  |                      | (19)                   |
| Leasehold deposits received                                   | 12,386  |                      | 11,753   |                      | (633)                  |
| Allowance for impairment loss on leased property              | 615   |                      | 1,150  |                      | 535                    |
| Other long-term liabilities                                   | 1,240   |                      | 1,124  |                      | (116)                  |
| Total long-term liabilities                                   | 16,669  | 7.9                  | 16,407   | 7.7                  | (261)                  |
| Total liabilities   | 93,374  | 44.1                 | 92,493   | 43.5                 | (880)                  |
| <b>(MINORITY INTEREST)</b>                                    |   |                      |  |                      |                        |
| Minority Interest   | 0   | 0.0                  | -  | -                    | (0)                    |
| <b>(SHAREHOLDERS' EQUITY)</b>                                 |   |                      |  |                      |                        |
| 1. Common stock   | 8,380   | 4.0                  | -  | -                    | (8,380)                |
| 2. Capital surplus  | 36,093  | 17.0                 | -  | -                    | (36,093)               |
| 3. Retained earnings  | 72,907  | 34.4                 | -  | -                    | (72,907)               |
| 4. Net unrealized gains on available-for-sale securities      | 1,026   | 0.5                  | -  | -                    | (1,026)                |
| 5. Less, treasury stock                                       | (14)  | (0.0)                | -  | -                    | 14                     |
| Shareholders' equity  | 118,392   | 55.9                 | -  | -                    | (118,392)              |
| Total Liabilities, Minority Interest and Shareholders' Equity | 211,767   | 100.0                | -  | -                    | (211,767)              |

(Millions of yen)

| Fiscal period<br>Account item   | Previous fiscal year<br>(As of February 28, 2006) |                      | Current fiscal year<br>(As of February 28, 2007) |                      | Increase<br>(Decrease) |
|---|---|----------------------|--|----------------------|------------------------|
|   | Amount  | Composition<br>ratio | Amount   | Composition<br>ratio | Amount                 |
| (NET ASSETS)  |   | %                    |  | %                    |                        |
| 1. Shareholder's equity   |   |                      |  |                      |                        |
| Common stock  | -   |                      | 8,380  |                      | 8,380                  |
| Capital surplus   | -   |                      | 36,093   |                      | 36,093                 |
| Retained earnings   | -   |                      | 79,617   |                      | 79,617                 |
| Less, treasury stock  | -   |                      | (5,021)  |                      | (5,021)                |
| Total shareholders' equity  | -   | -                    | 119,070  | 56.1                 | 119,070                |
| 2. Unrealized gains or losses and<br>translation differences, etc.    |   |                      |  |                      |                        |
| Net unrealized gains on<br>available-for-sale securities              | -   |                      | 812  |                      | 812                    |
| Total unrealized gains or losses<br>and translation differences, etc. | -   | -                    | 812  | 0.4                  | 812                    |
| 3. Minority Interest  | -   | -                    | 0  | 0.0                  | 0                      |
| Net Assets  | -   | -                    | 119,883  | 56.5                 | 119,883                |
| Total Liabilities and Net Assets                                      | -   | -                    | 212,377  | 100.0                | 212,377                |

## (2) Consolidated Statements of Income

Notes: All amounts less than one million yen have been omitted.

(Millions of yen)

| Account item   | Fiscal period |         | Previous fiscal year<br>(From March 1, 2005<br>to February 28, 2006) |          | Current fiscal year<br>(From March 1, 2006<br>to February 28, 2007) |                      | Increase<br>(Decrease) |         |
|--|---------------|---------|--|----------|---|----------------------|------------------------|---------|
|  | Amount        |         | Composition<br>ratio   | Amount   |   | Composition<br>ratio | Amount                 |         |
|  |               |         | %  |          |   | %                    |                        |         |
| 1. Operating revenues  |               |         |  |          |   |                      |                        |         |
| Franchise commissions from franchised stores   | 104,415       |         |  | 102,709  |   |                      | (1,705)                |         |
| (Net sales reported by Franchised Stores<br>(Figures for excluding non-consolidated area franchised stores.)             |               |         |  |          |   |                      |                        |         |
| Previous fiscal year<br>¥ 852,456 million  |               |         |  |          |   |                      |                        |         |
| Current fiscal year<br>¥ 835,868 million   |               |         |  |          |   |                      |                        |         |
| Total net sales of franchised and company-owned stores<br>(Figures for exclude non-consolidated area franchised stores.) |               |         |  |          |   |                      |                        |         |
| Previous fiscal year<br>¥ 919,824 million  |               |         |  |          |   |                      |                        |         |
| Current fiscal year<br>¥ 911,281 million   |               |         |  |          |   |                      |                        |         |
| Other revenues   | 12,406        | 116,822 | 63.4   | 12,437   | 115,147   | 59.2                 | 30                     | (1,675) |
| 2. Net sales of company-owned stores   | <67,368>      | 67,368  | <100.0><br>36.6  | <79,245> | 79,245  | <100.0><br>40.8      | (11,877)               | 11,877  |
| <b>Total operating revenues</b>  |               | 184,190 | 100.0  |          | 194,392   | 100.0                |                        | 10,202  |
| 3. Cost of goods sold  | <50,931>      | 50,931  | <75.6><br>27.7   | <60,359> | 60,359  | <76.2><br>31.1       | (9,427)                | 9,427   |
| Gross profit on sales  | <16,436>      |         | <24.4>   | <18,886> |   | <23.8>               | (2,449)                |         |
| Operating gross profit   |               | 133,259 | 72.3   |          | 134,033   | 68.9                 |                        | 774     |
| 4. Selling, general and administrative Expenses  |               | 107,473 | 58.3   |          | 110,920   | 57.0                 |                        | 3,446   |
| <b>Operating income</b>  |               | 25,785  | 14.0   |          | 23,113  | 11.9                 |                        | (2,671) |

(Millions of yen)

| Account item   | Fiscal period |        | Previous fiscal year<br>(From March 1,2005<br>to February 28, 2006) |        | Current fiscal year<br>(From March 1,2006<br>to February 28, 2007) |                      | Increase<br>(Decrease) |         |
|--|---------------|--------|---|--------|--|----------------------|------------------------|---------|
|  | Amount        |        | Composition<br>ratio  | Amount |  | Composition<br>ratio | Amount                 |         |
|  |               |        | %   |        |  | %                    |                        |         |
| 5.Non-operating income   |               |        |   |        |  |                      |                        |         |
| Interest income  | 355           |        |   | 457    |  |                      | 101                    |         |
| Dividend income  | 87            |        |   | 99     |  |                      | 12                     |         |
| Compensation income  | 497           |        |   | 456    |  |                      | (41)                   |         |
| Other non-operating income   | 119           |        |   | 198    |  |                      | 79                     |         |
| Total non-operating income   |               | 1,059  | 0.6   |        | 1,211  | 0.6                  |                        | 151     |
| 6.Non-operating expenses   |               |        |   |        |  |                      |                        |         |
| Interest expense   | 28            |        |   | 41     |  |                      | 13                     |         |
| Loss on cancellation of lease<br>Contracts                                 | 1,657         |        |   | 2,011  |  |                      | 353                    |         |
| Loss on allowance for doubtful<br>accounts                                 | 51            |        |   | -      |  |                      | (51)                   |         |
| Other non-operating expenses   | 76            |        |   | 160    |  |                      | 84                     |         |
| Total non-operating expenses   |               | 1,813  | 1.0   |        | 2,213  | 1.1                  |                        | 400     |
| <b>Recurring profit</b>  |               | 25,031 | 13.6  |        | 22,110   | 11.4                 |                        | 2,920   |
| 7.Extraordinary gains  |               |        |   |        |  |                      |                        |         |
| Gain on sales of fixed asset   | 48            |        |   | 134    |  |                      | 86                     |         |
| Gain on sales of securities  | 61            |        |   | -      |  |                      | (61)                   |         |
| Gain on sales of investments in<br>securities                              | 0             |        |   | -      |  |                      | (0)                    |         |
| Gain on collection of receivables  | 167           |        |   | 81     |  |                      | (85)                   |         |
| Gain on returning of<br>substitutional portion of<br>Employee Pension Fund | 2,152         |        |   | -      |  |                      | (2,152)                |         |
| Compensation received for head<br>office transfer                          | -             |        |   | 745    |  |                      | 745                    |         |
| Other extraordinary gains  | 3             |        |   | 61     |  |                      | 58                     |         |
| Total extraordinary gains  |               | 2,432  | 1.3   |        | 1,024  | 0.5                  |                        | (1,408) |
| 8.Extraordinary losses   |               |        |   |        |  |                      |                        |         |
| Loss on disposal of fixed assets   | 892           |        |   | 1,037  |  |                      | 144                    |         |
| Loss on write-down of<br>investment securities                             | 127           |        |   | 228    |  |                      | 101                    |         |
| Loss on cancellation of lease<br>contracts                                 | 154           |        |   | 152    |  |                      | (1)                    |         |
| Loss on the impairment of fixed<br>assets                                  | 4,985         |        |   | 3,169  |  |                      | (1,815)                |         |
| Loss on upgrade of store facilities  | 224           |        |   | 79     |  |                      | (145)                  |         |
| Other extraordinary losses   | 1,223         |        |   | 81     |  |                      | (1,141)                |         |
| Total extraordinary losses   |               | 7,606  | 4.1   |        | 4,748  | 2.4                  |                        | (2,857) |
| <b>Income before income taxes</b>  |               | 19,857 | 10.8  |        | 18,386   | 9.5                  |                        | (1,471) |
| Income taxes-current   | 9,061         |        |   | 7,932  |  |                      | (1,129)                |         |
| Income taxes-deferred  | (701)         | 8,359  | 4.6   | 217    | 8,149  | 4.2                  | 919                    | (210)   |
| Minority interest in earnings of<br>consolidated subsidiaries              |               | 0      | 0.0   |        | (0)  | (0.0)                |                        | (0)     |
| <b>Net Income</b>  |               | 11,498 | 6.2   |        | 10,237   | 5.3                  |                        | (1,260) |

### (3) Consolidated Statements of Retained Earnings

Notes: All amounts less than one million yen have been omitted.

(Millions of yen)

| Fiscal period<br>Account item                        | Previous fiscal year<br>(From March 1, 2005<br>to February 28, 2006) |        |
|--|--|--------|
|  | Amount   |        |
| (Capital surplus)                                    |  |        |
| 1. Balance of capital surplus at beginning of year   |  | 36,091 |
| 2. Increase in capital surplus                       |  |        |
| Surplus from transaction in treasury stock           | 1  | 1      |
| 3. Balance of capital surplus at end of the year     |  | 36,093 |
| (Retained earnings)                                  |  |        |
| 1. Balance of retained earnings at beginning of year |  | 64,829 |
| 2. Increase in retained earnings                     |  |        |
| Net income   | 11,498   | 11,498 |
| 3. Decrease in retained earnings                     |  |        |
| Dividends  | 3,359  |        |
| Directors' bonuses                                   | 60   | 3,419  |
| 4. Balance of retained earnings at end of the year   |  | 72,907 |

#### (4) Consolidated Statement of Changes in Shareholders' Equity

For the Fiscal 2007 (From March 1, 2006 to February 28, 2007)

(Millions of yen)

|  | Shareholder's equity |                 |                   |                |                            |
|--|----------------------|-----------------|-------------------|----------------|----------------------------|
|  | Capital stock        | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance at February 28, 2006                           | 8,380                | 36,093          | 72,907            | (14)           | 117,366                    |
| Changes during the period                              |                      |                 |                   |                |                            |
| Dividends on retained earnings                         |                      |                 | (3,273)           |                | (3,273)                    |
| Directors' bonuses                                     |                      |                 | (59)              |                | (59)                       |
| Net income   |                      |                 | 10,237            |                | 10,237                     |
| Acquisition of treasury stock                          |                      |                 |                   | (5,007)        | (5,007)                    |
| Cancellation of treasury stock                         |                      | 0               |                   | 0              | 1                          |
| Increase in consolidated subsidiaries                  |                      |                 | (194)             |                | (194)                      |
| Changes in items other than shareholders' equity (net) |                      |                 |                   |                |                            |
| Total  | -                    | 0               | 6,710             | (5,006)        | 1,703                      |
| Balance at February 28, 2007                           | 8,380                | 36,093          | 79,617            | (5,021)        | 119,070                    |

(Millions of yen)

|  | Unrealized gains or losses and translation differences, etc. |  | Minority Interest | Net assets |
|--|--|--|-------------------|------------|
|  | Net unrealized gains on available-for-sale securities        | Total unrealized gains or losses and translation differences, etc. |                   |            |
| Balance at February 28, 2006                           | 1,026  | 1,026  | 0                 | 118,392    |
| Changes during the period                              |  |  |                   |            |
| Dividends on retained earnings                         |  |  |                   | (3,273)    |
| Directors' bonuses                                     |  |  |                   | (59)       |
| Net income   |  |  |                   | 10,237     |
| Acquisition of treasury stock                          |  |  |                   | (5,007)    |
| Cancellation of treasury stock                         |  |  |                   | 1          |
| Increase in consolidated subsidiaries                  |  |  |                   | (194)      |
| Changes in items other than shareholders' equity (net) | (213)  | (213)  | (0)               | (213)      |
| Total  | (213)  | (213)  | (0)               | 1,490      |
| Balance at February 28, 2007                           | 812  | 812  | 0                 | 119,883    |

## (5) Consolidated Statements of Cash Flow

Notes: All Amounts less than one million yen have been omitted.

(millions of yen)

|  | Previous fiscal year<br>(From March 1, 2005<br>to February 28, 2006) | Current fiscal year<br>(From March 1, 2006<br>to February 28, 2007) | Increase<br>(Decrease) |
|--|--|---|------------------------|
|  | Amount   | Amount  | Amount                 |
| <b>1. Cash flows from operating activities:</b>  |  |   |                        |
| Income before income taxes   | 19,857   | 18,386  | ( 1,471 )              |
| Depreciation and amortization  | 8,387  | 7,766   | ( 621 )                |
| Loss on impairment of fixed assets   | 4,985  | 3,169   | ( 1,815 )              |
| Amortization of excess of cost of<br>investments over equity in net assets<br>acquired | 90   | -   | ( 90 )                 |
| Amortization of goodwill   | -  | 122   | 122                    |
| Loss on write-down of investment<br>securities   | 127  | 228   | 101                    |
| Gain on sales of investment securities   | ( 43 )   | -   | 43                     |
| Loss on sale of fixed assets   | 844  | 902   | 58                     |
| (Decrease) increase in allowance for<br>doubtful receivables                           | ( 39 )   | ( 147 )   | ( 107 )                |
| Increase in accrued bonuses to employees   | 46   | ( 17 )  | ( 64 )                 |
| Increase in accrued bonuses to directors   | -  | 46  | 46                     |
| (Decrease) increase in allowance for<br>employees' retirement benefits                 | ( 2,154 )  | ( 132 )   | 2,021                  |
| Decrease in allowance for directors' and<br>corporate auditors' severance benefits     | ( 21 )   | -   | 21                     |
| Interest and cash dividends income   | ( 442 )  | ( 556 )   | ( 113 )                |
| Interest expenses  | 28   | 41  | 13                     |
| Increase in trade receivables  | ( 394 )  | ( 347 )   | 46                     |
| (Decrease) increase in inventories   | 91   | ( 305 )   | ( 396 )                |
| (Decrease) increase in trade and due to<br>franchised stores payable                   | ( 2,612 )  | ( 1,357 )   | 1,255                  |
| Decrease in other accounts payable and<br>accrued expenses                             | ( 322 )  | ( 427 )   | ( 104 )                |
| Increase in money held as agent  | 3,862  | 2,165   | ( 1,696 )              |
| Directors' and corporate auditors' bonuses<br>payments                                 | ( 60 )   | ( 59 )  | 0                      |
| Loss on cancellation of lease contracts  | 897  | 986   | 88                     |
| Other  | 22   | ( 903 )   | ( 926 )                |
| Sub-total  | 33,150   | 29,562  | ( 3,588 )              |
| Interest and dividends received  | 268  | 344   | 75                     |
| Interest paid  | ( 2 )  | ( 3 )   | ( 1 )                  |
| Income taxes paid  | ( 6,206 )  | ( 10,201 )  | ( 3,995 )              |
| Net cash provided by operating activities  | 27,210   | 19,701  | ( 7,509 )              |

(millions of yen)

|  | Previous fiscal year<br>(From March 1, 2005<br>to February 28, 2006) | Current fiscal year<br>(From March 1, 2006<br>to February 28, 2007) | Increase<br>(Decrease) |
|--|--|---|------------------------|
|  | Amount   | Amount  | Amount                 |
| <b>2. Cash flows from investing activities:</b>  |  |   |                        |
| Payments for increases in time deposits  | -  | ( 800 )   | ( 800 )                |
| Proceeds from repayment of time deposits   | -  | 800   | 800                    |
| Decrease in marketable securities  | 700  | 700   | -                      |
| Increase in property and equipment   | ( 8,067 )  | ( 10,468 )  | ( 2,400 )              |
| Decrease in property and equipment   | 321  | 419   | 98                     |
| Increase in intangible fixed assets and long-term prepaid expenses                       | ( 2,991 )  | ( 3,401 )   | ( 410 )                |
| Increase in investment securities  | ( 1,869 )  | ( 1,146 )   | 723                    |
| Decrease in investment securities  | 25   | 154   | 129                    |
| Payments for the acquisition of newly consolidated subsidiaries                          | -  | 115   | 115                    |
| Proceeds from long-term advances received  | 412  | 148   | ( 264 )                |
| Increase in loans receivable   | ( 2,649 )  | ( 2,572 )   | 77                     |
| Correction of loans receivable   | 2,755  | 2,902   | 147                    |
| Increase in long-term leasehold deposits   | ( 6,691 )  | ( 7,318 )   | ( 627 )                |
| Collection of fixed leasehold deposits   | 4,780  | 5,234   | 453                    |
| Other  | 43   | 22  | ( 21 )                 |
| Net cash used in investing activities  | ( 13,229 )   | ( 15,209 )  | ( 1,979 )              |
| <b>3. Cash flows from financing activities:</b>  |  |   |                        |
| Net increase (decrease) in short-term borrowings   | ( 55 )   | ( 218 )   | ( 163 )                |
| Repayments of long-term debt   | ( 14 )   | ( 226 )   | ( 212 )                |
| Payment for acquisition of treasury stock  | -  | ( 5,007 )   | ( 5,007 )              |
| Dividends paid   | ( 3,359 )  | ( 3,273 )   | 86                     |
| Increase in guarantee deposits received  | 1,188  | 815   | ( 373 )                |
| Decrease in guarantee deposits received  | ( 1,750 )  | ( 1,942 )   | ( 192 )                |
| Other  | ( 7 )  | ( 4 )   | 3                      |
| Net cash used in financing activities  | ( 3,998 )  | ( 9,856 )   | ( 5,858 )              |
| <b>4. Net change in cash and cash equivalents</b>  | 9,983  | ( 5,364 )   | ( 15,348 )             |
| <b>5. Cash and cash equivalents at beginning of year</b>                                 | 58,820   | 68,803  | 9,983                  |
| <b>6. Net change in cash and cash equivalents by consolidation of newly subsidiaries</b> | -  | 1,518   | 1,518                  |
| <b>7. Cash and cash equivalents, end of the year</b>                                     | 68,803   | 64,957  | ( 3,846 )              |
|  |  |   |                        |

## Summary of Non-Consolidated Financial Statements for the year ended February 28, 2007. (March 1, 2006 to February 28, 2007)

### Circle K Sunkus Co., Ltd.

URL: <http://www.circleksunkus.jp>

Representative: Kiyoshi Hijikata, President

Contact: Toshitaka Yamaguchi, Executive Officer, Head of Finance and Accounting Division

Phone: +81-3-6220-9005

Stock exchange listings: The first section of the Tokyo Stock Exchange and Nagoya Stock Exchange

Securities Code Number: 3337

Date of the Board of Directors Meeting on to settle accounts : April 110, 2007

Date of Shareholders Meeting : May 23, 2007

Date of dividend payment: May 24, 2007

Unit Stock System: Yes (1 unit; 100 Shares)

### 1. Results for the Fiscal Year Ended February 28, 2007 (March 1, 2006 to February 28, 2007)

#### (1) Non-Consolidated Operating Results

Notes: All amounts less than one million yen have been omitted.

|                  | Total operating revenues [ Total sales ] |               | Operating income |          | Recurring profit |          |
|------------------|--|---------------|------------------|----------|------------------|----------|
|                  | Millions of yen                          | Change %      | Millions of yen  | Change % | Millions of yen  | Change % |
| 2007 fiscal year | 183,521 [ 872,844 ]                      | 1.6 [ (2.9) ] | 22,935           | (10.8)   | 21,834           | (12.5)   |
| 2006 fiscal year | 180,613 [ 898,741 ]                      | 33.9 [ 28.4 ] | 25,699           | 36.5     | 24,944           | 38.1     |

|                  | Net Income      |          | Net income per share | Diluted net income per share |
|------------------|-----------------|----------|----------------------|------------------------------|
|                  | Millions of yen | Change % | Yen                  | Yen                          |
| 2007 fiscal year | 10,405          | (10.8)   | 121.88               | -                            |
| 2006 fiscal year | 11,665          | 21.2     | 134.72               | -                            |

|                  | Return on equity | Recurring profit ratio of total assets | Recurring profit ratio of total operating revenues |
|------------------|------------------|--|--|
|                  | %                | %                                      | %  |
| 2007 fiscal year | 8.7              | 10.4                                   | 11.9   |
| 2006 fiscal year | 10.2             | 12.2                                   | 13.8   |

(Note) 1. Average number of shares (Consolidated) during  
 2007 fiscal year 85,371,299 shares  
 2006 fiscal year 86,150,714 shares

2. Change in accounting policies

None

3. Figures for the percent columns indicate percentage changes in total operating revenues, total sales excluding area franchisers, operating income, recurring profit and net income compared with the same interim period of the previous year.

## (2) Non-Consolidated Financial Position

|                  | Total assets    | Shareholders' equity | Shareholders' equity ratio | Shareholders' equity Per share |
|------------------|-----------------|----------------------|----------------------------|--------------------------------|
|                  | Millions of yen | Millions of yen      | %                          | Yen                            |
| 2007 fiscal year | 208,449         | 120,397              | 57.8                       | 1,437.41                       |
| 2006 fiscal year | 209,753         | 118,542              | 56.5                       | 1,375.32                       |

|   |                  |                   |
|---|------------------|-------------------|
| (Note) 1. Average number of shares end of the fiscal year         | 2007 fiscal year | 83,759,637 shares |
|   | 2006 fiscal year | 86,148,930 shares |
| 2. Number of treasury stock-at cost at the end of the fiscal year | 2007 fiscal year | 2,423,589 shares  |
|   | 2006 fiscal year | 34,296 shares     |

## 2. Forecast of Non-Consolidated Results for the Year Ending February 29, 2008

|                     | Total operating revenues [Total sales] | Recurring profit | Net income      |
|---------------------|--|------------------|-----------------|
|                     | Millions of yen                        | Millions of yen  | Millions of yen |
| 2008 interim period | 94,690 [ 445,890 ]                     | 11,320           | 4,340           |
| 2008 fiscal year    | 181,110 [ 869,780 ]                    | 21,070           | 9,060           |

(Reference) Projected net income per share for Fiscal Year ending February 29, 2008 : JPY 108.17

(Note) The above-mentioned forecast is based on projections and plans derived from assumptions based on current market conditions. Actual results may differ materially from these projections due to changes in a number of factors that could not be foreseen at the time of the projections.

## 4. Dividends Status

| Record date             | Dividends per share (yen) |                |             |             |       |       | Dividends Paid<br>(million) | Payout ratio<br>(%) | DOE (%) |
|-------------------------|---------------------------|----------------|-------------|-------------|-------|-------|-----------------------------|---------------------|---------|
|                         | 1st Quarter               | Interim period | 3rd Quarter | Fiscal year | Other | Total |                             |                     |         |
| 2007 fiscal year        | -                         | 19.00          | -           | 19.00       | -     | 38.00 | 3,228                       | 31.2                | 2.7     |
| 2006 fiscal year        | -                         | 19.00          | -           | 19.00       | -     | 38.00 | 3,273                       | 28.2                | 2.8     |
| 2008 fiscal year (plan) | -                         | 19.00          | -           | 19.00       | -     | 38.00 |                             |                     |         |

(Note) DOE = Ratio of dividends to shareholder's equity

## 5. Non-Consolidated Financial Statements

### (1) Non-Consolidated Balance Sheets

Notes: All amounts less than one million yen have been omitted.

(Millions of yen)

| Fiscal period<br>Account item                               | Previous fiscal year<br>(As of February 28, 2006) |                      | Current fiscal year<br>(As of February 28, 2007) |                      | Increase<br>(Decrease) |         |
|---|---|----------------------|--|----------------------|------------------------|---------|
|   | Amount  | Composition<br>ratio | Amount   | Composition<br>ratio | Amount                 |         |
| (ASSETS)  |   |                      |  |                      |                        |         |
| 1. Current assets   |   |                      |  |                      |                        |         |
| Cash and cash equivalents                                   | 54,312  |                      | 48,357   |                      |                        | (5,954) |
| Due from franchised stores                                  | 3,218   |                      | 3,186  |                      |                        | (32)    |
| Marketable securities                                       | 14,704  |                      | 14,011   |                      |                        | (693)   |
| Merchandise   | 2,019   |                      | 2,324  |                      |                        | 304     |
| Inventories   | 50  |                      | 40   |                      |                        | (9)     |
| Prepaid expenses  | 3,315   |                      | 3,494  |                      |                        | 178     |
| Deferred tax assets   | 1,135   |                      | 918  |                      |                        | (217)   |
| Accrued income  | 79  |                      | 87   |                      |                        | 7       |
| Short-term loans receivable                                 | 17  |                      | 17   |                      |                        | 0       |
| Short-term loans receivable for<br>affiliated company       | 740   |                      | 1,350  |                      |                        | 610     |
| Other accounts receivable                                   | 9,514   |                      | 10,030   |                      |                        | 516     |
| Long-term leasehold deposits<br>collectible within one year | 3,315   |                      | 3,429  |                      |                        | 113     |
| Other current assets  | 131   |                      | 183  |                      |                        | 52      |
| Allowance for doubtful accounts                             | (464)   |                      | (528)  |                      |                        | (63)    |
| Total current assets  | 92,089  | 43.9                 | 86,903   | 41.7                 |                        | (5,185) |
| 2. Fixed assets   |   |                      |  |                      |                        |         |
| (1) Property and equipment                                  |   |                      |  |                      |                        |         |
| Buildings   | 37,254  |                      | 39,041   |                      | 1,787                  |         |
| Accumulated depreciation                                    | 14,808  | 22,445               | 15,377   | 23,663               | 568                    | 1,218   |
| Structures  | 11,052  |                      | 12,487   |                      | 1,434                  |         |
| Accumulated depreciation                                    | 5,437   | 5,614                | 6,231  | 6,255                | 794                    | 640     |
| Machinery and equipment                                     | 226   |                      | 178  |                      | (47)                   |         |
| Accumulated depreciation                                    | 210   | 15                   | 167  | 10                   | (42)                   | (4)     |
| Automotive equipment  | 19  |                      | 18   |                      | (1)                    |         |
| Accumulated depreciation                                    | 16  | 3                    | 8  | 9                    | (8)                    | 6       |
| Furniture and fixtures                                      | 15,861  |                      | 15,877   |                      | 15                     |         |
| Accumulated depreciation                                    | 12,158  | 3,703                | 11,890   | 3,986                | (267)                  | 282     |
| Land  |   | 8,864                |  | 8,914                |                        | 50      |
| Construction in progress                                    |   | 465                  |  | 786                  |                        | 320     |
| Total property and equipment                                | 41,111  | 19.6                 | 43,626   | 20.9                 |                        | 2,515   |

(Millions of yen)

| Fiscal period<br>Account item                        | Previous fiscal year<br>(As of February 28, 2006) |                      | Current fiscal year<br>(As of February 28, 2007) |                      | Increase<br>(Decrease) |
|--|---|----------------------|--|----------------------|------------------------|
|  | Amount  | Composition<br>ratio | Amount   | Composition<br>ratio | Amount                 |
| (2)Intangible fixed assets                           |   | %                    |  | %                    |                        |
| Goodwill   | 148   |                      | 66   |                      | (81)                   |
| Right of leasehold                                   | 1,274   |                      | 1,584  |                      | 309                    |
| Right of trademarks                                  | 11  |                      | 9  |                      | (1)                    |
| System software                                      | 3,202   |                      | 3,021  |                      | (180)                  |
| System software development<br>in progress           | 8   |                      | 569  |                      | 561                    |
| Right of rented house leasehold                      | 379   |                      | 423  |                      | 44                     |
| Right of telephone                                   | 542   |                      | 507  |                      | (35)                   |
| Other intangible fixed assets                        | 34  |                      | 33   |                      | (0)                    |
| Total intangible fixed assets                        | 5,600   | 2.7                  | 6,216  | 3.0                  | 616                    |
| (3)Investment and other assets                       |   |                      |  |                      |                        |
| Investment in securities                             | 4,900   |                      | 4,543  |                      | (357)                  |
| Investment in affiliated<br>company                  | 3,099   |                      | 3,802  |                      | 702                    |
| Investments  | 2   |                      | 2  |                      | (0)                    |
| Long-term loans receivable                           | 729   |                      | 622  |                      | (107)                  |
| Long-term loans receivable<br>for affiliated company | 61  |                      | 47   |                      | (14)                   |
| Receivables in bankruptcy or<br>reorganization       | 263   |                      | 335  |                      | 72                     |
| Long-term prepaid expenses                           | 5,078   |                      | 5,258  |                      | 180                    |
| Deferred tax assets                                  | 3,271   |                      | 3,642  |                      | 371                    |
| Long-term leasehold deposits                         | 53,145  |                      | 52,245   |                      | (900)                  |
| Store leases in process                              | 1,000   |                      | 1,635  |                      | 634                    |
| Other investment                                     | 643   |                      | 825  |                      | 182                    |
| Allowance for doubtful accounts                      | (1,245)   |                      | (1,258)  |                      | (12)                   |
| Total investment and other assets                    | 70,951  | 33.8                 | 71,702   | 34.4                 | 751                    |
| Total fixed assets                                   | 117,664   | 56.1                 | 121,546  | 58.3                 | 3,882                  |
| Total assets   | 209,753   | 100.0                | 208,449  | 100.0                | (1,303)                |
|  |   |                      |  |                      |                        |

(Millions of yen)

| Fiscal period<br>Account item                                 | Previous fiscal year<br>(As of February 28, 2006) |                      | Current fiscal year<br>(As of February 28, 2007) |                      | Increase<br>(Decrease) |           |
|---|---|----------------------|--|----------------------|------------------------|-----------|
|   | Amount  | Composition<br>ratio | Amount   | Composition<br>ratio | Amount                 |           |
|   |   | %                    |  | %                    |                        |           |
| <b>(LIABILITIES)</b>  |   |                      |  |                      |                        |           |
| 1. Current liabilities  |   |                      |  |                      |                        |           |
| Trade payable   | 35,622  |                      | 34,760   |                      |                        | (862)     |
| Due to franchised stores                                      | 2,898   |                      | 2,436  |                      |                        | (462)     |
| Other accounts payable  | 5,361   |                      | 4,758  |                      |                        | (603)     |
| Accrued expenses  | 712   |                      | 757  |                      |                        | 45        |
| Income taxes payable  | 6,062   |                      | 3,543  |                      |                        | (2,519)   |
| Consumption taxes payable                                     | 289   |                      | 126  |                      |                        | (162)     |
| Money held as agent   | 20,904  |                      | 22,790   |                      |                        | 1,885     |
| Income in advance   | 573   |                      | 535  |                      |                        | (37)      |
| Allowance for bonuses to employees                            | 754   |                      | 738  |                      |                        | (16)      |
| Allowance for bonuses to directors                            | -   |                      | 41   |                      |                        | 41        |
| Facility-related notes payable                                | 791   |                      | 795  |                      |                        | 4         |
| Guarantee deposits refundable within one year                 | 868   |                      | 793  |                      |                        | (74)      |
| Other current liabilities                                     | 4   |                      | 1  |                      |                        | (3)       |
| Total current liabilities                                     | 74,844  | 35.7                 | 72,079   | 34.6                 |                        | (2,764)   |
| 2. Long-term liabilities                                      |   |                      |  |                      |                        |           |
| Allowance for employees' retirement benefits liability        | 2,379   |                      | 2,359  |                      |                        | (19)      |
| Guarantee deposits received                                   | 12,275  |                      | 11,485   |                      |                        | (789)     |
| Long-term income in advance                                   | 1,086   |                      | 997  |                      |                        | (88)      |
| Allowance for impairment loss on leased property              | 570   |                      | 1,081  |                      |                        | 510       |
| Other long-term liabilities                                   | 54  |                      | 48   |                      |                        | (5)       |
| Total long-term liabilities                                   | 16,366  | 7.8                  | 15,973   | 7.6                  |                        | (393)     |
| Total liabilities   | 91,211  | 43.5                 | 88,052   | 42.2                 |                        | (3,158)   |
| <b>(SHAREHOLDERS' EQUITY)</b>                                 |   |                      |  |                      |                        |           |
| 1. Common stock   | 8,380   | 4.0                  | -  | -                    |                        | (8,380)   |
| 2. Capital surplus  |   |                      |  |                      |                        |           |
| Additional paid-in capital                                    | 36,090  |                      | -  |                      |                        | (36,090)  |
| Other capital surplus   |   |                      |  |                      |                        |           |
| (1) Gain on disposal treasury stock                           | 2   |                      | -  |                      | (2)                    | (2)       |
| Total capital surplus   | 36,093  | 17.2                 | -  |                      |                        | (36,093)  |
| 3. Retained earnings  |   |                      |  |                      |                        |           |
| Legal reserve   | 687   |                      | -  |                      |                        | (687)     |
| Voluntary reserve   |   |                      |  |                      |                        |           |
| (1) General reserve   | 60,421  |                      | -  |                      | (60,421)               | (60,421)  |
| Unappropriated retained earnings                              | 11,948  |                      | -  |                      |                        | (11,948)  |
| Total retained earnings                                       | 73,057  | 34.8                 | -  | -                    |                        | (73,057)  |
| 4. Net unrealized gains on available-for-sale securities      | 1,026   | 0.5                  | -  | -                    |                        | (1,026)   |
| 5. Less, treasury stock                                       | (14)  | (0.0)                | -  | -                    |                        | 14        |
| Shareholders' equity  | 118,542   | 56.5                 | -  | -                    |                        | (118,542) |
| Total Liabilities, Minority interest and Shareholders' Equity | 209,753   | 100.0                | -  | -                    |                        | (209,753) |

(Millions of yen)

| Fiscal period<br>Account item                                      | Previous fiscal year<br>(As of February 28, 2006) |                      | Current fiscal year<br>(As of February 28, 2007) |                      | Increase<br>(Decrease) |         |
|--|---|----------------------|--|----------------------|------------------------|---------|
|  | Amount  | Composition<br>ratio | Amount   | Composition<br>ratio | Amount                 |         |
| (NET ASSETS)   |   | %                    |  | %                    |                        |         |
| 1. Shareholder's equity  |   |                      |  |                      |                        |         |
| [1]Common stock  | -   | -                    | 8,380  | 4.0                  |                        | 8,380   |
| [2]Capital surplus   |   |                      |  |                      |                        |         |
| (1)Additional paid-in capital                                      | -   |                      | 36,090   |                      | 36,090                 |         |
| (2)Other capital surplus   | -   |                      | 3  |                      | 3                      |         |
| Total Capital surplus  | -   | -                    | 36,093   | 17.3                 |                        | 36,093  |
| [3]Retained earnings   |   |                      |  |                      |                        |         |
| (1)Legal reserve   | -   |                      | 687  |                      | 687                    |         |
| (2)Other retained earnings   |   |                      |  |                      |                        |         |
| General reserve  | -   |                      | 68,921   |                      | 68,921                 |         |
| Retained earnings carried forward                                  | -   |                      | 10,520   |                      | 10,520                 |         |
| Total Retained earnings  | -   | -                    | 80,129   | 38.5                 |                        | 80,129  |
| [4]Treasury stock  | -   | -                    | (5,021)  | (2.4)                |                        | (5,021) |
| Total shareholders' equity   | -   | -                    | 119,581  | 57.4                 |                        | 119,581 |
| 2. Unrealized gains or losses and translation differences, etc.    |   |                      |  |                      |                        |         |
| Net unrealized gains on available-for-sale securities              | -   |                      | 815  |                      |                        | 815     |
| Total unrealized gains or losses and translation differences, etc. | -   | -                    | 815  | 0.4                  |                        | 815     |
| Net Assets   | -   | -                    | 120,397  | 57.8                 |                        | 120,397 |
| Total Liabilities and Net Assets                                   | -   | -                    | 208,449  | 100.0                |                        | 208,449 |

## (2)Non-Consolidated Statements of Income

Notes: All amounts less than one million yen have been omitted.

(Millions of yen)

| Fiscal period<br>Account item   | Previous fiscal year<br>(From March 1,2005<br>to February 28, 2006) |         |                           | Current fiscal year<br>(From March 1,2006<br>to February 28, 2007) |         |                           | Increase<br>(Decrease) |         |
|---|---|---------|---------------------------|--|---------|---------------------------|------------------------|---------|
|   | Amount  |         | Composition<br>ratio<br>% | Amount   |         | Composition<br>ratio<br>% | Amount                 |         |
| 1.Operating revenues  |   |         |                           |  |         |                           |                        |         |
| Franchise commissions from franchised stores  | 102,517   |         |                           | 99,271   |         |                           | (3,245)                |         |
| Net sales reported by Franchised Stores<br>(Figures for excluding area franchised stores.)              |   |         |                           |  |         |                           |                        |         |
| Previous fiscal year<br>¥ 833,009 million   |   |         |                           |  |         |                           |                        |         |
| Current fiscal year<br>¥ 800,954 million  |   |         |                           |  |         |                           |                        |         |
| Total net sales of franchised and company-owned stores<br>(Figures for exclude area franchised stores.) |   |         |                           |  |         |                           |                        |         |
| Previous fiscal year<br>¥ 898,741 million   |   |         |                           |  |         |                           |                        |         |
| Current fiscal year<br>¥ 872,844 million  |   |         |                           |  |         |                           |                        |         |
| Other revenues  | 12,364  | 114,881 | 63.6                      | 12,360   | 111,631 | 60.8                      | (4)                    | (3,249) |
| 2.Net sales of company-owned stores   | <65,732>  | 65,732  | <100.0><br>36.4           | <71,889>   | 71,889  | <100.0><br>39.2           | (6,157)                | 6,157   |
| <b>Total operating revenues</b>   |   | 180,613 | 100.0                     |  | 183,521 | 100.0                     |                        | 2,907   |
| 3.Cost of goods sold  |   |         |                           |  |         |                           |                        |         |
| Inventory at beginning of year  | 1,762   |         |                           | 2,019  |         |                           | 257                    |         |
| Purchase amount   | 49,951  |         |                           | 54,605   |         |                           | 4,653                  |         |
| Total   | 51,713  |         |                           | 56,624   |         |                           | 4,911                  |         |
| Inventory at end of year  | 2,019   |         |                           | 2,324  |         |                           | 304                    |         |
| Cost of goods sold  | <49,693>  | 49,693  | <75.6><br>27.5            | <54,300>   | 54,300  | <75.5><br>29.6            | (4,606)                | 4,606   |
| Gross profit on sales   | <16,038>  |         | <24.4>                    | <17,589>   |         | <24.5>                    | (1,551)                |         |
| Operating gross profit  |   | 130,919 | 72.5                      |  | 129,221 | 70.4                      |                        | (1,698) |
| 4.Selling, general and administrative Expenses  |   | 105,220 | 58.3                      |  | 106,285 | 57.9                      |                        | 1,065   |
| <b>Operating income</b>   |   | 25,699  | 14.2                      |  | 22,935  | 12.5                      |                        | (2,764) |

(Millions of yen)

| Account item   | Fiscal period |        | Previous fiscal year<br>(From March 1,2005<br>to February 28, 2006) |        | Current fiscal year<br>(From March 1,2006<br>to February 28, 2007) |                      | Increase<br>(Decrease) |          |
|--|---------------|--------|---|--------|--|----------------------|------------------------|----------|
|  | Amount        |        | Composition<br>ratio  | Amount |  | Composition<br>ratio | Amount                 |          |
| 5.Non-operating income   |               |        | %   |        |  | %                    |                        |          |
| Interest income  | 335           |        |   | 402    |  |                      | 67                     |          |
| Interest securities  | 13            |        |   | 44     |  |                      | 31                     |          |
| Dividend income  | 87            |        |   | 99     |  |                      | 11                     |          |
| Compensation income  | 495           |        |   | 440    |  |                      | (55)                   |          |
| Other non-operating income   | 96            |        |   | 129    |  |                      | 33                     |          |
| Total non-operating income   |               | 1,028  | 0.6   |        | 1,115  | 0.6                  |                        | 87       |
| 6.Non-operating expenses   |               |        |   |        |  |                      |                        |          |
| Interest expense   | 21            |        |   | 34     |  |                      | 12                     |          |
| Loss on cancellation of lease<br>Contracts                                 | 1,637         |        |   | 1,923  |  |                      | 286                    |          |
| Loss on allowance for doubtful<br>accounts                                 | 51            |        |   | 101    |  |                      | 50                     |          |
| Other non-operating expenses   | 72            |        |   | 157    |  |                      | 84                     |          |
| Total non-operating expenses   |               | 1,782  | 1.0   |        | 2,216  | 1.2                  |                        | 433      |
| <b>Recurring profit</b>  |               | 24,944 | 13.8  |        | 21,834   | 11.9                 |                        | (3,110)  |
| 7.Extraordinary gains  |               |        |   |        |  |                      |                        |          |
| Gain on sales of fixed asset   | 44            |        |   | 134    |  |                      | 90                     |          |
| Gain on sales of securities  | 61            |        |   | -      |  |                      | (61)                   |          |
| Gain on sales of investments in<br>securities                              | 0             |        |   | -      |  |                      | (0)                    |          |
| Gain on collection of receivables  | 167           |        |   | 81     |  |                      | (85)                   |          |
| Gain on returning of<br>substitutional portion of<br>Employee Pension Fund | 2,152         |        |   | -      |  |                      | (2,152)                |          |
| Compensation received for head<br>office transfer                          | -             |        |   | 745    |  |                      | 745                    |          |
| Other extraordinary gains  | 3             |        | 1.3   | 61     |  | 0.6                  | 58                     |          |
| Total extraordinary gains  |               | 2,429  |   |        | 1,024  |                      |                        | (1,404)  |
| 8.Extraordinary losses   |               |        |   |        |  |                      |                        |          |
| Loss on disposal of fixed assets   | 891           |        |   | 967    |  |                      | 75                     |          |
| Loss on write-down of<br>investment securities                             | 244           |        |   | 669    |  |                      | 424                    |          |
| Loss on cancellation of lease<br>contracts                                 | 151           |        |   | 133    |  |                      | (17)                   |          |
| Loss on the impairment of fixed<br>assets                                  | 4,683         |        |   | 2,703  |  |                      | (1,979)                |          |
| Loss on upgrade of store facilities  | 224           |        |   | 79     |  |                      | (145)                  |          |
| Other extraordinary losses   | 1,100         |        |   | 81     |  |                      | (1,019)                |          |
| Total extraordinary losses   |               | 7,296  | 4.0   |        | 4,635  | 2.5                  |                        | (2,661)  |
| <b>Income before income taxes</b>  |               | 20,077 | 11.1  |        | 18,223   | 10.0                 |                        | (1,853)  |
| Income taxes-current   | 9,054         |        |   | 7,829  |  |                      | (1,225)                |          |
| Income taxes-deferred  | (642)         | 8,411  | 4.6   | (11)   | 7,818  | 4.3                  | 631                    | (593)    |
| <b>Net Income</b>  |               | 11,665 | 6.5   |        | 10,405   | 5.7                  |                        | (1,260)  |
| Unappropriated retained<br>earnings-carried forward                        |               | 1,919  |   |        | -  |                      |                        | (1,919)  |
| Interim cash dividends   |               | 1,636  |   |        | -  |                      |                        | (1,636)  |
| Unappropriated retained<br>earnings-at end of the year                     |               | 11,948 |   |        | -  |                      |                        | (11,948) |

**(3)Non-Consolidated Statements of Appropriation Retained Earnings**

(Millions of yen)

| Fiscal period<br>(Date of Shareholders Meeting)        | Previous fiscal year<br>(May 24, 2006) |        |
|--|--|--------|
| Account item   | Amount                                 |        |
| 1. Unappropriated retained earnings<br>-At end of year |  | 11,948 |
| 2. Appropriation of retained earnings                  |  |        |
| (1)Year-end dividends                                  | 1,636                                  |        |
| (2)Directors' bonuses                                  | 59                                     |        |
| [Auditors' bonuses]                                    | [6]                                    |        |
| (3)Voluntary reserve                                   |  |        |
| General reserve  | 8,500                                  | 10,196 |
| 3. Retained earnings to be carried<br>forward          |  | 1,751  |

#### (4) Non-Consolidated Statement of Changes in Shareholders' Equity

For the Fiscal 2007 (From March 1, 2006 to February 28, 2007)

(Millions of yen)

|   | Shareholders' equity |                            |                       |        |               |                                   |                         |         |                |                             |
|---|----------------------|----------------------------|-----------------------|--------|---------------|-----------------------------------|-------------------------|---------|----------------|-----------------------------|
|   | Capital stock        | Capital surplus            |                       |        | Legal reserve | Retained earnings                 |                         |         | Treasury stock | Total share-holders' equity |
|   |                      | Additional paid-in capital | Other capital surplus | Total  |               | General reserve                   | Other retained earnings | Total   |                |                             |
|   |                      |                            |                       |        |               | Retained earnings carried forward |                         |         |                |                             |
| Balance at February 28, 2006                            | 8,380                | 36,090                     | 2                     | 36,093 | 687           | 60,421                            | 11,948                  | 73,057  | (14)           | 117,516                     |
| Changes during the period                               |                      |                            |                       |        |               |                                   |                         |         |                |                             |
| Dividends on retained earnings                          |                      |                            |                       |        |               |                                   | (3,273)                 | (3,273) |                | (3,273)                     |
| Directors' bonuses                                      |                      |                            |                       |        |               |                                   | (59)                    | (59)    |                | (59)                        |
| Net income  |                      |                            |                       |        |               |                                   | 10,405                  | 10,405  |                | 10,405                      |
| Acquisition of treasury stock                           |                      |                            |                       |        |               |                                   |                         |         | (5,007)        | (5,007)                     |
| Cancellation of treasury stock                          |                      |                            | 0                     | 0      |               |                                   |                         |         | 0              | 1                           |
| Transfers between reserves                              |                      |                            |                       |        |               | 8,500                             | (8,500)                 | -       |                | -                           |
| Changes in items other than share-holders' equity (net) |                      |                            |                       |        |               |                                   |                         |         |                | -                           |
| Total   | -                    | -                          | 0                     | 0      | -             | 8,500                             | (1,427)                 | 7,072   | (5,006)        | 2,065                       |
| Balance at February 28, 2007                            | 8,380                | 36,090                     | 3                     | 36,093 | 687           | 68,921                            | 10,520                  | 80,129  | (5,021)        | 119,581                     |

(Millions of yen)

|  | Unrealized gains or losses and translation differences, etc. |  | Net assets |
|--|--|--|------------|
|  | Net unrealized gains on available-for-sale securities        | Total unrealized gains or losses and translation differences, etc. |            |
| Balance at February 28, 2006                           | 1,026  | 1,026  | 118,542    |
| Changes during the period                              |  |  |            |
| Dividends on retained earnings                         |  |  | (3,273)    |
| Directors' bonuses                                     |  |  | (59)       |
| Net income   |  |  | 10,405     |
| Acquisition of treasury stock                          |  |  | (5,007)    |
| Cancellation of treasury stock                         |  |  | 1          |
| Transfers between reserves                             |  |  | -          |
| Changes in items other than shareholders' equity (net) | (210)  | (210)  | (210)      |
| Total  | (210)  | (210)  | 1,854      |
| Balance at February 28, 2007                           | 815  | 815  | 120,397    |