

## Summary of Consolidated Financial Statements for the First Half of Fiscal 2008, the Year Ending February 29, 2008.

### Circle K Sunkus Co., Ltd.

Securities Code Number: 3337

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

Date of dividend payment: November 16, 2007

Prepared in accordance with the financial accounting standards in Japan.

### 1. Consolidated Results for the First Half of Fiscal 2008 (March 1, 2007 to August 31, 2007)

#### (1) Consolidated Operating Results

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

	Operating revenue [ Total sales ]		Operating income		Recurring profit	
	Millions of yen	Change %	Millions of yen	Change %	Millions of yen	Change %
Current interim period	104,556 [ 463,490 ]	5.6 [ (1.2) ]	11,567	(18.4)	11,108	(18.2)
Previous interim period	98,980 [ 469,050 ]	3.7 [ (2.1) ]	14,168	(5.9)	13,588	(7.8)
(Ref.) Last fiscal Year	194,392 [ 911,281 ]	-	23,113		22,110	

	Net Income		Net income per share	Diluted net income per share
	Millions of yen	Change %	Yen	Yen
Current interim period	4,486	(19.7)	53.56	-
Previous interim period	5,589	5.6	64.88	-
(Ref.) Last fiscal Year	10,237		119.92	-

#### (2) Consolidated Financial Position

	Total liabilities and equity	Total equity	Equity ratio	Total equity per share
	Millions of yen	Millions of yen	%	Yen
Current interim period	221,388	122,404	55.3	1,460.47
Previous interim period	227,674	121,923	53.6	1,415.28
(Ref.) Last fiscal Year	212,377	119,883	56.4	1,431.27

(Reference) Shareholders' equity (Millions of yen) Current interim period 122,325 Previous interim period 121,923  
Last fiscal Year 119,883

#### (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
Current interim period	16,329	(8,514)	(1,964)	71,309
Previous interim period	23,168	(7,247)	(2,343)	83,899
(Ref.) Last fiscal Year	19,701	(15,209)	(9,856)	64,957

## 2. Dividends Status

Record date	Dividends per share (yen)		
	Interim period	Fiscal year	Total
2007 fiscal year	19.00	19.00	38.00
2008 fiscal year(Result)	20.00	-	40.00
2008 fiscal year (plan)	-	20.00	

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

	Operating revenue [Total sales]		Operating income		Recurring profit		Net income		Net income per share	
	Millions of yen		Millions of yen		Millions of yen		Millions of yen		Yen	
2008 fiscal year	205,620	5.8	20,570	(11.0)	18,500	(16.3)	8,310	(18.8)	99.21	
	[ 907,930 ]	(0.4)								

## 3. Other

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

Consolidation : (Inclusion) 1 99 Ichiba Co., Ltd. (Exclusion) None

### (Reference) Scope of consolidated subsidiaries

Consolidated subsidiaries : 6 Subsidiaries or affiliates applicable of equity method: None

### (2) Change in accounting policies

Yes

### (3) Shares outstanding

1. Average number of shares end of period (Including treasury stock)	Current interim period	86,183,226 shares
	Previous interim period	86,183,226 shares
	Last fiscal Year	86,183,226 shares
2. Average number of treasury stocks end of period	Current interim period	2,425,135 shares
	Previous interim period	35,408 shares
	Last fiscal Year	2,423,589 shares

## (Reference)

### 1. Non-Consolidated Results for the First Half of Fiscal 2008 (March 1, 2007 to August 31, 2007)

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

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

	Operating revenue [ Total sales ]		Operating income		Recurring profit	
	Millions of yen	Change %	Millions of yen	Change %	Millions of yen	Change %
Current interim period	96,640 [ 442,365 ]	3.3 [ (1.5) ]	11,783	(14.1)	11,263	(14.5)
Previous interim period	93,517 [ 449,121 ]	(0.1) [ (4.1) ]	13,722	(8.4)	13,172	(10.0)
(Ref.) Last fiscal Year	183,521 [ 872,844 ]	-	22,935	-	21,834	-

	Net Income		Net income per share
	Millions of yen	Change %	Yen
Current interim period	4,580	(16.2)	54.69
Previous interim period	5,469	0.7	63.49
(Ref.) Last fiscal Year	10,405	-	121.88

#### (2) Non-Consolidated Financial Position

	Total liabilities and equity	Total equity	Equity ratio	Total equity per share
	Millions of yen	Millions of yen	%	Yen
Current interim period	217,235	123,226	56.7	1,471.22
Previous interim period	222,702	122,148	54.8	1,417.90
(Ref.) Last fiscal Year	208,449	120,397	57.8	1,437.41

(Reference) Shareholders' equity (Millions of yen) Current interim period 123,226 Last fiscal Year 120,397 Previous interim period 122,148

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

	Operating revenue [Total sales]		Operating income		Recurring profit		Net income		Net income per share
	Millions of yen	Change %	Millions of yen	Change %	Millions of yen	Change %	Millions of yen	Change %	Yen
2008 fiscal year	188,230	2.6	21,300	(7.1)	19,280	(11.7)	8,990	(13.6)	107.33
	[ 865,230 ]	(0.9)							

(Note) 1. The forecast of consolidated results for the year ending February 29, 2008 were changed on September 27, 2007.

2. 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.

## **1. Operating Results**

### **1) Overview of First Half of Fiscal 2008 (March 1, 2007 to August 31, 2007)**

In the first half of fiscal 2008, the Japanese economy recorded both nominal and real negative GDP growth for the first time in three quarters during the first quarter (ended June 30, 2007) due to a decline in private-sector capital investment and housing starts. Nevertheless, corporate earnings remained strong while employment and income levels gradually improved. In the case of household expenditures, personal consumption was robust due to underlying strength in disposable income; consumer spending thus tended toward recovery.

In the retail industry, sales tended to recover due to a heat wave in August. However, consumer sentiment was weak due to such factors as inclement weather, including a long rainy season and typhoons, and a hike in inhabitants' tax, and sales of goods such as apparel and food were sluggish. Furthermore, the disparity between urban areas, such as Tokyo and Nagoya, and regional areas in terms of signs of economic recovery and income levels widened, while differences between regions were also apparent in terms of sales trends at retailers.

In the convenience store industry, Circle K Sunkus continued to face a challenging business environment, characterized by increasingly intense competition transcending industry lines, involving not only rival convenience store chains, but also restaurants, supermarkets, drug stores, and discount retailers. Owing to the impact of inclement weather as well as diversifying customer needs, among other factors, sales of such mainstay items as rice dishes and delicatessen items were lackluster.

Against this backdrop, in the first half of fiscal 2008, total operating revenues at Circle K Sunkus rose 5.6% year on year to ¥104,556 million, mainly due to an increase in the number of consolidated subsidiaries and a rise in sales at Company-owned stores. However, operating income declined 18.4% year on year to ¥11,567 million, mainly due to a decrease in revenues from franchised stores and an increase in SG&A expenses, including sales promotion and advertising expenses and store leasing expenses. Recurring profit fell 18.2% to ¥11,108 million, reflecting an increase in non-operating expenses such as losses on the cancellation of lease contracts, as the Company actively closed Company-owned and unprofitable stores. Moreover, partly because the Company booked impairment losses of ¥2,570 million, income before income taxes and minority interests decreased 22.4% to ¥7,965 million, and net income consequently dropped 19.7% to ¥4,486 million.

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

#### **[Convenience Store Business]**

In the first half of fiscal 2008, unfavorable weather conditions such as a long rainy season and typhoons had an adverse impact. Nevertheless, as weather conditions were generally favorable and there were record-high summer temperatures in various regions in August, in particular, sales of seasonal summer products such as soft drinks and ice cream were strong. Furthermore, sales recovered in areas such as the Kanto region and Hokkaido while sales promotion measures such as incentive-point collection campaigns and higher sales of tobacco, for which prices were raised due to a tax hike in July 2006, also contributed to the segment's performance. As a result, while overall existing store sales declined 1.7% on a non-consolidated basis, this was a smaller rate of decline, suggesting a recovery trend.

Consequently, total store sales, including Circle K Sunkus' five consolidated subsidiaries in the convenience store business, reached ¥463,490 million. Incidentally, 99 Ichiba Co., Ltd., an operator of new-format 99 Ichiba supermarkets offering an extensive lineup of fresh foods, became a consolidated subsidiary of Circle K Sunkus in the first half of fiscal 2008.

The average product markup for Circle K Sunkus in the first half of fiscal 2008 was 29.1%, down 0.05 of a percentage point from the previous fiscal year, the result primarily of an increase in sales of lower-margin tobacco and service products, which negated contributions from the completion of the integration of vendor and logistics networks as well as the standardization of food ingredients in the fast foods and perishable foods categories.

#### Summary of Store Performance (March 1, 2007 to August 31, 2007)

	Circle K	Sunkus	Circle K Sunkus total	Consolidated subsidiaries		
				Four area franchisers total	99 Ichiba	Total
Total store sales (¥ million)	254,244	188,067	442,365	19,016	2,109	463,490
Year-on-year (YoY) change (%)	(0.4)	(3.0)	(1.5)	(4.6)	-	(1.2)
YoY change in existing store sales (%)	(1.6)	(1.8)	(1.7)	(4.0)	-	-
Average product markup (%)	-	-	29.1	-	-	-
Stores opened	96	54	150	11	18	179
Stores closed	121	106	227	21	1	249
Total stores at period-end	2,873	2,153	5,027	255	35	5,317

\*Circle K Sunkus totals for 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.

In store operations, Circle K Sunkus continued to strive to enhance customer satisfaction by thoroughly ensuring the Four Basic Principles (friendliness, cleanliness, keeping shelves stocked, and managing freshness), which utilize customer satisfaction evaluation points. The Company undertook a detailed review of merchandise assortment corresponding to location characteristics and customer needs with the aim of ensuring that each store creates carefully conceived sales spaces. The Head Office increased investment in the revitalization of existing stores and implemented incentive-point collection campaigns and other sales promotion measures in a bid to raise franchised store sales. At the same time, it assisted in the hiring of part-time and temporary store staff by making use of mobile phone job recruitment sites and other means.

On the store development front, Circle K Sunkus stepped up efforts to deal with unprofitable stores by relocating stores and pushing ahead with its scrap-and-build program, based on the sharing of information and collaboration with the Store Operations Division. Moreover, in order to open stores that prioritize quality (average daily sales) and profitability, the Company reinforced its two-tier checking system for prospective store locations involving the Store Operations Division and Store Development Division, and opened low-cost and ROI-intensive stores. By using the "Venture Employee System" launched in September 2006, Circle K Sunkus also strove to develop quality franchisee candidates. As of the end of August 2007, there were 57 venture employees and 2 had become independent as franchisees. Thus, this system is operating effectively.

The Corporate Owner Development Department, newly established in fiscal 2008, has been engaged in store development activities based on stronger tie-ups with leading companies. In April, it opened a

store in the Higashi Meihan Expressway Ooyamada parking area (up lane), followed by another one in the Tokai Hokuriku Expressway Hirugano service area (down lane) in July.

In addition, 99 Ichiba Co., Ltd., which operates 99 Ichiba supermarkets, became a consolidated subsidiary in the first half of fiscal 2008. This company stepped up store openings as it endeavored to cater to customer needs not fully met by conventional convenience stores, such as the needs of younger and middle-aged women and senior citizens.

During the first half of fiscal 2008, Circle K Sunkus opened 179 stores (including 18 “99 Ichiba” stores), which was slightly fewer than planned. However, the Company implemented its key strategy of actively relocating stores to optimal locations. In parallel, Circle K Sunkus closed 249 stores (including 1 “99 Ichiba” store), focusing on unprofitable stores unlikely to remain competitive in the future. As a result, Circle K Sunkus had a total of 5,317 stores as of August 31, 2007.

On the product development front, Circle K Sunkus completed the integration of vendor and logistics networks in the fast foods and perishable foods categories in all regions with the integration of the Kanto region in July. This has established a system for the development of tasty, original products that are reliable, safe, and healthy. In May 2007, the Company launched a new original baked goods brand called *Magokoro Jikomi Oishii Pan Seikatsu* that combines the original bread product lines of Circle K and Sunkus. This was followed by the integration of rice ball brands in July. The enhancement of product quality and sales promotion measures such as the incentive-point collection campaign have been successful and are steadily delivering results. In addition, Circle K Sunkus strove to commercialize products with regional tastes and ingredients by strengthening its regional product development organization. In May, for example, the Company carried out the Hokuriku MOT Project Second Phase, which involves promoting “local production and local consumption” in tandem with regional producers and manufacturers in the Hokuriku region.

Turning to services, in May, Circle K Sunkus unveiled a pickup service at Circle K and Sunkus stores nationwide for products purchased at Internet mail-order sites. In addition, transaction volumes for Edy electronic money have been growing year after year. As of August 31, 2007, Circle K Sunkus had sold more than 890,000 *KARUWAZA CLUB* house cards with Edy electronic money, and *KARUWAZA CLUB* members, who are eligible for shopping points, had surpassed the 270,000 mark. In April, Circle K Sunkus began rolling out a system for individuals to register as cardless members. The Company plans to grow its loyal customer base by signing up even more members going forward.

Furthermore, in May 2007, Circle K Sunkus reached a basic agreement with Resona Bank on a partnership to successively install ATMs under the Company’s original brand Bank Time, for which Resona Bank will be the principal bank, at stores in the Kansai region from February 2008. This agreement will expand Circle K Sunkus’ ATM service network to the Kansai region, where only the Chukyo and Kanto regions have a more dominant store presence. This move will enable Circle K Sunkus to further increase customer footfall at stores and boost sales.

#### **[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. It has also formed an alliance with The Mie Bank, Ltd., and installed ATMs at stores in

Mie Prefecture. Subsequently, 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 2,498 “Zero Bank” ATMs as of August 31, 2007. In the first half of fiscal 2008, ZERO NETWORKS recorded total operating revenues of ¥2,347 million, up 22.5% from the previous fiscal year.

### **[Outlook for Fiscal 2008]**

Over the course of fiscal 2008, the Japanese economy faces concerns about external unstable factors such as the slowdown of the U.S. economy and the trend in crude oil prices. However, as employment and income levels should be strong and supported by robust corporate earnings, the Japanese economy is likely to continue its moderate recovery. That said, as competition in the convenience store industry escalates, Circle K Sunkus will continue to face a challenging business environment.

Circle K Sunkus has advocated the management policy for fiscal 2008 of shifting to an “intensive quality-driven growth path.” In line with this policy, 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 store operations, the Company will implement customer service training for franchised stores and bolster the ability to provide guidance to franchised stores through training for store supervisors. Through these and other measures, we will continue to remain totally committed to reflecting customer needs in sales spaces to enhance customer satisfaction. Furthermore, we have been making progress with the introduction of next-generation point-of-sale (POS) registers since August 2007, and we will complete the replacement of registers at all stores in December. These next-generation POS registers have built-in multi-reader/writers, and allow the use of not only Edy, but also various other types of electronic money such as Visa Touch (Smartplus) and QUICPay. The resulting improvement in customer convenience is expected to lead to an increase in customer footfall.

In store development, Circle K Sunkus will promote relocations and its scrap-and-build program as it steps up efforts to deal with unprofitable stores. At the same time, by thoroughly implementing a store opening strategy based on regional characteristics that makes use of the strengths of the two convenience store brands, the Company aims to improve store quality (average daily sales at new stores) and productivity. Moreover, Circle K Sunkus will reinforce information sharing and cooperation with the Store Operations Division and work to secure and develop strong franchisee candidates by using the “Venture Employee System” and an incentive plan for managing multiple stores.

Turning to product development, Circle K Sunkus will realize synergies such as an increase in product markups and quality by capturing economies of scale resulting from the completion of the integration of vendor and logistics networks in the fast foods and perishable foods categories. The Company plans to launch a new dessert brand in November, and will continue to bolster the development of tasty, original products that are reliable, safe and healthy. We will also further promote the development of products that address the polarization in consumer needs, that is, in demand for reasonably priced products and value-added products according to customers’ lifestyles. We will also develop products for specific regions that use regional ingredients and reflect local tastes.

In service development, Circle K Sunkus aims to increase convenience and customer footfall through various measures. In February 2007, the Company started operating the ATM service Bank Time, with Resona Bank as the principal bank, in the Kansai region. In addition, we aim to allow customers to use more types of electronic money and will expand the pick-up service for products purchased at Internet mail-order sites.

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

	Circle K	Sunkus	Circle K Sunkus total	Consolidated subsidiaries		
				Four area franchisers total	99 Ichiba	Total
Total store sales (¥ million)	-	-	865,230	36,873	5,819	907,930
Year-on-year (YoY) change (%)	-	-	(0.9)	(4.1)	-	(0.4)
YoY change in existing store sales (%)	-	-	(1.2)	-	-	-
Average product markup (%)	-	-	28.99	-	-	-
Stores opened	192	128	320	24	35	379
Stores closed	251	206	457	30	1	488
Total stores at period-end	2,839	2,127	4,967	259	52	5,278

\*Circle K Sunkus totals for 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.

For fiscal 2008, Circle K Sunkus is forecasting total operating revenues on a consolidated basis of ¥205,620 million, an increase of 5.8% year on year. On the earnings front, Circle K Sunkus is projecting consolidated operating income of ¥20,570 million, down 11.0% year on year, recurring profit of ¥18,500 million, 16.3% lower, and net income of ¥8,310 million, a decrease of 18.8%.

## (2) Financial Position

### (Assets, Liabilities and Net Assets)

As of August 31, 2007, total assets were ¥221,388 million, ¥6,285 million lower than at the end of interim period in the previous fiscal year-end. Total liabilities stood at ¥98,983 million, down ¥6,767 million from a year ago. Meanwhile, net assets increased ¥481 million to ¥122,404 million over the same period. As a result, the equity ratio was 55.3%.

### (Cash Flows)

In the first half of fiscal 2008, operating activities provided net cash of ¥16,329 million, 29.5% less than in the same period of the previous fiscal year. The main contributing factors were income before income taxes and minority interests of ¥7,965 million, a 22.4% year-on-year decrease, an impairment loss of ¥2,570 million, a decrease of 0.4%, and an increase of ¥10,109 million in trade and due to franchised stores payables.

Net cash used in investing activities was ¥8,514 million, 17.5% more than in the same period of the previous fiscal year. Cash was used mainly for payments of ¥5,255 million for property and equipment, chiefly to open new stores and improve the functions of existing ones, and ¥3,519 million for the payment of long-term leasehold deposits.

Net cash used in financing activities was ¥1,964 million, 16.2% less than in the same period of the previous fiscal year. This reflected dividends paid of ¥1,591 million and a decrease in guarantee deposits received of ¥829 million mainly due to store closures.

As a result of the above, as of August 31, 2007, cash and cash equivalents were ¥71,309 million, an increase of ¥5,849 million (excluding increases in cash and cash equivalents from newly consolidated subsidiaries), or 9.8%, from the end of the previous fiscal year.

(Reference: Cash Flow-related Indices)

	First Half of Fiscal 2006	First Half of Fiscal 2007	First Half of Fiscal 2008	Fiscal 2006	Fiscal 2007
Equity ratio (%)	51.1	53.6	55.3	55.9	56.4
Equity ratio using fair value (%)	96.5	89.9	70.6	110.0	86.6
Ratio of cash flow to interest-bearing debt (%)	2.6	3.8	10.0	6.0	14.2
Interest coverage ratio (times)	50,151.8	15,248.6	20,539.6	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) Basic Earnings Distribution Policy and Dividends for First Half of Fiscal 2008**

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

With regard to the interim dividend for fiscal 2008, in accordance with the October 9, 2007 "Notice Concerning Revision to Fiscal 2008 Dividend Forecast," Circle K Sunkus has decided to pay an interim dividend of ¥20 per share, an increase of ¥1 per share over the interim dividend applicable to fiscal 2007. Furthermore, the Company has also decided to pay a year-end dividend of ¥20 per share for fiscal 2008, an increase of ¥1 per share over the year-end dividend in the previous fiscal year. The Company, therefore, plans to pay an annual dividend of ¥40 per share for fiscal 2008. While its operating environment is becoming increasingly challenging, the Company views increasing the distribution of earnings to shareholders as an important management issue, and increases in dividends will be made after comprehensively considering such matters as the Company's medium-term earnings environment and financial position.

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.

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

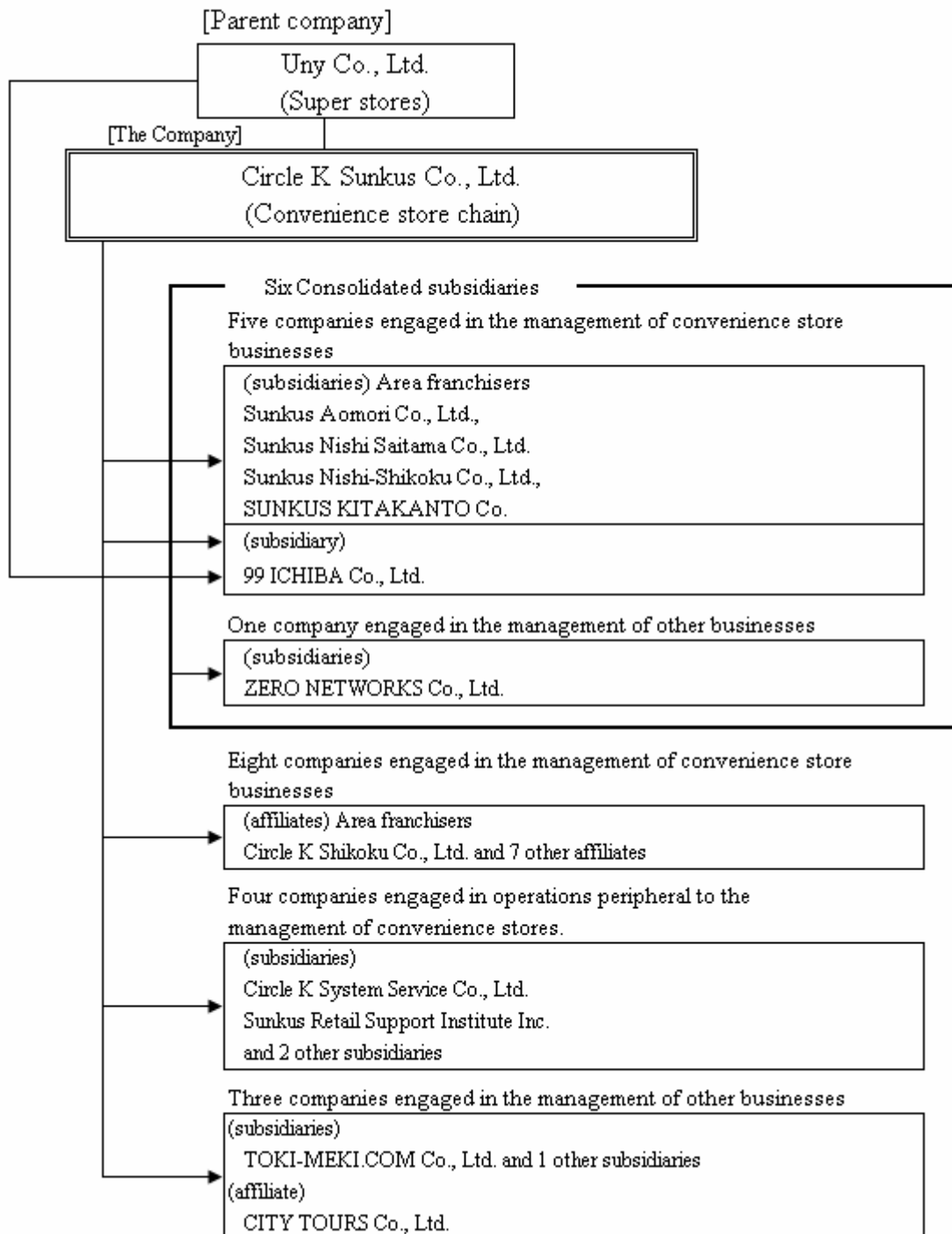
As there have been no significant changes from the information disclosed in Circle K Sunkus' most recent securities report (filed on May 24, 2007), business risk information has been omitted.

## 2. 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., six consolidated subsidiaries, Sunkus Aomori Co., Ltd., Sunkus Nishi-Saitama Co., Ltd., SUNKUS KITAKANTO Co., Ltd., Sunkus Nishi-Shikoku Co., Ltd., ZERO NETWORKS Co., Ltd. and 99 Ichiba Co., Ltd. (newly consolidated from the beginning of fiscal 2008). We also have 6 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 August 31, 2007.

The following chart depicts the Circle K Sunkus Group.



## (1) Changes in Major Group Companies

### ① Convenience Store Business

As the earnings contribution of 99 Ichiba Co., Ltd. (subsidiary) has become increasingly significant, it became a consolidated subsidiary from the beginning of fiscal 2008.

## (2) Status of Group Companies

From the beginning of fiscal 2008, the following company became a consolidated subsidiary.

Name	Address	Capital or Investment	Main Business Activities	Percentage of Voting Rights, etc. Held	Remarks
(Consolidated subsidiaries) 99 ICHIBA Co., Ltd.	Sumida-ku, Tokyo	499 million yen	Operation of 99 Ichiba convenience store-type mini supermarkets mainly selling ¥99 items	80.08% (19.92%)	Three directors hold concurrent posts

## **3. 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**

Based on the management vision expressed in the slogans “Becoming a Truly Exciting (WAKU WAKU) Enterprise” and “Raising Quality,” 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 all our stores the store of choice for our customers.

#### **(2) 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.

#### **(3) 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.

#### **(4) 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.

## 4. Consolidated Financial Statements

### (1) Consolidated Balance Sheets

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

(Millions of yen)

Account item	Fiscal period		Previous interim period (As of August 31, 2006)		Current interim period (As of August 31, 2007)		Last fiscal year (As of February 28, 2007)	
	Amount	Composition ratio	Amount	Composition ratio	Amount	Composition ratio		
		%		%		%		
(ASSETS)								
1. Current assets								
Cash and cash equivalents	60,889		48,289		50,945			
Due from franchised stores	3,005		2,617		3,404			
Marketable securities	23,210		23,019		14,011			
Inventories	2,314		2,667		2,490			
Deferred tax assets	1,134		958		867			
Other accounts receivable	-		11,287		9,300			
Other current assets	17,636		8,420		7,888			
Allowance for doubtful accounts	(614)		(434)		(396)			
Total current assets	107,575	47.2	96,826	43.7	88,511	41.7		
2. Fixed assets								
Property and equipment								
Buildings and structures	30,485		32,726		32,437			
Furniture and fixtures	3,970		4,014		4,072			
Land	8,878		8,638		8,944			
Other property and equipment	639		822		865			
Total property and equipment	43,974	19.3	46,201	20.9	46,319	21.8		
Intangible fixed assets								
Software	2,838		3,706		3,047			
Software development in progress	461		1,335		569			
Goodwill	192		96		144			
Other intangible fixed assets	2,376		2,731		2,590			
Total intangible fixed assets	5,868	2.6	7,869	3.6	6,351	3.0		
Investments and other assets								
Investment securities	5,893		5,025		5,832			
Deferred tax assets	3,746		4,092		3,644			
Long-term leasehold deposits	53,813		53,725		54,053			
Other investments	8,253		9,000		9,117			
Allowance for doubtful accounts	(1,451)		(1,353)		(1,454)			
Total investments and other assets	70,255	30.9	70,490	31.8	71,193	33.5		
Total fixed assets	120,098	52.8	124,561	56.3	123,865	58.3		
Total assets	227,674	100.0	221,388	100.0	212,377	100.0		

(Millions of yen)

Fiscal period Account item	Previous interim period (As of August 31, 2006)		Current interim period (As of August 31, 2007)		Last fiscal year (As of February 28, 2007)	
	Amount	Composition ratio	Amount	Composition ratio	Amount	Composition ratio
		%		%		%
(LIABILITIES)						
1. Current liabilities						
Trade payables	46,073		45,324		36,470	
Due to franchised stores	3,965		4,084		2,672	
Short-term borrowings	52		-		-	
Current portion of long-term debt	66		-		-	
Other accounts payable	4,850		4,983		5,738	
Income taxes payable	5,087		4,056		3,617	
Money held as agent	24,255		19,772		23,641	
Accrued employees' bonuses	800		773		765	
Accrued directors' bonuses	34		28		46	
Allowance for incentive points	-		70		-	
Other current liabilities	3,568		3,662		3,133	
Total current liabilities	88,753	39.0	82,755	37.4	76,086	35.9
2. Long-term liabilities						
Long-term debt	77		-		-	
Employee retirement benefit liability	2,292		2,516		2,380	
Guarantee deposits received	12,297		11,459		11,753	
Allowance for impairment loss on leased property	1,067		1,312		1,150	
Other long-term liabilities	1,261		940		1,124	
Total long-term liabilities	16,997	7.4	16,228	7.3	16,407	7.7
Total liabilities	105,750	46.4	98,983	44.7	92,493	43.6
(Equity)						
1. Shareholder's equity						
Common stock	8,380		8,380		8,380	
Capital surplus	36,093		36,093		36,093	
Retained earnings	76,606		82,218		79,617	
Less, treasury stock, at cost	(18)		(5,025)		(5,021)	
Total shareholders' equity	121,062	53.2	121,667	55.0	119,070	56.1
2. Unrealized gains or losses and translation differences, etc.						
Net unrealized gains on available-for-sale securities	860		658		812	
Total unrealized gains or losses and translation differences, etc.	860	0.4	658	0.3	812	0.4
3. Minority Interests	0	0.0	78	0.0	0	0.0
Total equity	121,923	53.6	122,404	55.3	119,883	56.4
Total liabilities and net assets	227,674	100.0	221,388	100.0	212,377	100.0

## (2) Consolidated Statements of Income

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

(Millions of yen)

Account item	Previous interim period (From March 1, 2006 to August 31, 2006)			Current interim period (From March 1, 2007 to August 31, 2007)			Last fiscal year (From March 1, 2006 to February 28, 2007)		
	Amount		Composition ratio	Amount		Composition ratio	Amount		Composition ratio
			%			%			%
1. Operating revenues									
Franchise commissions from franchised stores	53,497			52,461			102,709		
Net sales reported by Franchised Stores (Figures for excluding non- consolidated area franchised stores.)									
Previous interim period ¥ 431,678 million									
Current interim period ¥ 419,810 million									
Last fiscal year ¥ 835,868 million									
Total net sales of franchised and company-owned stores (Figures for exclude non- Consolidated area franchised stores.)									
Previous interim period ¥ 469,050 million									
Current interim period ¥ 463,490 million									
Last fiscal year ¥ 911,281 million									
Other revenues	6,263	59,761	60.4	6,219	58,681	56.1	12,437	115,147	59.2
2. Net sales of company-owned stores	[39,218]	39,218	[100.0] 39.6	[45,875]	45,875	[100.0] 43.9	[79,245]	79,245	[100.0] 40.8
<b>Total operating revenues</b>		98,980	100.0		104,556	100.0		194,392	100.0
3. Cost of goods sold	[29,505]	29,505	[75.2] 29.8	[34,931]	34,931	[76.1] 33.4	[60,359]	60,359	[76.2] 31.1
Gross profit on sales	[9,713]		[24.8]	[10,944]		[23.9]	[18,886]		[23.8]
Operating gross profit		69,475	70.2		69,625	66.6		134,033	68.9
4. Selling, general and administrative Expenses		55,306	55.9		58,058	55.5		110,920	57.0
<b>Operating income</b>		14,168	14.3		11,567	11.1		23,113	11.9

(Millions of yen)

Account item	Fiscal period		Previous interim period (From March 1, 2006 to August 31, 2006)		Current interim period (From March 1, 2007 to August 31, 2007)		Last fiscal year (From March 1, 2006 to February 28, 2007)		
	Amount		Composition ratio	Amount		Composition ratio	Amount		Composition ratio
			%			%			
<b>5. Non-operating income</b>									
Interest income	212			288			457		
Dividend income	80			85			99		
Compensation income	250			246			456		
Gain on sale of investments in securities	-			85			-		
Other non-operating income	59			94			198		
<b>Total non-operating income</b>		601	0.6		801	0.7		1,211	0.6
<b>6. Non-operating expenses</b>									
Interest expense	19			22			41		
Loss on cancellation of lease contracts	1,076			1,175			2,011		
Loss on allowance for doubtful accounts	43			-			-		
Other non-operating expenses	42			61			160		
<b>Total non-operating expenses</b>		1,182	1.2		1,260	1.2		2,213	1.1
<b>Recurring profit</b>		13,588	13.7		11,108	10.6		22,110	11.4
<b>7. Extraordinary gains</b>									
Gain on sales of fixed asset	65			67			134		
Gain on collection of receivables	66			-			81		
Compensation received for head office transfer	-			-			745		
Gain from the previous-term adjustment	-			81			-		
Other extraordinary gains	-			-			61		
<b>Total extraordinary gains</b>		132	0.1		148	0.1		1,024	0.5
<b>8. Extraordinary losses</b>									
Loss on disposal of fixed assets	476			436			1,037		
Loss on write-down of investment securities	228			18			228		
Loss on cancellation of lease contracts	95			86			152		
Loss on the impairment of fixed assets	2,580			2,570			3,169		
Other extraordinary losses	69			178			160		
<b>Total extraordinary losses</b>		3,450	3.5		3,291	3.1		4,748	2.4
<b>Income before income taxes</b>		10,270	10.3		7,965	7.6		18,386	9.5
Income taxes-current	4,864			3,961			7,932		
Income taxes-deferred	(183)	4,680	4.7	(435)	3,526	3.3	217	8,149	4.2
Minority interest in earnings of consolidated subsidiaries		(0)	(0.0)		(46)	(0.0)		(0)	(0.0)
<b>Net Income</b>		5,589	5.6		4,486	4.3		10,237	5.3

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

Previous First Half of Fiscal 2007 (From March 1, 2006 to August 31, 2006)

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

(Millions of yen)

	Shareholder's equity					Unrealized gains or losses and translation differences, etc.		Minority Interests	Total equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on available-for-sale securities	Total unrealized gains or losses and translation differences, etc.		
Balance at February 28, 2006	8,380	36,093	72,907	(14)	117,366	1,026	1,026	0	118,392
Changes during the period									
Cash dividends			(1,636)		(1,636)				(1,636)
Directors' bonuses			(59)		(59)				(59)
Net income			5,589		5,589				5,589
Net change in treasury stock				(3)	(3)				(3)
Cancellation of treasury stock		0		0	0				0
Increase in consolidated subsidiaries			(194)		(194)				(194)
Changes in items other than shareholders' equity						(165)	(165)	(0)	(165)
Total	-	0	3,699	(3)	3,696	(165)	(165)	(0)	3,530
Balance at August 31, 2006	8,380	36,093	76,606	(18)	121,062	860	860	0	121,923

### Current First Half of Fiscal 2008 (From March 1, 2007 to August 31, 2007)

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

(Millions of yen)

	Shareholder's equity					Unrealized gains or losses and translation differences, etc.		Minority Interests	Total equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on available-for-sale securities	Total unrealized gains or losses and translation differences, etc.		
Balance at February 28, 2007	8,380	36,093	79,617	(5,021)	119,070	812	812	0	119,883
Changes during the period									
Cash dividends			(1,591)		(1,591)				(1,591)
Net income			4,486		4,486				4,486
Acquisition of treasury stock				(3)	(3)				(3)
Net change in treasury stock		0		0	0				0
Increase in consolidated subsidiaries			(294)		(294)				(294)
Changes in items other than shareholders' equity						(154)	(154)	78	(75)
Total	-	(0)	2,600	(3)	2,596	(154)	(154)	78	2,521
Balance at August 31, 2007	8,380	36,093	82,218	(5,025)	121,667	658	658	78	122,404

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

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

(Millions of yen)

	Shareholder's equity					Unrealized gains or losses and translation differences, etc.		Minority Interests	Total equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on available-for-sale securities	Total unrealized gains or losses and translation differences, etc.		
Balance at February 28, 2006	8,380	36,093	72,907	(14)	117,366	1,026	1,026	0	118,392
Changes during the period									
Cash dividends			(3,273)		(3,273)				(3,273)
Directors' bonuses			(59)		(59)				(59)
Net income			10,237		10,237				10,237
Net change in treasury stock				(5,007)	(5,007)				(5,007)
Cancellation of treasury stock		0		0	1				1
Increase in consolidated subsidiaries			(194)		(194)				(194)
Changes in items other than shareholders' equity						(213)	(213)	(0)	(213)
Total	-	0	6,710	(5,006)	1,703	(213)	(213)	(0)	1,490
Balance at February 28, 2007	8,380	36,093	79,617	(5,021)	119,070	812	812	0	119,883

#### (4) Consolidated Statements of Cash Flows

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

(millions of yen)

	Previous interim period	Current interim period	Last fiscal year
	(From March 1, 2006 to August 31, 2006)	(From March 1, 2007 to August 31, 2007)	(From March 1, 2006 to February 28, 2007)
	Amount	Amount	Amount
<b>1. Cash flows from operating activities:</b>			
Income before income taxes	10,270	7,965	18,386
Depreciation and amortization	3,787	3,695	7,766
Impairment loss on fixed assets	2,580	2,570	3,169
Amortization of goodwill	81	38	122
Loss on write-down of investment securities	228	18	228
Gain on sale of investments in securities	-	(85)	-
Loss on sale or disposal of property and equipment	410	369	902
(Decrease) increase in allowance for doubtful accounts	68	( 62 )	( 147 )
Increase (decrease) in accrued bonuses to employees	16	0	( 17 )
Increase in accrued bonuses to directors	34	( 20 )	46
(Decrease) increase in employee retirement benefit liability	( 107 )	( 48 )	( 132 )
Interest and cash dividends income	( 292 )	( 374 )	( 556 )
Interest expenses	19	22	41
(Increase) decrease in trade receivable	( 63 )	( 863 )	( 347 )
Decrease (increase) in inventories	( 129 )	( 107 )	( 305 )
(Decrease) increase in trade and due to franchised stores payable	9,538	10,109	( 1,357 )
Decrease in other accounts payable and accrued expenses	( 429 )	( 24 )	( 427 )
(Decrease) increase in money held as agent	2,679	( 3,831 )	2,165
Directors' bonus payments	( 59 )	-	( 59 )
Lease contract cancellation expenses	524	694	986
Other	( 495 )	( 434 )	( 903 )
Sub-total	28,662	19,633	29,562
Interest and dividends received	191	248	344
Interest paid	( 1 )	( 1 )	( 3 )
Income taxes paid	( 5,683 )	( 3,551 )	( 10,201 )
Net cash provided by operating activities	23,168	16,329	19,701

(millions of yen)

	Previous interim period (From March 1, 2006 to August 31, 2006)	Current interim period (From March 1, 2007 to August 31, 2007)	Last fiscal year (From March 1, 2006 to February 28, 2007)
	Amount	Amount	Amount
<b>2. Cash flows from investing activities:</b>			
Payments for time deposits	-	( 800 )	( 800 )
Proceeds from repayment of time deposits	-	800	800
Decrease in marketable securities	500	-	700
Increase in property and equipment	( 5,619 )	( 5,255 )	( 10,468 )
Decrease in property and equipment	202	194	419
Increase in intangible fixed assets and long-term prepaid expenses	( 1,334 )	( 2,459 )	( 3,401 )
Increase in investment securities	( 750 )	( 300 )	( 1,146 )
Decrease in investment securities	4	115	154
Increase in cash through acquisition of a consolidated subsidiary	115	-	115
Proceeds from long-term advances received	98	4	148
Increase in loans receivable	( 1,414 )	( 609 )	( 2,572 )
Collection of loans receivable	1,485	652	2,902
Increase in long-term leasehold deposits	( 3,330 )	( 3,519 )	( 7,318 )
Collection of fixed leasehold deposits	2,777	2,637	5,234
Other	17	23	22
Net cash used in investing activities	( 7,247 )	( 8,514 )	( 15,209 )
<b>3. Cash flows from financing activities:</b>			
Net increase (decrease) in short-term borrowings	( 166 )	-	( 218 )
Repayment of long-term debt	( 82 )	-	( 226 )
Increase in treasury stock	-	( 3 )	( 5,007 )
Dividends paid	( 1,637 )	( 1,591 )	( 3,273 )
Increase in guarantee deposits received	452	459	815
Decrease in guarantee deposits received	( 907 )	( 829 )	( 1,942 )
Other	( 3 )	0	( 4 )
Net cash used in financing activities	( 2,343 )	( 1,964 )	( 9,856 )
<b>4. Net (decrease) increase in cash and cash equivalents</b>	13,577	5,849	( 5,364 )
<b>5. Cash and cash equivalents at beginning of year</b>	68,803	64,957	68,803
<b>6. Increase in cash and cash equivalents upon inclusion of additional subsidiaries on consolidation</b>	1,518	502	1,518
<b>7. Cash and cash equivalents, end of the 1st Half (year)</b>	83,899	71,309	64,957

## 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 Account item	Previous interim period (As of August 31, 2006)		Current interim period (As of August 31, 2007)		Last fiscal year (As of February 28, 2007)	
	Amount	Composition ratio	Amount	Composition ratio	Amount	Composition ratio
		%		%		%
(ASSETS)						
1. Current assets						
Cash and cash equivalents	57,838		45,612		48,357	
Due from franchised stores	2,814		2,444		3,186	
Marketable securities	23,210		23,019		14,011	
Inventories	2,200		2,440		2,364	
Deferred tax assets	1,128		1,037		918	
Other accounts receivable	-		12,424		10,030	
Other current assets	18,243		8,788		8,562	
Allowance for doubtful accounts	(618)		(606)		(528)	
Total current assets	104,818	47.1	95,160	43.8	86,903	41.7
2. Fixed assets						
Property and equipment						
Buildings	22,186		23,679		23,663	
Furniture and fixtures	3,901		3,904		3,986	
Land	8,878		8,605		8,914	
Other property and equipment	6,397		7,012		7,061	
Total property and equipment	41,364	18.6	43,202	19.9	43,626	20.9
Intangible fixed assets						
System software	2,819		3,678		3,021	
System software development in progress	461		1,335		569	
Other intangible fixed assets	2,449		2,714		2,625	
Total intangible fixed assets	5,730	2.5	7,728	3.6	6,216	3.0
Investment and other assets						
Investment in securities	4,622		4,251		4,543	
Investment in subsidiaries and affiliated company	3,783		3,750		3,802	
Deferred tax assets	3,746		4,092		3,642	
Long-term leasehold deposits	52,000		51,650		52,245	
Other investment	7,832		8,566		8,727	
Allowance for doubtful accounts	(1,195)		(1,168)		(1,258)	
Total investment and other assets	70,789	31.8	71,143	32.7	71,702	34.4
Total fixed assets	117,883	52.9	122,074	56.2	121,546	58.3
Total assets	222,702	100.0	217,235	100.0	208,449	100.0

(Millions of yen)

Fiscal period Account item	Previous interim period (As of August 31, 2006)		Current interim period (As of August 31, 2007)		Last fiscal year (As of February 28, 2007)	
	Amount	Composition ratio	Amount	Composition ratio	Amount	Composition ratio
		%		%		%
<b>(LIABILITIES)</b>						
1. Current liabilities						
Trade payable	43,818		42,886		34,760	
Due to franchised stores	3,666		3,800		2,436	
Other accounts payable	4,162		4,018		4,758	
Income taxes payable	4,894		4,036		3,543	
Money held as agent	23,394		19,151		22,790	
Allowance for bonuses to employees	772		737		738	
Allowance for bonuses to directors	29		20		41	
Allowance for incentive points	-		70		-	
Other current liabilities	3,416		3,497		3,011	
Total current liabilities	84,154	37.8	78,219	36.0	72,079	34.6
2. Long-term liabilities						
Allowance for employees' retirement benefits liability	2,271		2,496		2,359	
Leasehold deposits received	11,993		11,207		11,485	
Long-term income in advance	1,079		869		997	
Allowance for impairment loss on leased property	984		1,172		1,081	
Other long-term liabilities	70		42		48	
Total long-term liabilities	16,398	7.4	15,788	7.3	15,973	7.6
Total liabilities	100,553	45.2	94,008	43.3	88,052	42.2
<b>(NET ASSETS)</b>						
1. Shareholder's equity						
Common stock	8,380	3.8	8,380	3.9	8,380	4.0
Capital surplus						
Additional paid-in capital	36,090		36,090		36,090	
Other capital surplus	3		3		3	
Total Capital surplus	36,093	16.2	36,093	16.6	36,093	17.3
Retained earnings						
Legal reserve	687		687		687	
Other retained earnings						
General reserve	68,921		76,221		68,921	
Retained earnings carried forward	7,221		6,209		10,520	
Total Retained earnings	76,830	34.5	83,118	38.2	80,129	38.5
Treasury stock	(18)	(0.0)	(5,025)	(2.3)	(5,021)	(2.4)
Total shareholders' equity	121,286	54.5	122,567	56.4	119,581	57.4
2. Unrealized gains or losses and translation differences, etc.						
Net unrealized gains on available-for-sale securities	862		658		815	
Total unrealized gains or losses and translation differences, etc.	862	0.3	658	0.3	815	0.4
Net Assets	122,148	54.8	123,226	56.7	120,397	57.8
Total Liabilities and Net Assets	222,702	100.0	217,235	100.0	208,449	100.0

## (2) Non-Consolidated Statements of Income

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

(Millions of yen)

Account item	Previous interim period (From March 1, 2006 to August 31, 2006)			Current interim period (From March 1, 2007 to August 31, 2007)			Last fiscal year (From March 1, 2006 to February 28, 2007)		
	Amount		Composition ratio %	Amount		Composition ratio %	Amount		Composition ratio %
1. Operating revenues									
Franchise commissions from franchised stores	51,711			50,731			99,271		
Net sales reported by Franchised Stores (Figures for excluding non-consolidated area franchised stores.)									
Previous interim period	¥ 413,540 million								
Current interim period	¥ 402,646 million								
Last fiscal year	¥ 800,954 million								
Total net sales of franchised and company-owned stores (Figures for exclude non-Consolidated area franchised stores.)									
Previous interim period	¥ 499,121 million								
Current interim period	¥ 442,365 million								
Last fiscal year	¥ 872,844 million								
Other revenues	6,224	57,935	62.0	6,190	56,921	58.9	12,360	111,631	60.8
2. Net sales of company-owned stores	[35,581]	35,581	[100.0] 38.0	[39,718]	39,718	[100.0] 41.1	[71,889]	71,889	[100.0] 39.2
<b>Total operating revenues</b>		93,517	100.0		96,640	100.0		183,521	100.0
3. Cost of goods sold	[26,764]	26,764	[75.2] 28.6	[29,867]	29,867	[75.2] 30.9	[54,300]	54,300	[75.5] 29.6
Gross profit on sales	[8,816]		[24.8]	[9,851]		[24.8]	[17,589]		[24.5]
Operating gross profit		66,752	71.4		66,773	69.1		129,221	70.4
4. Selling, general and administrative Expenses		53,030	56.7		54,989	56.9		106,285	57.9
<b>Operating income</b>		13,722	14.7		11,783	12.2		22,935	12.5
5. Non-operating income		580	0.6		750	0.8		1,115	0.6
6. Non-operating expenses		1,130	1.2		1,271	1.3		2,216	1.2
<b>Recurring profit</b>		13,172	14.1		11,263	11.7		21,834	11.9
7. Extraordinary gains		132	0.2		136	0.1		1,024	0.6
8. Extraordinary losses		3,511	3.8		3,329	3.4		4,635	2.5
<b>Income before income taxes</b>		9,792	10.5		8,069	8.4		18,223	10.0
Income taxes-current	4,679			3,951			7,829		
Income taxes-deferred	(356)	4,322	4.6	(462)	3,489	3.6	(11)	7,818	4.3
<b>Net Income</b>		5,469	5.9		4,580	4.8		10,405	5.7

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

Previous First Half of Fiscal 2007 (From March 1, 2006 to August 31, 2006)

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

(Millions of yen)

	Shareholders' equity									
	Common stock	Capital surplus			Legal reserve	Retained earnings			Treasury stock	Shareholders' equity
		Additional paid-in capital	Other capital surplus	Total		Other retained earnings	Total	General reserve		
Balance at February 28, 2006	8,380	36,090	2	36,093	687	60,421		11,948	73,057	(14)
Changes during the period										
Cash dividends							(1,636)	(1,636)		(1,636)
Directors' bonuses							(59)	(59)		(59)
Net income							5,469	5,469		5,469
Net change in treasury stock									(3)	(3)
Cancellation of treasury stock			0	0					0	0
Transfers between reserves						8,500	(8,500)	-		-
Changes in items other than shareholders' equity (net)										-
Total	-	-	0	0	-	8,500	(4,726)	3,773	(3)	3,770
Balance at August 31, 2006	8,380	36,090	3	36,093	687	68,921	7,221	76,830	(18)	121,286

(Millions of yen)

	Unrealized gains or losses and translation differences, etc.		Total equity
	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			
Cash dividends			(1,636)
Directors' bonuses			(59)
Net income			5,469
Net change in treasury stock			(3)
Cancellation of treasury stock			0
Transfers between reserves			-
Changes in items other than shareholders' equity (net)	(163)	(163)	(163)
Total	(163)	(163)	3,606
Balance at August, 2006	862	862	122,148

**Current First Half of Fiscal 2008 (From March 1, 2007 to August 31, 2007)**

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

(Millions of yen)

	Shareholders' equity									
	Capital surplus	Retained earnings			Legal reserve	Treasury stock			Treasury stock	Shareholders' equity
		Additional paid-in capital	Other capital surplus	Total		Other retained earnings		Total		
						General reserve	Retained earnings carried forward			
Balance at February 28, 2007	8,380	36,090	3	36,093	687	68,921	10,520	80,129	(5,021)	119,581
Changes during the period										
Cash dividends							(1,591)	(1,591)		(1,591)
Net income							4,580	4,580		4,580
Net change in treasury stock									(3)	(3)
Cancellation of treasury stock			(0)	(0)					0	0
Transfers between reserves						7,300	(7,300)	-		-
Changes in items other than shareholders' equity (net)										-
Total	-	-	(0)	(0)	-	7,300	(4,310)	2,989	(3)	2,986
Balance at August 31, 2007	8,380	36,090	3	36,093	687	76,221	6,209	83,118	(5,025)	122,567

(Millions of yen)

	Unrealized gains or losses and translation differences, etc.		Total equity
	Net unrealized gains on available-for-sale securities	Total unrealized gains or losses and translation differences, etc.	
Balance at February 28, 2007	815	815	120,397
Changes during the period			
Cash dividends			(1,591)
Net income			4,580
Net change in treasury stock			(3)
Cancellation of treasury stock			0
Transfers between reserves			-
Changes in items other than shareholders' equity (net)	(156)	(156)	(156)
Total	(156)	(156)	2,829
Balance at August 31, 2007	658	658	123,226

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

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

(Millions of yen)

	Shareholders' equity									
	Capital surplus	Retained earnings			Legal reserve	Treasury stock			Treasury stock	Shareholders' equity
		Additional paid-in capital	Other capital surplus	Total		Other retained earnings		Total		
						General reserve	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										
Cash dividends							(3,273)	(3,273)		(3,273)
Directors' bonuses							(59)	(59)		(59)
Net income							10,405	10,405		10,405
Net change in 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 shareholders' 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.		Total equity
	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			
Cash dividends			(3,273)
Directors' bonuses			(59)
Net income			10,405
Net change in 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