

# Consolidated financial summary for the Fiscal Year Ended February 28, 2002

## C&S co., Ltd.

Securities traded: The first section of the Tokyo Stock Exchange and Nagoya Stock Exchange (Securities Code No.7437)

Registered head office: Aichi Prefecture (Headquarters: Kyobashi YS Bldg., 4F, 12-5, Kyobashi 1-chome, Chuo-ku, Tokyo Japan)

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Date of the board of directors meeting to settle accounts: April 16, 2002

Date of the annual general meeting of shareholders: May 22, 2002

Parent company: UNY Co., Ltd. (Securities Code No.8270) Ownership of parent company: 46.7%

Notes: Prepared in accordance with the Financial accounting Standards in Japan.

### 1. Business Results for the Fiscal Year Ended February 28, 2002 (From March 1, 2001 to February 28, 2002)

C&S Co., Ltd. was formed following the exchange of every Sunkus share for 0.9 of a Circle K share on July 1, 2001. All Circle K shares became C&S shares on the same date. Consolidated financial statements will be prepared effective from the fiscal year ending February 2002. Consequently, no comparisons have been made with the corresponding periods of the previous fiscal year.

#### (1) Consolidated operating results

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

	Total operating revenues	Increase over the preceding period	Operating income	Increase over the preceding period	Recurring profit	Increase over the preceding period
	Millions of yen	%change	Millions of yen	%change	Millions of yen	%change
For the Fiscal Year						
Ended February 28, 2002	153,889	( - )	24,545	( - )	23,378	( - )
Ended February 28, 2001		( - )		( - )		( - )

	Net income	Increase over the preceding period	Net income per share	Diluted Net income per share	Return on equity	Recurring profit ratio of total assets	Recurring profit ratio of Total operating revenues
	Millions of yen	%change	Yen	Yen	%	%	%
For the Fiscal Year							
Ended February 28, 2002	11,304	( - )	131.18		11.6	12.4	15.2
Ended February 28, 2001		( - )					

Note: Equity in earnings or loss of investees For the Fiscal Year ended February 28, 2002 ¥ million

For the Fiscal Year ended February 28, 2001 ¥ million

Average number of shares (Consolidated) during For the Fiscal Year ended February 28, 2002 86,177,569 shares

For the Fiscal Year ended February 28, 2001 shares

Average number of shares (Consolidated) for the Fiscal Year assumes that the stock exchange and a 1-for-1.2 stock split were implemented at the beginning of the period.

Change in accounting policies: None

**( 2 ) Consolidated financial conditions**

	Total assets	Shareholders equity	Equity ratio	Shareholders equity per share
	Millions of yen	Millions of yen	%	Yen
For the Fiscal Year Ended February 28, 2002 Ended February 28, 2001	188,564	97,398	51.7	1130.35

Notes: Number of shares outstanding (Consolidated) at the end of February 28, 2002 86,166,356 shares  
February 28, 2001 shares

**( 3 ) Consolidated cash flow**

	Operating activities	Investing activities	Financing activities	Ending balance of cash and cash equivalent
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
For the Fiscal Year Ended February 28, 2002 Ended February 28, 2001	28,925	19,683	3,245	39,113

**( 4 ) Scope of consolidated subsidiaries**

Consolidated subsidiaries : 2 Companies Subsidiaries or affiliates applicable of equity method: None

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

Consolidation : (Inclusion) 2 Companies (Exclusion) None Equity method : (Inclusion) None (Exclusion) None

**2. Consolidated Business Outlook for the Fiscal Year Ending February 28, 2003 (From March 1, 2002 to February 28, 2003)**

	Total operating revenues	Recurring profit	Net income
	Millions of yen	Millions of yen	Millions of yen
For the six month period ending on August 31, 2002	80,500	13,800	6,800
For the Fiscal year ending on February 28, 2003	155,300	25,000	12,500

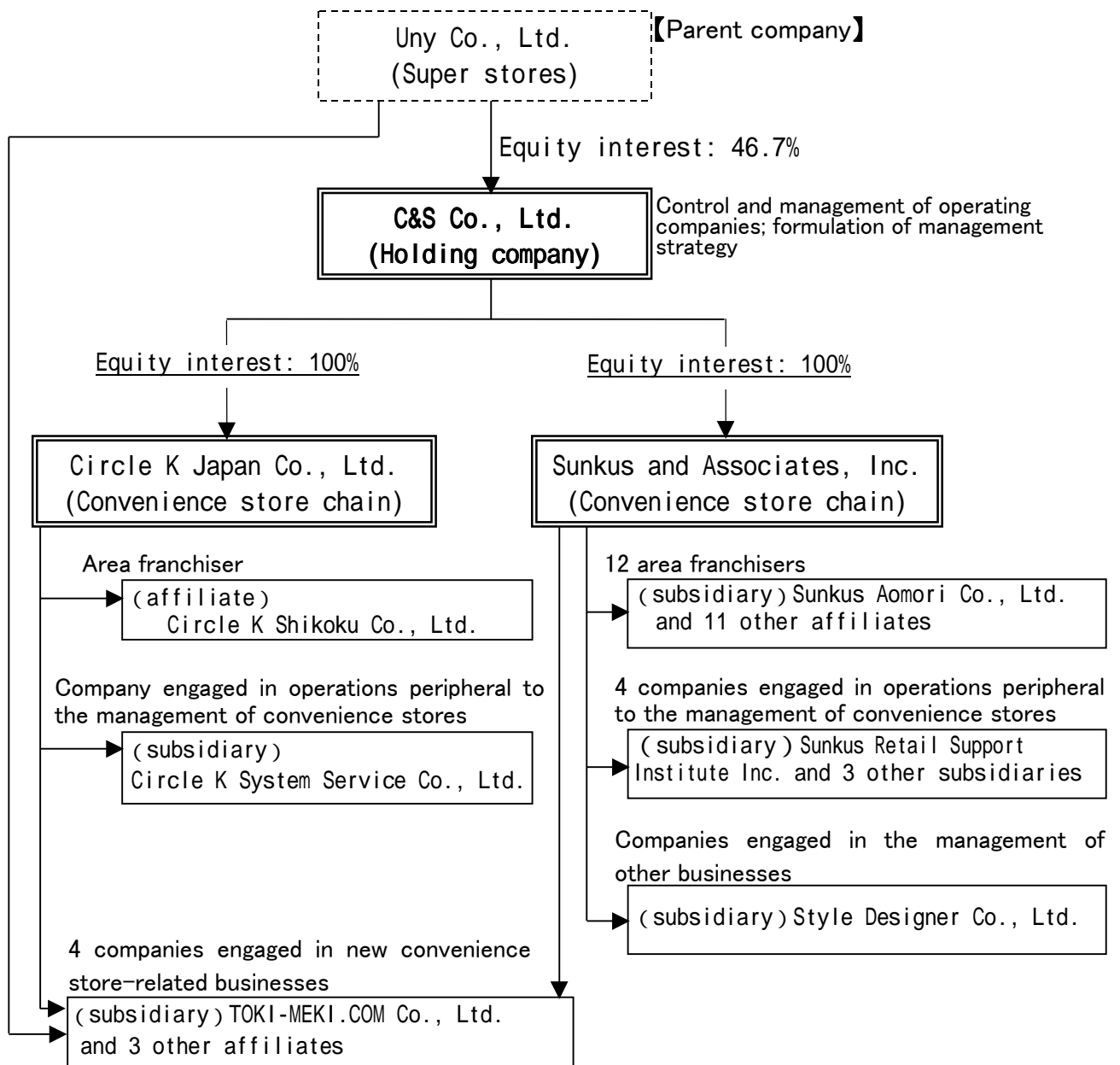
( Reference ) Projected net income per share ¥ 145.04

## 1. Group Organization

C&S Group is a member of the Uny Group, an operator of several major superstore chains, and comprises a total of 26 companies: two wholly owned consolidated subsidiaries, Circle K Japan Co., Ltd. and Sunkus and Associates, Inc., 8 other subsidiaries, and 15 affiliates. It is primarily engaged in the development of convenience store franchises. Circle K and Sunkus oversee networks of convenience stores that also include area-franchised stores.

With a store network extending from Hokkaido to Kagoshima, the C&S Group had a presence in 35 prefectures as of the end of February 2002.

The following chart depicts the C&S Group and the roles of subsidiaries in respect to business lines.



## 2 . Management Policies

### **(1) Basic Business Policy**

C&S Co., Ltd. (C&S) is committed to remaining one of Japan's largest convenience store operators and to achieving stable earnings growth by building upon a solid foundation comprising two operating companies - Circle K Japan Co., Ltd. and Sunkus and Associates Inc. C&S also aims to become the industry No.1 in delivering customer, franchisee, employee and shareholder satisfaction. Achieving this goal will raise C&S' corporate value and enhance its standing as a corporate citizen.

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

C&S' basic policy is to return profits to shareholders based on its operating results, while at the same time building up retained earnings so as to sustain high levels of growth and bolster its operating base. More specifically, it aims to pay out approximately 20% of consolidated net income in the year under review in the form of dividends. Meanwhile, C&S intends to raise the dividend payout ratio to 25% to 30% in the future.

For the six months ended August 31, 2001, C&S declared an interim dividend of ¥16 per share, including a commemorative dividend of ¥2 per share. In addition, C&S plans to propose a year-end dividend of ¥14 per share at its annual general meeting of shareholders to be held in May 2002. As a result, the dividend payout ratio for the fiscal year ended February 28, 2002, will be 20.8%.

Meanwhile, C&S conducted a 1:1.2 stock split for shareholders of record as of August 31, 2001.

### **(3) Medium- to Long-Term Management Strategy and Targets**

#### *(Medium- to Long-Term Management Strategy)*

As competition intensifies in Japan's convenience store industry, Circle K and Sunkus believe that it is an imperative to be one of the largest members of the industry if it is to sustain high growth. This thinking was behind the launch on July 1, 2001 of C&S as a holding company with 100% ownership of the issued stock of Circle K and Sunkus. Under the auspices of C&S, the two operating companies integrate their businesses in selected areas but will maintain a certain level of autonomy. Circle K and Sunkus will compete in the same market in a spirit of healthy competition. This will raise the standard of operations of both companies and ultimately help to maximize C&S' share value. Guided by the keywords of "Integration and decentralization" Circle K and Sunkus will concentrate on deriving optimum benefits from their collective scale and strengths in a range of areas from marketing to the development of information systems and e-business. Circle K and Sunkus will carefully consider the merits and demerits of the integration taking heed not to sacrifice quality for the sake of speed. The focus will be to ensure stores remain competitive.

The two operating companies aim to open quality new stores in a consistent manner, while reinforcing and improving basic operations in areas such as raising average daily sales per store, enhancing supervision of franchised stores and upgrading product development. Circle K and Sunkus are seeking to achieve average daily sales per store of ¥550,000 in the medium term. C&S holds regular "Operation 55 (OP55)" conferences to coordinate, track progress, and direct the activities of business divisions throughout the C&S Group toward this goal. In February 2002, each business division gave presentations to C&S management. The focus of each presentation was to identify issues, confirm the Group's direction and to issue directives. The ultimate aim is to achieve average daily sales per store of ¥550,000.

#### *(Management Targets)*

In addition to its average daily sales per store medium-term target, C&S is aiming for annual growth in total store sales and earnings of at least 10%, and consolidated ROE of 15%.

### **(4) Corporate Governance**

#### *(The Role of the Holding Company)*

In March 2001, the C&S Preparation Office was established to pave the way for the foundation of C&S by examining, among other issues, possible organizational structures and business plans. C&S

was subsequently launched in July 2001 as a holding company responsible for medium- and long-term planning and the formulation of overall group strategy. C&S' organizational structure comprises three divisions - Marketing Division, Finance and Accounting Division and Information Systems Division - as well as the Corporate Planning Office and the e-business Division. Additionally, the Management Strategy Meeting was formed to discuss important issues relating to key strategies and ways to promptly execute and achieve the goals set forth. The ultimate goal is to maximize earnings on a consolidated basis. To this end, the two operating companies are mandated to share information, expertise and ideas, as well as to apply best practices uniformly and compensate for weaknesses. All business divisions hold regular meetings to discuss ways to achieve the overriding goal of both Circle K and Sunkus: average daily sales per store of ¥550,000.

The Marketing Division conducts joint purchasing negotiations on behalf of more than 6,000 stores to procure goods and services at a lower cost and thus contribute to improving product markups. It also undertakes the planning and coordination of joint promotional campaigns. The Information Systems Division oversees the integration of information systems with the aim of reducing development and administrative costs and improving productivity. The Finance and Accounting Division is responsible for budget management and upgrading investor relations activities. The e-business Division is tasked with exploring promising e-business opportunities. The Corporate Planning Office, meanwhile, coordinates business activities within the group, performs comparative analysis and formulates proposals, oversees public relations promotional activities and conducts surveys for future tie-ups, among other activities.

#### *(Group Organization)*

Final decision-making authority rests with the Board of Directors of C&S. However, a Management Strategy Meeting is convened once a month to form a consensus among group companies on strategically important issues and to coordinate their activities. Directors, corporate auditors and the presidents of the two operating companies participate in these meetings.

As a listed company, C&S is directly accountable to shareholders for management, whereas the two operating companies, Circle K and Sunkus, bear responsibility for executing strategy toward achievement of targets to which they have agreed. Under the leadership of new presidents, the two operating companies are working to strengthen their respective marketing activities, and maintain a healthy rivalry even as critical information is shared. Circle K and Sunkus are granted a certain degree of management autonomy within the bounds of executing strategy.

#### *(Corporate Governance Policies)*

C&S always considers shareholders' interests when it decides important policies affecting the company's future direction at meetings of the Board of Directors and Management Strategy Meetings. In respect to checks and balances on management, C&S is audited by its Board of Corporate Auditors, as well as external auditors, as stipulated in Japan's Commercial Code. In addition, C&S actively discloses financial and other information to allow shareholders, investors, the media and others to constantly monitor the performance of management. More specifically, C&S provides news releases to the media, holds presentations for Japanese and foreign institutional investors and financial analysts, and regularly conducts interviews with the media at large. Information is also provided on C&S' homepage.

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

The Japanese convenience store industry continues to face a severe operating environment in terms of sales performance at existing stores. The industry as a whole has been battered by a persistent decline in sales per customer due to worsening deflation and intensifying competition.

Set against this backdrop, C&S has maintained a strong customer focus by remaining committed to improving the quality of each and every store rather than merely resorting to price discounting. Specifically, C&S is working to open new stores that consistently turn in strong sales and to achieve the most competitive business scale possible, with the aim of boosting average daily sales at franchised stores to ¥550,000 as early as possible and becoming No.2 in the industry. As mentioned previously, the two operating companies will enhance their operations through healthy competition in areas where the greatest benefits can be derived. C&S will continue to respect the autonomy of

each operating company, while centralizing marketing activities, information systems, e-business and finance businesses.

C&S will also formulate medium- and long-term strategies that optimally allocate group resources to maximize corporate value. This process will involve detailed analyses of macroeconomic and convenience-store industry trends and peer company comparisons. In connection with this, C&S is looking to overhaul its current cost structure by lifting the weighting of variable costs insofar as possible. Linking remuneration and staff recruitment to results is one step in this direction.

## **(6) Basic Policy Regarding Relationships Among Group Members**

### *Parent Company*

C&S is a member of the Uny Group, a retailing group comprising retailers, most notably Uny Co., Ltd., and specialty stores. Uny holds 46.7% of C&S' issued shares. The parent company emphasizes management at the consolidated level and collaboration among group companies, as it seeks to contribute to regional communities and improve operating results.

Chairman Ieda of Uny Co., Ltd. concurrently serves as a director on C&S' Board. C&S receives advice and the consent of the parent company in respect to important issues such as capital and financing and business alliances. Although Uny and C&S 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 C&S in respect to management strategy in the operation of convenience stores.

### *Subsidiaries*

Circle K Japan Co., Ltd. and Sunkus and Associates Inc. form the nucleus of the C&S Group. The companies each operate franchised convenience stores under their own brand names. As the parent company of Circle K and Sunkus, C&S appoints high-level corporate officers and formulates and authorizes overall group strategy. At the same time, C&S respects the autonomy of the two operating companies, allowing them to formulate specific policies at the operational level.

### *Affiliates*

The two operating companies invest in area franchisers, companies engaged in operations peripheral to the management of convenience stores, and other companies. Circle K and Sunkus provide guidance and advice to their respective affiliates in the first two categories. C&S takes part, directly and indirectly, from the perspective of maximizing group earnings, in the decision-making process and strategy formulation for e-business and other areas that are positioned as next-generation businesses. TOKI-MEKI.COM Co., Ltd. was established as the Group's e-business planning and operating arm. Its key activity is to develop mobile contents and businesses related to mobile phone communications.

## **3 . O P E R A T I N G   R E S U L T S**

### **(1) Overview of the Fiscal Year Ended February 28, 2002**

During the fiscal year ended February 28, 2002, Japan's economy took a turn for the worse. In the first half of the year, the IT-related sector, a key growth driver thus far, lost momentum. Thereafter, the September 11 terrorist attacks in the U.S. precipitated a global economic slowdown. In Japan, there was also growing unease about the financial sector ahead of the April 2002 lifting of the so-called pay-off system, or full deposit protection by the government. These factors were behind an escalation in corporate bankruptcies and realignment in Japan's general construction and retail sectors. They also drove the jobless rate higher, creating an ever-bleaker employment picture. Under these circumstances, the convenience store industry continued to face a severe operating environment, as consumer spending remained lackluster and competition escalated. In this climate, the C&S Group started to work in all areas from store development, products, store management, and information systems to enhance the quality and competitiveness of each and every franchised store. The overriding goal was to attain average daily store sales of ¥550,000.

## *Store Development*

[Circle K]

Amid intense competition, Circle K opened 203 stores during the year under review, 33 more than the previous fiscal year. The adoption of a new franchise agreement package in November 2000 was one important factor. In opening new stores, precedence was given to securing prime sites over cost and remaining sharply focused on profitability. Guided by this principle, Circle K actively sought to develop new stores in major metropolitan and inner city areas. Circle K also relocated 17 existing stores. Despite these initiatives, average daily sales at new stores declined ¥6,000 year on year to ¥421,000, due to the opening of several unprofitable stores in the Hokuriku region and elsewhere.

[Sunkus]

With a keen emphasis on quality, Sunkus continued to actively expand its store network. In March 2001, Sunkus opened Japan's first convenience store in a highway rest area, the Owariichinomiya Parking Area Store. Moreover, Sunkus and Nagoya Railway Co., Ltd. formed an alliance to open convenience stores in key locations within railway stations. To enhance competitiveness, Sunkus enlarged parking areas, improved competitiveness by raising store visibility and renegotiated lease agreements, thereby reducing lease payments by an average of 1.2%. As a result, 206 new stores were opened, including the relocation of 13 stores, 6 more than the previous fiscal year. Several new stores with worse-than-expected average daily sales, however, were opened in the northern part of Japan and Chugoku regions. Sunkus opened fewer stores with liquor licenses than the previous fiscal year. Consequently, average daily sales at new stores fell ¥27,000 to ¥456,000.

## ② *Store Management*

[Circle K]

Circle K focused on three key imperatives to improve operating standards: enhance store management, foster and train store staff, and share best practices.

*Enhancing store management* — Circle K's franchised stores and the Head Office vigorously advanced the "Happy Project Campaign," a series of business process reforms targeting greater customer satisfaction. Concurrently, Circle K continued to work to change the mindset of franchised stores and to improve store operations, relying closely on sales data at stores, so as to fend off the challenge posed by the entry of the leading convenience store chain in the Chukyo region.

*Training store staff*—Circle K has instituted a system whereby multiple employees at its stores are trained to check various product information and place orders on their own, minimizing opportunity losses.

In another move, from October 2001 supervisors at both Circle K and Sunkus were able to provide advices to stores on a real-time basis using NTT DoCoMo's i-mode service.

While first-half sales at existing stores edged down 0.1% year on year, outperforming rivals for the same period, sales at existing stores for the full year under review were down 0.7% on the previous year due mainly to the effects of inclement weather on demand in the strategically important Chukyo region and slower sales of computer game software, game consoles and highway toll cards.

[Sunkus]

During the year under review, Sunkus focused on improving frontline operations, in keeping with its vision of "Becoming the convenience store of choice." More specifically, as a new benchmark for evaluating franchised stores, a "customer satisfaction score" system has been introduced, allowing Sunkus to pinpoint strengths and weakness of each store from the customer's perspective. At franchised stores, Sunkus is promoting a style of management that lays emphasis on mobilizing all employees. To further this drive, a support system was introduced for new stores, and upskilling seminars for part-time and contract employees have been held in each region. Moreover, in respect to order placement, Sunkus has instructed franchised stores to shift their focus from minimizing

unsold products to minimizing opportunity losses, while encouraging the creation of competitive stores, through the use of tables that compare the performance of rival stores with those of Sunkus.

Recognizing that the Japanese convenience store industry has moved from a period of fierce competition to a shake out, Sunkus is determined to mould stores that can remain competitive on an individual basis. Specifically, Sunkus replaced managers and took other steps to improve quality at 97 stores, rebuilt 12 stores and improved facilities at 70 stores.

Sales at existing stores edged down 0.6% year on year. On average, Sunkus outperformed the industry from midway through the fiscal year, even though operations were affected by generally difficult economic conditions and a faster drop in August temperatures than a year earlier in the eastern Japan.

#### *Products*

The Marketing Division actively promoted the development of products to boost sales during the year under review. It coordinated activities of Circle K and Sunkus to jointly develop *ramen* (a series of original noodle dishes) and organized joint purchasing. The Marketing Division also took a number of measures to improve product markups. It oversaw efforts to narrow down outside suppliers and to standardize private brand products of each operating company, including private brand milk. It also led joint purchasing negotiations for soft drinks and general merchandise. The two operating companies also conducted joint sales campaigns commemorating the July 2001 establishment of C&S, namely *Tobikkiri Summer 2001* and the *Yoroshi-Coupon* campaign in December.

#### [Circle K]

Guided by the theme of delivering “super quality and super value,” Circle K actively worked to enhance fast foods. In breads, the nationwide launch of chilled sandwiches in April 2001 and the debut of ‘Kobe Delica,’ which met the needs of customers looking for added value, made a substantial contribution to sales. Additionally, Circle K continued to create new products imbued with more value and focused on developing topical products through tie-ups to attract customers. Notably, Circle K developed a hamburger boxed lunch with the Westin Nagoya Castle Hotel and character goods in collaboration with *New Japan Pro-Wrestling* and the movie *Sennen no Koi Hikaru Genji Story*, based on the classic Japanese *Tale of Genji*.

In processed foods, Circle K and Sunkus jointly developed a series of original instant noodle dishes, called *Go-toten Ramen*. These dishes not only provided novelty value but also made a significant contribution to sales.

In the non-foods category, Circle K actively developed new product categories. In particular, an original Circle K disposable camera, which debuted in October 2001, proved popular among women in terms of both price and design. Circle K continued to expand in the areas of seasonal wear as hats, gloves and fleece jackets recorded brisk sales. Moreover, in line with today’s health-conscious society, DHC-brand health food products, launched in April, mirrored the strong performance of DHC cosmetics.

In the services segment, steady growth in sales of prepaid cards and in particular sales of mainstay prepaid calling cards for mobile phones was sufficient to off-set a fall in highway toll cards.

#### [Sunkus]

During the fiscal year under review, Sunkus worked to increase sales through a variety of sales promotions, including the development of several products in conjunction with radio stations and others. Making a significant contribution to sales was the ‘Shinya Hashimoto Menu,’ a series of volume-packed food products named after a popular professional wrestler. In processed foods, the previously mentioned *Go-toten Ramen* series won rave reviews.

To boost sales in the non-foods category, Sunkus made active efforts to develop new product categories. Sunkus began selling products previously unavailable at convenience stores such as dress shirts and neckties, choosing products best suited to the location of a given store using a scheme

called the “cassette method.” Sunkus sold sunglasses and straw hats in summer, and gloves and fleece jackets in winter, in order to create a seasonal atmosphere at stores. DHC health foods, sales of which started in April 2001, along with DHC cosmetics, also made a substantial contribution to sales.

In the services category, Sunkus made full use of the ticket-issuing function of new point-of-sales registers introduced in fall 2000 to differentiate itself from the competition and grow sales. This included tickets to a variety of popular activities, including those rich in local flavor, such as J-league soccer tickets, movies and leisure events. In particular, sales of advance tickets for the hit movie *Harry Potter and the Sorcerer’s Stone* reached 210,000, making a positive contribution to sales.

The average markup for all products for the fiscal year was 28.2% for Circle K and 28.9% for Sunkus. Markups increased by 0.3 of a percentage point, respectively, compared with the previous year. This increase was primarily attributable to robust sales of fast food products in the first-half period, higher sales of soft drinks fueled by a summer heat wave, and sales of DHC products, loose-fitting clothing and general merchandise, as well as to a decline in the sales composition ratio of relatively fewer low-markup products such as highway toll cards. Additional factors behind the improved average markup were the effects of joint purchasing negotiations by C&S’ Marketing Division and the coordination of product suppliers.

As a result, total store sales for the fiscal year ended February 2002, climbed 5.7% to ¥860,441 million. Total store sales, including area franchisers, were ¥1,045,502 million, an increase of 7.2%. The C&S Group achieved a net increase of 375 stores to 5,894, compared with the end of February 2001. Consequently, consolidated total operating revenues climbed 6.8% to ¥153,889 million.

Consolidated operating income was ¥24,545 million, exceeding original targets. This represents a 5.2% increase over the ¥23,335 million recorded in the corresponding period of the previous fiscal year and was primarily attributable to brisk sales through the first half year and an improvement in markups reflecting joint purchasing negotiations and other initiatives. Consolidated recurring income climbed 4.5% to ¥23,378 million, almost in line with the company’s target, compared with ¥23,365 million a year earlier. This result came despite expenses related to the establishment of C&S Co., Ltd. and losses from acceleration of store closings by both operating companies. Consolidated net income was ¥11,304 million, falling short of C&S’ initial target of ¥12,100 million by ¥796 million. This reflected evaluation losses on owned securities and losses on software as a consequence of systems integration. Consolidated net income, however, was 40.6% above the ¥8,038 million recorded in the previous fiscal year.

Consolidated cash and cash equivalents at year-end were ¥39,113 million, up ¥5,996 million from a year ago. This mainly reflected net cash provided by operating activities, despite slower sales growth at existing stores.

This is the first year that C&S has prepared a consolidated statement of cash flows. Accordingly, no comparisons are available with the previous fiscal year.

*Cash Flows From Operating Activities*

Net cash provided by operating activities was ¥28,925 million. Although operations were affected by a prolonged slump in consumer spending, income before income taxes was ¥21,125 million due to the opening of more new stores in the fiscal year under review. Significant add backs included depreciation and amortization of ¥10,573 million and an increase in accounts payable.

*Cash Flows From Investing Activities*

Net cash used in investing activities was ¥19,683 million. One component was ¥9,335 million for the purchases of property and equipment related to the opening of new stores and upgrading of existing stores. Other significant uses of cash were ¥7,576 million for fixed leasehold deposits, and ¥5,979 million for the purchase of intangible fixed assets and long-term prepaid expenses related to the introduction of new information systems.

*Cash Flows From Financing Activities*

Net cash used in financing activities was ¥3,245 million, mainly reflecting dividends paid of ¥2,190 million and the repayment of loans by Sunkus & Associates Inc.

## (2) Earnings Forecast for the Fiscal year Ending February 28, 2003

General economic conditions are expected to remain bleak during the fiscal year ending February 28, 2003 with a continued increase in corporate bankruptcies in the retail sector and weak consumer consumption. In particular, the C&S Group is expecting increased competition in its home base, the Chukyo region, following the entry of the leading convenience store chain. A continuation of the deflationary spiral is expected to dampen sales per customer, however as price competition among the restaurant and food service industry bottoms out, consumers are again expected to recognize the convenience, friendly service and novelty of convenience stores.

Set against this backdrop, the C&S Group is working to increase sales, improve the mark-up of products and pare store costs, as well as to take full advantage of the competition between the two operating companies and the combined network of 6,000 Circle K and Sunkus stores to become a powerful company capable of withstanding the forces of competition. Specifically, the two operating companies will share information through "Operation 55" meetings, as well as apply best practices uniformly and compensate for weaknesses in order to achieve the overriding goal of average daily sales per store of ¥550,000. The C&S Group will implement structural reforms to improve competitiveness including steps to link directors and employees remuneration to operating performance. Circle K and Sunkus will make every effort to achieve the financial targets set by focusing on frontline operations and improving customer satisfaction.

As a result of these endeavors, and with the aim of opening 230 Circle K and 253 Sunkus stores during the current fiscal year, C&S forecasts sales for the fiscal year ending February 28, 2003, of ¥907,020 million, a 5.4% increase year on year. The company expects to open 668 new stores on a consolidated basis, including 185 area franchiser stores. As of the fiscal year ending February 28, 2003, the company is targeting a net consolidated increase of 448 stores, to 6,342. Consolidated group net sales are projected at ¥1,114,920 million, up 6.6% year on year. While C&S will continue to promote low-cost operations, it looks to relocate stores to enhance competitiveness and projects greater losses on the closing of unprofitable stores. As a result, C&S forecasts an increase of 6.9% in consolidated recurring profit to ¥25,000 million and an increase of 10.6% in consolidated net income to ¥12,500 million.

Note: Year-on-year comparisons in this section have been made with combined figures for Circle K and Sunkus for the previous fiscal year, after necessary adjustments. These comparisons have been provided solely for the convenience of readers, and have not been prepared in accordance with guidelines applicable to the preparation of consolidated financial statements.

## 4.

## (1) Consolidated balance sheet

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

( millions of yen )

	February 28, 2002	
	Amount	% of total
<u>ASSETS</u>		%
Current assets		
Cash and cash equivalents	29,114	
Due from franchised stores	4,161	
Marketable securities	11,010	
Inventories	2,200	
Prepaid expense	2,678	
Deferred tax credit	1,282	
Accrued revenue	7,833	
Other current assets	3,854	
Allowance for doubtful accounts	1,047	
Total current assets	61,089	32.4
Fixed Assets		
Property and equipment		
Buildings	20,743	
Equipment and vehicle	41	
Furniture and fixtures	5,748	
Land	8,056	
Construction in process	307	
Total property and equipment	34,897	18.5
Intangible fixed assets		
System software	9,754	
System software development in progress	1,566	
Consolidated adjustment account	12,720	
Other intangible fixed assets	2,601	
Total intangible fixed assets	26,642	14.1
Investment and other		
Investment securities	5,302	
Long-term leasehold deposits	51,124	
Deferred tax credit	4,352	
Other	6,544	
Allowance for doubtful accounts	1,387	
Total investment and other	65,935	35.0
Total Fixed Assets	127,474	67.6
Total Assets	188,564	100.0

( millions of yen )

	February 28, 2002	
	Amount	% of total
<b><u>LIABILITIES</u></b>		%
Current liabilities		
Trade payable	37,020	
Accounts payable due to franchisees	2,677	
Short-term borrowings	2,300	
Current portion of Bond	3,000	
Other accounts payable	4,742	
Income taxes payable	6,149	
Deferred tax	66	
Deposits received	13,332	
Accrued bonuses to employees	762	
Other current liabilities	4,560	
Total current liabilities	74,612	39.5
Long-term liabilities		
Employee retirement benefits liability	4,085	
Accrued for officers' retirement benefits	304	
Leasehold deposits received	12,068	
Other long-term liabilities	95	
Total long-term liabilities	16,553	8.8
Total liabilities	91,165	48.3
<b><u>SHAREHOLDERS' EQUITY</u></b>		
Common stock	13,469	7.1
Legal reserve	26,223	13.9
Retained earnings	57,134	30.3
Net unrealized gains on available-for-sale securities	627	0.4
	97,454	
Less, treasury stock	55	0.0
Total shareholders' equity	97,398	51.7
Total liabilities and shareholders' equity	18,564	100.0

## (2) Consolidated statement of income

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

( millions of yen )

	February 28, 2002		% of total
	Amount		
Operating revenues			
Revenue from franchised stores	95,313		
Sales reported by franchised stores (excluding area franchised stores)	814,271		
Sales of total chain store (excluding area franchised stores)	860,441		
Other Revenue	12,405	107,719	70.0
Net sales of company-owned stores	(46,169)	46,169	(100.0)
<b>Total operating revenues</b>		153,889	30.0
Cost of sales	(34,670)	34,670	100.0
(Gross profit on sales)	(11,499)		(75.1)
<b>Gross profit</b>		119,219	22.5
Cost of selling, general and administrative expenses		94,673	(24.9)
<b>Operating Income</b>		24,545	77.5
Non-operating income			16.0
Interest income	289		
Dividend income	23		
Other non-operating income	304	617	0.4
Non-operating expenses			
Interest expense	123		
Losses by Cancellation	1,206		
Expenses for Integration	206		
Other non-operating expenses	249	1,785	1.2
<b>Recurring profit</b>		23,378	15.2
Extraordinary gains			
Gain from sales of fixed asset	126		
Gain from return of allowance for doubtful accounts	11	138	0.1
Extraordinary losses			
Losses from Disposal of Fixed Assets	614		
Losses from revaluation of Investment securities	452		
Losses from renewal for information system	1,148		
Other extraordinary losses	174	2,390	1.6
<b>Income before income taxes</b>		21,125	13.7
Income taxes-current	10,440		
Income taxes-deferred	620	9,820	6.4
<b>Net Income</b>		11,304	7.3

## ( 3 ) Consolidated cash flow statement

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

( millions of yen )

	February 28, 2002
	Amount
<b>Cash flows from operating activities:</b>	
Income before income taxes and others	21,125
Depreciation	10,573
Amortization of consolidation account adjustment	748
Losses from revaluation of investment securities	452
Gain or loss on sale of fixed assets	1,636
Increase in allowance for doubtful receivables	208
Decrease in accrued bonuses to employees	73
Increase in employee retirement benefit liability	71
Decrease in accrued retirement benefits to directors	161
Interest and cash dividends income	313
Interest expenses	123
Decrease in other accounts receivable	685
Decrease in inventories	107
Increase in accounts payable	3,009
Increase in deposits received	2,199
Directors' and corporate auditors' bonus payment	101
Other	1,037
Sub-total	39,038
Interest and dividends received	248
Interest paid	95
Income taxes paid	10,266
Net cash provided by operating activities	28,925
<b>Cash flows from investing activities:</b>	
Decrease in Marketable securities	500
Increase in property and equipment	9,335
Decrease in property and store facilities	693
Increase in intangible fixed assets and long-term prepaid expenses	5,979
Increase in investment securities	746
Decrease in investment securities	1,401
Increase in loans receivable	664
Correction of loans receivable	304
Increase in fixed leasehold deposits	7,576
Correction of fixed leasehold deposits	1,897
Other	177
Net cash used in investing activities	19,683
<b>Cash flows from financing activities:</b>	
Repayment of short-term borrowings	2,400
Borrowing of short-term borrowing	2,300
Repayments of long-term debt	900
Dividends paid	2,190
Increase in guarantee deposits received	4,394
Repayments of guarantee deposits received	4,395
Other	54
Net cash used in financing activities	3,245
<b>Net change in cash and cash equivalents</b>	<b>5,996</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>33,116</b>
<b>Cash and cash equivalents at end of year</b>	<b>39,113</b>