

Consolidated financial summary for the Fiscal Year Ended February 29, 2004

C&S Co., Ltd.

(URL <http://www.csgrp.co.jp>)

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

Registered head office: Aichi Prefecture (Headquarters: Shiohama Bldg., 5F, 20-1, Shiohama 2-chome, Koto-Ku, Tokyo Japan)

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Date of the board of directors meeting to settle accounts: April 15, 2004

Date of the annual general meeting of shareholders: May 26, 2004

Parent company: UNY Co., Ltd. (Securities Code No.8270) Ownership of parent company: 47.4%

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

1. Business Results for the Fiscal Year Ended February 29, 2004 (From March 1, 2003 to February 29, 2004)

(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 29, 2004	169,501	7.1	22,435	(7.2)	19,701	(16.4)
Ended February 28, 2003	158,313	2.9	24,168	(1.5)	23,574	0.8

	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 29, 2004	7,651	(33.4)	87.78	-	7.1	9.9	11.6
Ended February 28, 2003	11,490	1.6	132.28	-	11.3	12.3	14.9

Notes: 1. Equity in earnings or losses of investees For the Fiscal Year ended February 29, 2004 ¥ - million

For the Fiscal Year ended February 28, 2003 ¥ - million

2. Average number of shares (Consolidated) during For the Fiscal Year ended February 29, 2004 86,156,983 shares

For the Fiscal Year ended February 28, 2003 86,162,300 shares

3. 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 29, 2004	204,873	110,945	54.2	1,286.69
Ended February 28, 2003	194,487	106,083	54.5	1,230.19

Notes: Number of shares outstanding (Consolidated) at the end of February 29, 2004 86,156,523 shares
February 28, 2003 86,157,541 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 29, 2004	27,506	(10,049)	(4,093)	52,756
Ended February 28, 2003	25,674	(18,854)	(6,540)	39,392

(4) Scope of consolidated subsidiaries

Consolidated subsidiaries : 3 Subsidiaries or affiliates applicable of equity method: None

(5) Change in scope of consolidation and equity method

Consolidation : (Inclusion) 1 (Exclusion) None Equity method : (Inclusion) None (Exclusion) None

2. Consolidated Business Outlook for the six-month period Ending August 31, 2004 (From March 1, 2004 to August 31, 2005)

	Total operating revenues	Recurring profit	Net income
	Millions of yen	Millions of yen	Millions of yen
For the Six month period ending August 31, 2004	88,680	12,600	6,130

(Reference) Projected net income per share ¥ 71.15

Consolidated Business Outlook for the six-month period Ending February 28, 2005 (From September 1, 2004 to February 28, 2005)

	Total operating revenues	Recurring profit	Net income
	Millions of yen	Millions of yen	Millions of yen
For the Fiscal year ending February 28, 2005	83,850	10,100	5,170

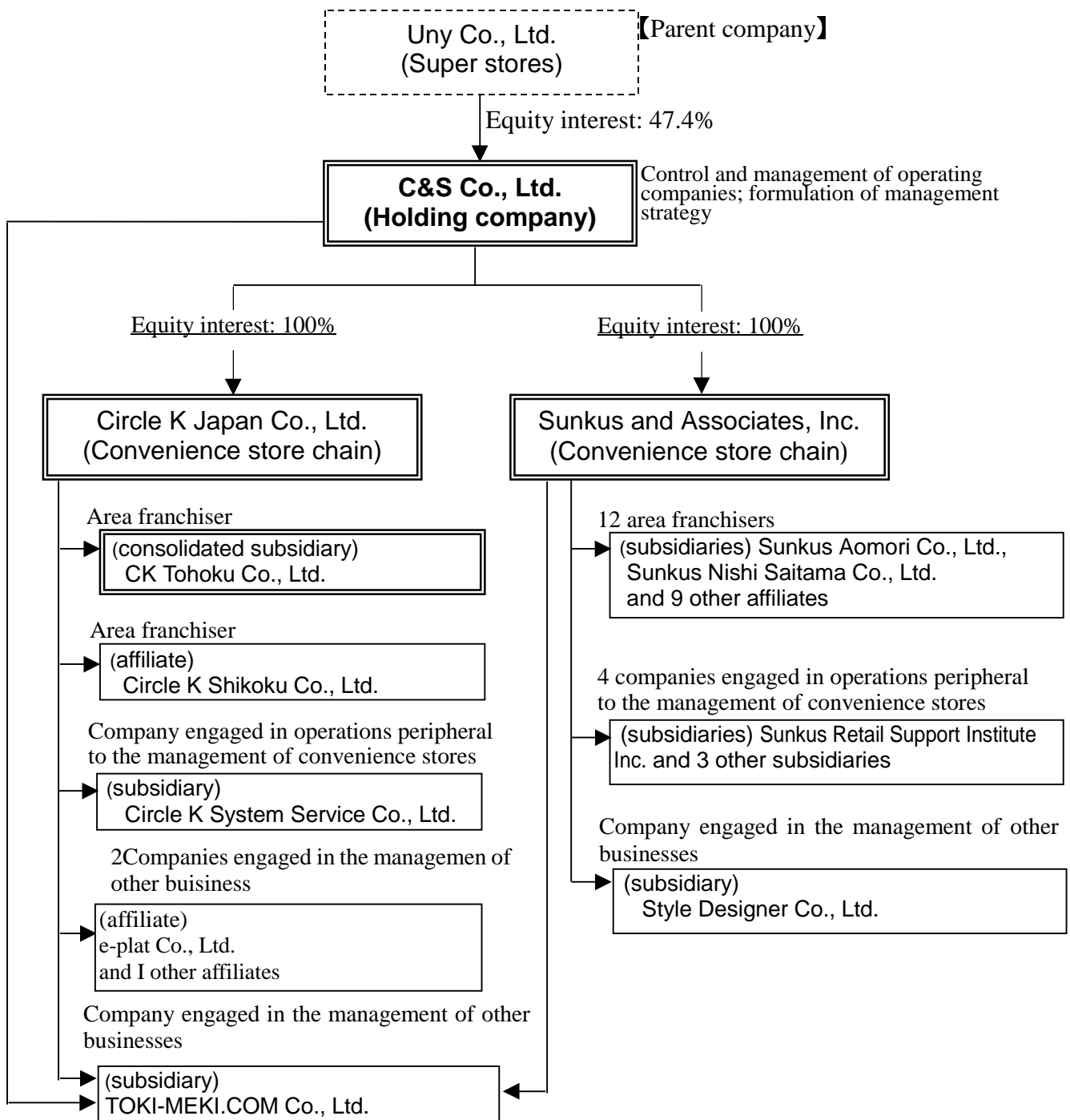
Note: The above-mentioned forecast is based on the information which is able to get hand at present, and including a potential risk and uncertainty. Therefore, actual achievements may differ from these forecast due to many factors. Please refer to 10 th page of appending data about matters, such as precondition of the above-mentioned forecast.

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 25 companies: three consolidated subsidiaries, Circle K Japan Co., Ltd., Sunkus and Associates, Inc., CK Tohoku Co., Ltd., 9 other subsidiaries, and 13 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 2004.

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 maintaining stable earnings growth by building upon a solid foundation comprising two wholly owned subsidiaries—Circle K Japan Co., Ltd. (Circle K) and Sunkus and Associates Inc. (Sunkus). Ultimately, 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, C&S considers the maintenance of stable dividends its first priority and aims to pay out 20% of consolidated net income in the year under review in the form of dividends. C&S intends to raise the dividend payout ratio to 30% in the future.

For the fiscal year ended February 29, 2004, C&S declared an interim dividend of ¥16 per share at August 31, 2003. In addition, C&S plans to propose a year-end dividend of ¥16 per share at its Annual General Meeting of Shareholders in May 2004. Structural reforms implemented during the year led to lower earnings. As a result, the dividend payout ratio based on consolidated net income for the year ending February 29, 2004, will be 36.0%.

Retained earnings will be allocated to investments in developing new stores, revitalizing existing ones, and acquiring store fixtures for displaying new products.

(3) Medium- to Long-Term Management Strategy

The C&S Group is working to derive optimum benefits from a group network exceeding 6,000 stores operated by Circle K, Sunkus and their area franchisers in a range of areas, from marketing to the development of information systems, creating new services and enhancing operating efficiency. From these initiatives, C&S aims to generate cash flows in line with its investments, while making new investments in revitalizing existing stores and expanding sales, and taking action to make individual stores more competitive.

On September 1, 2004, C&S, Circle K and Sunkus will merge to form Circle K Sunkus Co., Ltd., with the goal of further improving sales capabilities and cutting costs.

(4) Management Targets

C&S' medium-term target is to achieve double-digit earnings growth on a consolidated basis.

(1) Corporate Governance—Basic Approach and Implementation Status

① Basic Approach to Corporate Governance

While playing a key role in the group strategy of the Uny Group, C&S views its shareholders, franchised stores, business partners and employees as key stakeholders, with emphasis on relationships with shareholders. Engaged in the retailing sector, C&S always thinks from a customer-first perspective, and views winning the support and trust of area customers as a management issue of paramount importance. While building strong relationships with every stakeholder, C&S will implement measures to further improve corporate governance, including reinforcing and improving legal functions and systems, establishing a compliance system and providing proactive disclosure.

② Implementation Status of Corporate Governance Measures
Corporate Governance Structure, Including Organization of Management Decision-Making, Business Execution and Supervisory Functions

With a management framework based on the adoption of the corporate auditor system, C&S takes advantage of its pure holding company structure to limit the size of its Board of Directors to no more than 10 directors. This enables rapid decision-making from a comprehensive viewpoint. One external director sits on the Board to provide an independent perspective. The presidents of key subsidiaries Circle K and Sunkus concurrently serve as directors of the holding company C&S, and one of the two external corporate auditors concurrently serves as the standing auditor of C&S' parent company, Uny Co., Ltd. Two of C&S' standing auditors concurrently serve as auditors at Circle K and Sunkus. This structure ensures that information is shared among groups companies and that a consensus is maintained regarding policies.

Conflict of Interests—the Company and Its External Directors, Relationships Among External Corporate Auditors, and Equity and Business Relationships

External director Michio Ieda was formerly the president of parent company Uny Co., Ltd. External auditor Hiroyuki Toyoda concurrently serves as standing auditor of Uny Co., Ltd. Another external auditor, Akira Katsuragawa, is a certified public tax accountant who served as a tax advisor to C&S and performs audits from an expert viewpoint.

There are no other conflicts of interests among the Company, its external directors and external auditors, with respect to business or any other form of relationship.

③ Implementation Status of Measures to Improve Corporate Governance in the Most Recent Fiscal Year

During the fiscal year ended February 29, 2004, the Board of Directors held 20 meetings to approve legally mandated matters and key management decisions. In addition, the Company held 9 Management Conferences, which involve standing directors. C&S also held 12 Management Strategy Meetings, where lively discussions on business execution took place. These meetings were attended by standing directors, corporate auditors and the respective presidents of Circle K and Sunkus.

At a meeting of the Board of Directors held on October 14, 2003, C&S approved the planned merger of C&S, Circle K and Sunkus to form Circle K Sunkus Co., Ltd. Details regarding the merger will be finalized by the Merger Preparation Committee, comprising the two representative directors of C&S, and the respective presidents of Circle K and Sunkus. C&S director Kiyoshi Hijikata, who is scheduled to become the president of the new company, will assume a leadership role in rapidly deciding on key issues for the future in small conferences and is giving instructions to each division within the group accordingly.

In November 2003, an internal Compliance Committee was established to promote legal compliance throughout the group, including at franchised stores and business partners. To improve the implementation of compliance and ensure food safety and reliability, C&S has established and started a call center service called *CS Call*, to provide a toll-free contact for reporting inside information. The operation of *CS Call* is outsourced to an external contractor.

During the fiscal year ended February 29, 2004, C&S held interim and full-year earnings presentations for securities analysts, as part of its IR activities. At these presentations, the president of C&S

announced and explained operating results. Audio webcasts of these earnings presentations were made available on the Internet on the same day of the presentation in Japanese and English, to provide fair and timely disclosure for individual and non-Japanese investors. Moreover, C&S has reflected the views of shareholders obtained through a questionnaire enclosed with its business report, along with dividend statements, into management practices.

(6) Issues to Be Addressed

To rise above the current climate of fierce competition between convenience stores and new entrants from different industries, C&S must form a clear vision of the kind of convenience store that customers truly need and establish store brands that enjoy strong customer support. The convenience store industry is shifting from an era of competition to a shakeout among surviving chains. It is thus imperative that C&S make capital expenditures to increase sales and secure the funding needed to implement sales promotion measures that leverage existing stores on an unprecedented scale. C&S will work to improve profits at stores by developing stores with an emphasis on profitability, and develop new and original products to capture a new customer base. To maximize merger benefits, the Company will smoothly advance the merger in a way that does not place a burden on franchised stores. Budget management will be strictly verified to accurately evaluate operating divisions at Circle K and Sunkus. C&S will energetically drive forward the formulation of store development and operations strategies in close cooperation with Circle K and Sunkus.

Historically, Circle K and Sunkus were late in expanding their convenience store networks. The two convenience store chains have thus expanded their networks and brand recognition in areas far from their home ground, where expansion is time-consuming, by forming alliances with local companies. These alliances have taken the form of partnerships with area franchisers to open new stores. In the future, it will become increasingly important to consider regional strategies. Personnel and funding support for area franchisers is also becoming necessary.

The C&S Group will deepen ties and remain in close contact with area franchisers, while further strengthening management guidance.

(7) Basic Policy Regarding Relationships Among Group Members

1. 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 47.4% of C&S.

C&S works closely with Uny in fields such as product development where the two can combine strengths within the Group and through business alliances. Although Uny and 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. With the exception of concurrent directorships, there is no exchange of personnel or funds between the two companies at this time.

2. Subsidiaries and Affiliated Companies

Circle K and Sunkus are wholly owned subsidiaries of C&S Co., Ltd. Each company operates convenience stores under its own brand name. The two operating companies are granted a certain degree of management autonomy in executing operations within the bounds of group strategy formulated by the holding company C&S. The appointment of directors and remuneration at both operating companies however, are decided by C&S.

On September 1, 2004, C&S, Circle K and Sunkus will merge to form Circle K Sunkus Co., Ltd. In the

near term, the new company will continue to operate convenience stores under two brand names. However, the new company will eventually unify the brand to stay on top of the maturing convenience store industry and changes in economic conditions. This process will deepen integration further.

Circle K and Sunkus have entered into agreements with area franchisers to expand their store networks. Circle K has two area franchisers, including one subsidiary and one affiliate. Sunkus has a total of 13 area franchisers, including 2 subsidiaries, 10 affiliates, and 1 other company. C&S' policy regarding the management of area franchisers, irrespective of whether they are subsidiaries or affiliates, is to provide personnel and funding support as necessary. While respecting the distinctive characteristics of each region, C&S will work to capture Group-wide synergies and determine the return on investments in expanding store networks in each region.

In June 2004, Circle K Japan will absorb CKTohoku Co., Ltd., an area franchiser for Circle K stores in the Tohoku region. This follows Circle K Japan's transformation of CKTohoku into a wholly owned subsidiary in March 2003.

Circle K and Sunkus invest in area franchisers, as well as companies engaged in operations peripheral to convenience store operations and other businesses. C&S takes part, directly or indirectly, in strategy formulation and decision making, from the viewpoint of maximizing group earnings.

3. Operating Results and Financial Position

(1) Consolidated Operating Results

In the fiscal year ended February 29, 2004, Japan's unemployment rate and GDP showed signs of bottoming out. However, rising social insurance premiums and other factors squeezed household budgets. The war in Iraq, and the fallout from SARS, compounded by the reemergence of BSE, the spread of avian flu and other food safety concerns, further discouraged consumer spending.

The convenience store industry was affected by one of Japan's coolest summers and warmest winters in a decade. Another factor was growing competition from industry outsiders, such as supermarkets with late-night operating hours.

For its part, the C&S Group saw performance struggle largely in the first half of the year due to the unusually cool summer. Existing-store sales were down 4.5% year on year (4.7% for Circle K and 4.2% for Sunkus), as the effect of the termination of sales of prepaid highway toll cards in denominations of JPY30,000 and JPY50,000 resulted in sales declines of 2.8% for Circle K and 1.6% for Sunkus. Amid this climate, C&S continued to place even more emphasis on its principle of quality over quantity in its drive to open new stores, giving first priority to improved profitability. Meanwhile, C&S brought forward the closure of many unprofitable stores and those likely to become unprofitable in the future, as part of its structural reforms. As of February 29, 2004, the C&S Group had decreased its total number of stores, including area franchisers, by a net 89 stores to 6,152 stores.

CKTohoku Co., Ltd., an area franchiser for Circle K stores in Japan's Tohoku region, became a consolidated subsidiary of Circle K Japan during the year under review. Total store sales, a figure encompassing the combined sales of the C&S Group's three consolidated subsidiaries, increased 1.2% year on year to JPY902,247 million. With the inclusion of non-consolidated area franchisers, total store sales for the Group edged down 0.2% to JPY1,091,728 million. Total operating revenues were up 7.1% at JPY169,501 million.

On the earnings front, the addition of a newly consolidated subsidiary helped lift consolidated gross

profit 4.1% to JPY127,747 million. Despite this growth, operating income decreased 7.2% to JPY22,435 million, falling below plans. In line with ongoing structural reforms, C&S increased store closures substantially during the period. The resultant jump in losses on the cancellation of contracts and related costs led to consolidated recurring profit of JPY19,701 million, a decline of 16.4% year on year. Consolidated net income fell 33.6% year on year to JPY7,651 million. This decrease is attributed to an extraordinary loss of JPY341 million on the disposal of multimedia terminals; a loss of JPY2,163 million on disposal of property and equipment, and related matters; a loss of JPY 711 million on cancellation of lease contracts due to store closures and a loss of JPY531 million due to product realignment.

Looking at consolidated cash flows during the fiscal year, net cash provided by operating activities was JPY27,506 million, up 7.1% from a year earlier. One major component was income before income taxes of JPY14,923 million, down 29.1% from the previous year, due to lower sales at existing stores, losses from large-scale store closures and the addition of a newly consolidated subsidiary. Other components included depreciation and amortization of JPY9,932 million, a non-cash entry, and an increase in losses on the cancellation of contracts due to store closures.

Net cash used in investing activities totaled JPY10,049 million, or 46.7% less than the previous year. The significant uses of cash were JPY8,117 million for the acquisition of property and equipment related to the opening of new stores and improving store conditions at existing stores, and JPY6,484 million for long-term leasehold deposits for new stores.

Net cash used in financing activities totaled JPY4,093 million, or 37.4% less than the previous year. This figure included JPY2,800 million for the repayment of short-term borrowings and JPY2,757 million for the payment of dividends.

As a result of the foregoing, cash and cash equivalents were JPY52,756 million, JPY13,363 million, or 33.9%, higher than at the previous fiscal year-end.

C&S Co., Ltd., the holding company of the C&S Group, continued working to improve profitability and implement sales promotion measures. Teams within the Structural Reform Committee, established in last April, played a key role in advancing these activities. The marketing team succeeded in improving product markups for snacks, processed foods and general merchandise. The information systems team, store construction and facilities team, and back office team also strove to lower costs. As part of structural reforms aimed at eliminating unprofitable stores, the Group closed a record number of stores, including 259 stores at Circle K proper, 217 stores at Sunkus proper, and 89 stores at area franchisers.

On the store development front, C&S worked to open high-quality stores that can prevail in today's fiercely competitive environment, placing additional emphasis on developing stores with high earnings.

Circle K opened 200 stores during the fiscal year as planned. One key store development initiative at Circle K is to further improve store functions. To this end, Circle K leased additional parking space for existing stores and relocated 39 existing stores during the fiscal year. Average daily sales at new Circle K stores grew JPY7,000 year on year to JPY447,000. This partly reflected the use of an upgraded system for identifying attractive locations for new Circle K stores, linked to geographical data, as well as store relocations.

Sunkus opened 160 stores, including the relocation of 23 stores. To ensure the development of competitive Company-owned and franchised stores that generate earnings, Sunkus reviewed all

prospective new stores for which it had concluded contracts, placing emphasis on profitability. This resulted in fewer stores being opened than the initially planned 200 stores. Average daily sales at new Sunkus stores declined JPY41,000 to JPY453,000, due to fewer new stores opened at prime locations with high leasing expenses. This reflected Sunkus' decision to open new stores with lower leasing expenses, which represent a large percentage of costs, to improve its earnings base. To further enhance competitiveness, Sunkus continued to aggressively improve store conditions, including enlarging parking lots, strategically placing signboards to improve store visibility, and increasing floor space at 22 stores during the year, in addition to relocations. .

Faced with intensifying competition at individual stores, Circle K and Sunkus initiated a review of their cost structure, which is premised on the high levels of growth in the past. In response to rising store leasing costs, the Group commissioned a specialist team to handle leasing negotiations. Determined efforts on the part of this team lowered annualized store leasing costs at Circle K proper and Sunkus proper by JPY250 million and JPY480 million, respectively, further enhancing the earnings structure of both companies.

On the product side, Circle K and Sunkus focused on developing competitive products during the year, including appealing original products and those jointly conceived by both companies. In mainstay fast foods, Circle K launched the *Kiwami no Gu* series of premium rice balls, made from select ingredients, in July. Tie-ins with food dishes found in renowned restaurants and seasonal flavor varieties made this high-quality product a huge success with consumers. In countertop fast foods, the *Achi Achi* series, prepared in a special oven for a “fresh from the oven” taste, saw the introduction of two new products—the *Achi Achi Chicken Bar* and *Achi Achi Taiyaki* (a sweet bean-filled hot pastry)—as sales grew 20% over the previous year.

For its part, Sunkus worked to revolutionize the quality of mainstay boxed lunches in terms of taste, maintaining freshness and other factors. Key to this was shifting over to a system where chilled dishes are preserved at a temperature of 8°C at all times—from preparation to delivery and display—instead of at the conventional low temperature of 18°C. In line with this development, Sunkus shifted to a system where deliveries are made twice per day, instead of three times daily, not just in pursuit of better taste, but also to shorten the time between delivery and peak sales hours, and lower lost sales opportunities.

In addition, Sunkus completely revamped its lineup of rice balls and sandwiches, with a focus on flavor and select ingredients. In its aggressive development of rice balls and sandwiches, Sunkus introduced a line of rice balls made from premium ingredients, a line of pork cutlet sandwiches in a marketing tie-up with *Ginza Bairin*—a long-established pork cutlet restaurant—and other high-value-added products. Sunkus also promoted growth of its countertop fast foods, with fried chicken and other products lifting sales higher.

Soft drinks shook off a slump caused by cool summer temperatures to post higher sales year on year, thanks largely to brisk sales of *Kao Healthya* (R) *Green Tea*. In processed foods, Circle K and Sunkus joined forces to aggressively pursue joint development of products in conjunction with famous restaurants and food producers. In snacks, the two companies marketed strong-selling potato chips and other products with flavors based on the most popular items found at well-known *izakaya* restaurants and from noted food manufacturers. With the cooperation of renowned local noodle shops, Circle K and Sunkus also developed a number of original instant noodle varieties during the year. Alcoholic beverages, meanwhile, saw the launch of the second product in the *Petit Cool Premium* line of original wines by actress and wine expert Naomi Kawashima, as well as sales of a proprietary brand of premium sake.

In the service category, Circle K and Sunkus pursued measures aimed at enhancing customer convenience. In December 2003, post boxes were installed at all Circle K and Sunkus stores in the four prefectures comprising the Chubu region. The two companies also launched the *Keitai Kessai* service—a service that allows customers to pay for airline tickets and highway bus fees using mobile phones, and also began carrying *Barclay Vouchers*, a premier brand of fine dining gift certificates.

The termination of sales of prepaid highway toll cards in denominations of JPY30,000 and JPY50,000, however, sharply lowered service category sales year on year.

Average product markups across all categories rose 0.7 of a percentage point to 28.7% at Circle K and 0.4 of a percentage point to 29.2% at Sunkus. One factor behind this increase was that sales of prepaid highway toll cards, which have relatively low markups, represented a lower percentage of overall sales. Another factor was that measures aimed to boost rice-dish sales led to fewer lost sales opportunities, which in turn raised rice-dish sales as a percentage of overall sales.

In store operations, Circle K took steps to raise the standard of store operations under the slogan, “Improve Customer Satisfaction.” Sunkus, meanwhile, focused on improving customer service based on its four cardinal principles of store operations. One measure saw store supervisors raise the weighting of the friendliness criterion in the customer satisfaction category of store evaluations conducted twice per month.

In June 2003, the Rice Dish Sales Promotion Committee spearheaded a drive to boost rice-dish sales across the C&S Group, with the C&S head office allocating significant operating expenses to strengthening sales capabilities by increasing inventory of rice dishes. The result was greater product availability and a more robust lineup of rice dishes. While unseasonable weather at the start of the drive from June to August saw rice-dish sales fall below targets, the launch of *Kiwami no Gu* rice balls by Circle K in July fueled double-digit growth in rice balls, driving overall sales of rice dishes. For its part, Sunkus also witnessed a recovery in rice-dish sales over the previous year as it broadened the targeted sales area for chilled boxed lunches.

As a result of the foregoing, total store sales at Circle K were JPY480,453 million, or 1.1% lower than a year earlier. Total store sales at Sunkus were down 0.7% at JPY403,441 million. As of February 29, 2004, Circle K proper had a network of 2,651 stores, representing a net decrease of 59 stores. The total number of Sunkus stores at the fiscal year-end was 2,200 stores, representing a net decrease of 57 stores.

Circle K’s 2 area franchisers opened 28 stores and closed 23, resulting in a net increase of 5 stores to 266 stores as of February 29, 2004. Sales of Circle K’s area franchised stores decreased 3.9% to JPY34,806 million. Meanwhile, Sunkus’ 13 area franchisers opened 88 stores and closed 66, resulting in a net increase of 22 stores to 1,035 stores as of February 29, 2004. Sales of Sunkus’ area franchised stores were favorable, rising 4.6% to JPY173,027 million.

(2) Outlook for the Fiscal Year Ending February 28, 2005

The convenience store industry will continue to face a difficult operating environment, as existing stores struggle to grow amid intensifying competition. In addition to the presence of rival convenience store chains, C&S must also contend with actions taken by industry outsiders, such as the sharp rise in supermarkets with late-night operating hours and rapidly expanding drugstore chains. In this climate, the C&S Group designated the fiscal year ending February 29, 2004 as the year to implement the broad-ranging structural reforms, taking steps to overhaul fixed expenses and realigning unprofitable stores. While these structural reforms achieved a measure of success, the C&S Group has concluded that it must adopt a strategy that calls for further integration to stay on top of changes in its business

environment. On September 1, 2004, C&S Co., Ltd., Circle K Japan Co., Ltd. and Sunkus & Associates Inc. will therefore merge to form Circle K Sunkus Co., Ltd.

After the merger, the new company will operate under the Circle K and Sunkus brands. In parallel with the pursuit of earnings from scale merits and rationalization occasioned by the merger, Circle K Sunkus will develop products that heighten the brand power of its rice-dish lineup, which will be instrumental in capturing brand loyalty. The company will also continue to promote measures for boosting rice-dish sales, improving the rice-dish lineup and product availability, and creating display areas that deliver high customer satisfaction. Circle K Sunkus will keep improving the quality of mainstay rice dishes, including further improving preparation methods for rice balls, a strong seller in the previous fiscal year. At the same time, Circle K plans to add more items to its *Achi Achi* lineup, while Sunkus will take advantage of Circle K's expertise to enhance its own line of *oden* (traditional stewed meats and vegetables) and other countertop fast foods. By diversifying payment methods and installing post boxes at stores, Circle K Sunkus will take steps to bolster the service category. The company will also work to minimize lost sales opportunities by utilizing "hot & cold" display cases capable of variable temperature settings, giving the company the leeway to flexibly adjust seasonal product lineups in step with demand. In addition to developing new stores with a firm emphasis on profitability, Circle K Sunkus is centralizing and sharing data to augment its organizational strengths, and taking steps to find promising locations for new stores.

By February 28, 2005, Circle K and Sunkus plan to open a total of 415 new stores and close 183, resulting in a net increase of 232 stores. Area franchisers, meanwhile, are scheduled to open 146 stores and close 93. With 561 new stores planned and the scheduled closure of 276 stores, the Circle K Sunkus Group projects that the total number of stores will increase to 6,437 stores by February 28, 2005. The Group is forecasting total store sales, including area franchisers, of JPY1,112,400 million for the year. This figure assumes a decline of 1% in existing store sales, with Circle K, and Sunkus posting projected sales of JPY485,700 million and JPY411,900 million, respectively.

Circle K-Sunkus will continue to push forward with handling tickets and services, despite the relatively low product markups of these items. However, the Group will develop a new common group-wide private brand, *KACHIAL*, to raise the proportion of original products in the product mix. Moreover, Circle K Sunkus will use the merger of Circle K and Sunkus as an opportunity to substantially increase the number of products purchased under the terms of joint negotiations. These measures are expected to lift the average product markup by 0.25 of percentage point over the previous year.

Circle K Sunkus is projecting total operating revenues of JPY172,530 million, or a year-on-year improvement of 1.8%. In addition to an increase in the number of stores as the elimination of underperforming stores draws to a close, growth will likely stem from the inclusion of Sunkus area franchisers Sunkus Nishi-Saitama Co., Ltd. and Sunkus Aomori Co., Ltd. as newly consolidated subsidiaries. On the earnings front, the company is forecasting operating income of JPY24,220 million, a projected increase of 8.0%, recurring profit of JPY22,700 million, or 15.2% higher, and a 47.7% jump in net income, to JPY11,300 million. While losses associated with store closures are expected to decline sharply for the year, the company expects to book a one-off cost of JPY400 million related to the merger.

During the current fiscal year, C&S Co., Ltd. will remain the parent company for the purposes of preparing consolidated accounts from March to August 2004. From September forecasts 2004 to February 2005, this role will be assumed by Circle K Sunkus Co., Ltd. A breakdown of performance for the year is provided below.

(JPY millions)

	C&S Co., Ltd. (consolidated) (Mar. 2004-Aug. 2004)	Circle K Sunkus Co., Ltd. (consolidated) (Sep. 2004-Feb. 2005)	Total (Mar. 2004-Feb. 2005)	
				Y-o-Y change (%)
Total store sales	477,850	462,430	940,280	4.2
Total operating revenues	88,680	83,850	172,530	1.8
Recurring profit	12,600	10,100	22,700	15.2
Net income	6,130	5,170	11,300	47.7

(Note) Figures cited above exclude consumption tax and other similar items.

4. Consolidated Financial Statement

(1)Consolidated balance sheet

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

(millions of yen)

	Fiscal Year ended February 29, 2004		Fiscal Year ended February 28, 2003	
	Amount	% of total	Amount	% of total
ASSETS		%		%
1. Current assets				
Cash and cash equivalents	39,654		33,893	
Due from franchised stores	3,600		3,711	
Marketable securities	13,101		5,501	
Inventories	1,922		1,915	
Prepaid expense	3,051		2,928	
Deferred tax credit	2,130		1,122	
Accrued revenue	9,062		9,654	
Other current assets	3,300		3,217	
Allowance for doubtful accounts	(593)		(707)	
Total current assets	75,230	36.7	61,237	31.5
2. Fixed Assets				
Property and equipment				
Buildings	25,980		24,418	
Equipment and vehicle	29		37	
Furniture and fixtures	4,199		4,890	
Land	9,367		8,768	
Construction in progress	147		93	
Total property and equipment	39,724	19.4	38,208	19.7
Intangible fixed assets				
System software	7,021		9,323	
System software development in progress	162		-	
Consolidated adjustment account	11,224		11,972	
Other intangible fixed assets	2,525		2,100	
Total intangible fixed assets	20,770	10.1	23,396	12.0
Investment and other				
Investment in securities	5,820		6,715	
Deferred tax credit	4,731		5,187	
Long-term leasehold deposits	52,665		53,570	
Other	8,069		7,943	
Allowance for doubtful accounts	(2,140)		(1,770)	
Total investment and other	69,147	33.8	71,645	36.8
Total Fixed Assets	129,642	63.3	133,250	68.5
Total Assets	204,873	100.0	194,487	100.0

(millions of yen)

	Fiscal Year ended February 29, 2004		Fiscal Year ended February 28, 2003	
	Amount	% of total	Amount	% of total
<u>LIABILITIES</u>		%		%
1. Current liabilities				
Trade payable	40,909		37,963	
Accounts payable due to franchisees	3,111		3,094	
Short-term borrowings	500		1,650	
Other accounts payable	6,446		4,937	
Income taxes payable	3,313		4,868	
Deferred tax	38		-	
Deposits received	16,746		14,979	
Accrued bonuses to employees	724		736	
Other current liabilities	4,124		3,664	
Total current liabilities	75,877	37.0	71,894	37.0
2. Long-term liabilities				
Employee retirement benefits liability	4,499		4,140	
Accrued for officers' retirement benefits	328		370	
Leasehold deposits received	13,023		11,861	
Other long-term liabilities	198		137	
Total long-term liabilities	18,049	8.8	16,509	8.5
Total liabilities	93,927	45.8	88,404	45.5
<u>SHAREHOLDERS' EQUITY</u>				
1. Common stock	13,469	6.6	13,469	6.9
2. Capital surplus	26,223	12.8	26,223	13.5
3. Earned surplus	70,731	34.5	65,932	33.9
4. Net unrealized gains on available-for-sale securities	596	0.3	532	0.2
5. Less, treasury stock	(74)	(0.0)	(74)	(0.0)
Total shareholders' equity	110,945	54.2	106,083	54.5
Total liabilities and shareholders' equity	204,873	100.0	194,487	100.0

(2)Consolidated statement of income

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

(millions of yen)

	Fiscal Year ended February 29, 2004		Fiscal Year ended February 28, 2003	
	Amount	% of total	Amount	% of total
1. Operating revenues				
Revenue from franchised stores	101,772		98,861	
(Sales reported by franchised stores (excluding area franchised stores) Fiscal year ended Feb.28,2003 844,820 Fiscal year ended Feb.29,2004 847,100 Sales of total chain store (excluding area franchised stores) Fiscal year ended Feb.28,2003 891,889 Fiscal year ended Feb.29,2004 902,247)				
Other Revenue	12,581		12,383	
2. Net sales of company-owned stores	(55,147)	(100.0)	(47,069)	(100.0)
Total operating revenues	169,501	100.0	158,313	100.0
3. Cost of goods sold	41,754	(75.7) 24.6	35,582	(75.6) 22.5
(Gross profit on sales)	(13,393)	(24.3)	(11,487)	(24.4)
Gross profit	127,747	75.4	122,731	77.5
4. Cost of selling, general and administrative expenses	105,311	62.2	98,562	62.2
Operating Income	22,435	13.2	24,168	15.3
5. Non-operating income				
Interest income	321		305	
Dividend income	54		31	
Compensation income	304		156	
Other non-operating income	166		191	
6. Non-operating expenses				
Interest expense	23		77	
Losses by Cancellation	3,422		1,167	
Other non-operating expenses	134		34	
Recurring profit	19,701	11.6	23,574	14.9

(millions of yen)

	Fiscal year ended February 29, 2004		Fiscal year ended February 28, 2003	
	Amount	% of total	Amount	% of total
7. Extraordinary gains				
Gain from sales of fixed asset	82		57	
Gain from return of allowance for doubtful accounts	-		18	
8. Extraordinary losses				
Losses from Disposal of Fixed Assets	2,163		1,051	
Losses from revaluation of Investment securities	531		554	
Losses from renewal for information system	-		539	
Loss on cancellation of lease contracts	711		-	
Loss on disposal of multimediaterminals	341		-	
Loss on revaluation of inventories	531		-	
Other extraordinary losses	580		444	
<i>Income before income taxes</i>	14,923	8.8	21,061	13.3
Income taxes-current	7,847	4.6	10,244	6.4
Income taxes-deferred	(574)	(0.3)	(673)	(0.4)
<i>Net Income</i>	7,651	4.5	11,490	7.3

(4)Consolidated cash flow statement

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

(millions of yen)

	Fiscal Year ended February 29, 2004	Fiscal Year ended February 28, 2003
	Amount	Amount
1. Cash flows from operating activities:		
Income before income taxes and others	14,923	21,061
Depreciation	9,932	10,070
Amortization of consolidation account adjustment	872	748
Losses from revaluation of investment securities	531	554
Gain or loss on sale or disposal of fixed assets	2,080	1,533
Increase in allowance for doubtful receivables	15	43
Decrease in accrued bonuses to employees	(11)	(25)
Increase in employee retirement benefit liability	359	54
Increase or decrease in accrued retirement benefits to directors	(42)	66
Interest and cash dividends income	(376)	(337)
Interest expenses	23	77
Increase or decrease in other accounts receivable	858	(273)
Increase or decrease in inventories	283	285
Increase in accounts payable	1,836	1,359
Increase in deposits received	2,544	1,704
Directors' and corporate auditors' bonus payment	(93)	(107)
Other	3,341	95
Sub-total	36,926	36,910
Interest and dividends received	275	263
Interest paid	(8)	(80)
Income taxes paid	(9,686)	(11,419)
Net cash provided by operating activities	27,506	25,674
2. Cash flows from investing activities:		
Decrease in Marketable securities	-	1,000
Increase in property and equipment	(8,117)	(9,299)
Decrease in property and store facilities	426	310
Increase in intangible fixed assets and long-term prepaid expenses	(2,273)	(3,094)
Increase in investment securities	(552)	(5,118)
Decrease in investment securities	1,000	3,000
Increase in acquisition of subsidiaries	254	-
Increase in loans receivable	(1,531)	(1,926)
Correction of loans receivable	1,535	1,799
Increase in fixed leasehold deposits	(6,484)	(8,062)
Correction of fixed leasehold deposits	5,590	2,660
Other	101	(122)
Net cash used in investing activities	(10,049)	(18,854)
3. Cash flows from financing activities:		
Borrowing of short-term borrowings	1,650	22,350
Repayments of short-term borrowings	(2,800)	(23,000)
Repayments for redemption of bonds	-	(3,000)
Dividends paid	(2,757)	(2,584)
Increase in guarantee deposits received	1,406	1,130
Repayments of guarantee deposits received	(1,590)	(1,417)
Other	(1)	(19)
Net cash used in financing activities	(4,093)	(6,540)
4. Net change in cash and cash equivalents	13,363	279
5. Cash and cash equivalents at beginning of year	39,392	39,113
6. Cash and cash equivalents at end of year	52,756	39,392

(3)Consolidated statement of retained earnings

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

(millions of yen)

	Fiscal Year ended February 29, 2004	Fiscal Year ended February 28, 2003
	Amount	Amount
(Capital surplus)		
1. Beginning balance of capital surplus	26,223	26,223
2. Increase in capital surplus	-	-
3. Decrease in capital surplus	-	-
4. Ending balance of capital surplus	26,223	26,223
(Earned surplus)		
1. Beginning balance of earned surplus	65,932	57,134
2. Increase in earned surplus	7,651	11,490
Net income	7,651	11,490
3. Decrease in earned surplus	2,852	2,692
Losses on disposal of treasury stock	2	-
Dividends	2,757	2,584
Directors' bonuses	93	107
4. Ending balance of earned surplus	70,731	65,932