

# Consolidated financial summary for the fiscal year ended February 28, 2005 (March 1, 2004 to February 28, 2005)

## CircleKSunkus Co., Ltd.

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

Securities Code Number: 3337

Parent company: UNY Co., Ltd. (Securities Code No.8270) Ownership of parent company: 47.3%

Date of the board of directors meeting to settle accounts: April 14, 2005

Prepared in accordance with the financial accounting standards in Japan.

### 1. Business Results for the Fiscal Year Ended February 28, 2005 (March 1, 2004 to February 28, 2005)

#### (1) Consolidated Operating Results

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

	Total operating revenues [ Total sales ]		Operating income		Recurring profit	
	Millions of yen	Change %	Millions of yen	Change %	Millions of yen	Change %
For the fiscal year						
Ended Feb 28, 2005	138,619 [ 715,086 ]	36.5 [ 43.4 ]	18,517	42.2	17,719	54.0
Ended Feb 29, 2004	101,540 [ 498,806 ]	- [ - ]	13,025	-	11,509	-

	Net Income		Net income per share	Diluted net income per share
	Millions of yen	Change %	Yen	Yen
For the fiscal year				
Ended Feb 28, 2005	9,372	86.9	217.55	-
Ended Feb 29, 2004	5,015	-	29,740.07	-

	Return on equity	Recurring profit ratio of total assets	Recurring profit ratio of total operating revenues
	%	%	%
For the fiscal year			
Ended Feb 28, 2005	11.2	11.4	12.8
Ended Feb 29, 2004	-	-	11.3

Notes: 1. Equity in earnings or losses of investees For the fiscal year Ended Feb 28, 2005 ¥ - million  
For the fiscal year Ended Feb 29, 2004 ¥ - million

2. Average number of shares (Consolidated) during the fiscal year ended Feb 28, 2005 42,806,730 shares  
the fiscal year ended Feb 29, 2004 167,608 shares

3. Change in accounting policies: None

4. Figures for the percent columns indicate percentage changes compared with Preceding fiscal year.

5. Consolidated financial statements will be prepared effective from the fiscal year ended February 29, 2004.  
Consequently, no comparisons have been made with the corresponding periods of the previous fiscal year.

**(2) Consolidated Financial Position**

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	Millions of yen	Millions of yen	%	Yen
For the fiscal year				
Ended Feb 28, 2005	201,055	110,043	54.7	1,276.63
Ended Feb 29, 2004	109,443	57,778	52.8	344,541.08

**(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 Feb 28, 2005	12,033	(10,783)	(2,864)	58,820
Ended Feb 29, 2004	16,144	(7,814)	(2,398)	34,780

**(4) Scope of consolidated subsidiaries**

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

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

**Consolidation : (Inclusion) 2   (Exclusion) 1**

**(6) Consolidated Business Outlook for the fiscal year Ending February 28, 2006**

	Total operating revenues [ Total sales ]		Recurring profit	Net income
	Millions of yen		Millions of yen	Millions of yen
For the Six month period ending August 31, 2005	93,080	[ 483,500 ]	13,830	4,840
For the fiscal year ending February 28, 2006	181,580	[ 955,610 ]	25,930	12,550

(Reference) Projected net income per share   JPY145.62

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 13th page of appending data about matters, such as precondition of the above-mentioned forecast.

## Reference

### ① Consolidated Results

The company (formerly CIRCLE K JAPAN Co., Ltd.) was renamed Circle K Sunkus Co., Ltd. on September 1, 2004 after absorbing C&S Co., Ltd. and SUNKUS & ASSOCIATES INC. Operating results for the fiscal year ended February 28, 2005, shown on page 1, represent the sum of operating results for the surviving company CIRCLE K JAPAN from March 1 to August 31, 2004, and those of Circle K Sunkus after the merger from September 1, 2004 to February 28, 2005. Operating results for the fiscal year ended February 2005 thus exclude results for the former SUNKUS & ASSOCIATES INC., consolidated subsidiary Sunkus Aomori Co., Ltd., and Sunkus Nishi-Saitama Co., Ltd. from March 1, 2004 to August 31, 2004. Actual operating results, including figures for these companies, are presented below.

Actual consolidated operating results for the full fiscal year represent the sum of operating results of the former C&S Co., Ltd. before the merger (March 1, 2004 ~ August 31, 2004) and the consolidated results of Circle K Sunkus Co., Ltd. after the merger (September 1, 2004 ~ February 28, 2005) and comparisons with consolidated operating results of C&S Co., Ltd. for the fiscal year ended February 29, 2004.

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

	Total operating revenues [ Total sales ]		Operating income		Recurring profit	
	Millions of yen	Change %	Millions of yen	Change %	Millions of yen	Change %
For the fiscal year						
Ended Feb 28, 2005	176,843 [ 933,521 ]	4.3 [ 3.5 ]	24,384	8.7	23,625	19.9
Ended Feb 29, 2004	169,501 [ 902,247 ]	7.1 [ 1.2 ]	22,435	( 7.2 )	19,701	( 16.4 )

	Net Income		Net income per share	Diluted net income per share
	Millions of yen	Change %	Yen	Yen
For the fiscal year				
Ended Feb 28, 2005	12,654	65.4	146.19	-
Ended Feb 29, 2004	7,651	(33.4)	87.78	-

	Return on equity	Recurring profit ratio of total assets	Recurring profit ratio of total operating revenues
	%	%	%
For the fiscal year			
Ended Feb 28, 2005	11.4	11.6	13.4
Ended Feb 29, 2004	7.1	9.9	11.6

Notes: 1. Figures for net income per share for the fiscal year ended February 29, 2004 shown above is calculated using the average number of shares (86,156,983 shares).

And figures for net income per share for the fiscal year ended February 28, 2005 shown above is calculated based on the number of shares issued and outstanding at the end of the fiscal year-end on February 28, 2005 (86,151,641 shares).

2. Figures for the percent columns indicate percentage changes compared with Preceding fiscal year.

### ② Net Income per Share

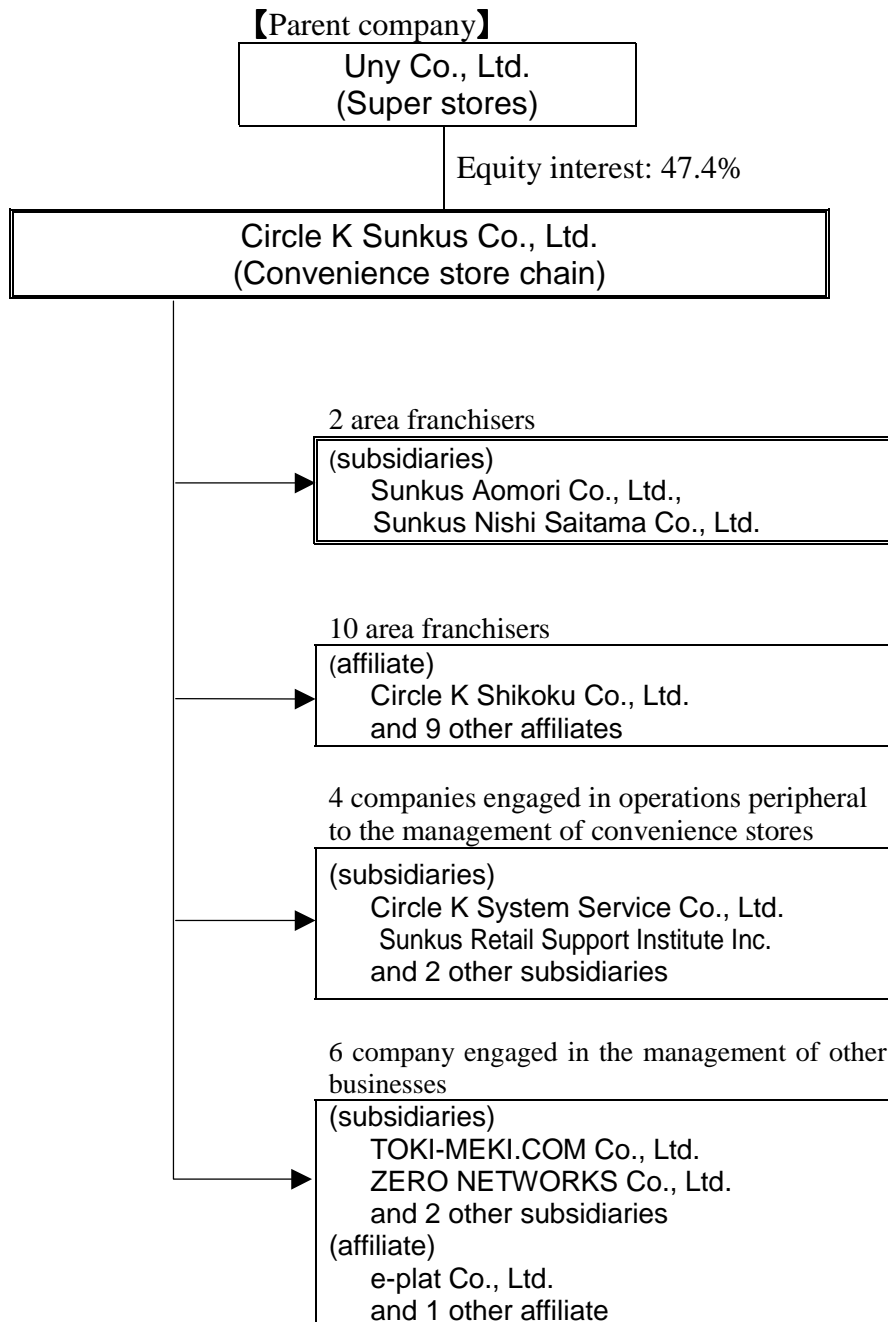
Figures for net income per share for the fiscal year ending February 28, 2005 shown on pages 1 has been calculated based on the average number of shares issued and outstanding (42,806,730) over the fiscal year, starting with the number of issued and outstanding shares of the former CIRCLE K JAPAN at the beginning of the fiscal year, prior to the merger, on March 1, 2004 (167,608), and ending with the corresponding figure for Circle K Sunkus Co., Ltd. at the fiscal year-end on February 28, 2005 (86,151,641). Consequently, figures for net income per share for the fiscal year ending February 2005 shown on pages 1 was bigger than calculated based on the number of shares issued and outstanding at the end of the fiscal year-end on February 28, 2005 (86,151,641 shares).

## 1. 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 23 companies: Circle K Sunkus Co., Ltd. and two consolidated subsidiaries, Sunkus Aomori Co., Ltd. and Sunkus Nishi-Saitama Co., Ltd., 8 other subsidiaries and 12 affiliates. It is primarily engaged in the development of convenience store franchises.

With a store network extending from Hokkaido to Kagoshima, the C&S Group, including area franchisers, had a presence in 36 prefectures as of February 28, 2005.

The following chart depicts the Circle K Sunkus Group.



## 2. Management Policies

### (1) Basic Management Policies

Circle K Sunkus' management philosophy is:

“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) Basic Earnings Distribution Policy

Circle K Sunkus' 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, Circle K Sunkus 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. The Company intends to raise the dividend payout ratio to 30% in the future.

Regarding dividends for the fiscal year ended February 28, 2005, Circle K Sunkus plans to increase the year-end dividend by ¥4 per share to ¥20 per share, including a commemorative dividend of ¥2 per share occasioned by the merger. This comes in addition to a merger payment of ¥16 per share (in lieu of interim dividend payment) to registered shareholders of C&S Co., Ltd. as of August 31, 2004. As a result, the effective dividend payout ratio calculated over the year from March 1, 2004 to February 28, 2005 for C&S Co., Ltd. and Circle K Sunkus Co., Ltd. was 24.5%. Retained earnings will be allocated to investments in developing new stores, revitalizing existing ones, and acquiring store fixtures for displaying new products.

### (3) Management Targets

Circle K Sunkus is fully committed to meeting its earnings targets for the final year of its new three-year medium-term management plan, announced at the time of the merger. Key to this will be to achieve double-digit earnings growth by raising the ratio of recurring profit to total store sales to at least 3% through merger-driven improvements in management efficiency.

### (4) Medium-term Management Strategy

Intensifying competition in the retail sector has cut across industry lines to include the convenience store industry, which had previously been at an advantage relative to other industries. The convenience store industry is expected to see larger companies gain a growing share of the market, mirroring similar trends in other industries. In this challenging climate, Circle K Sunkus has positioned the following eight policies as the foundations of its management strategy. They are designed to push

through the reforms needed to ensure the Company survives as an operator of leading convenience store chains:

- ① Drive forward marketing innovation based on a customer-first approach by linking strategic manufacturer and customer information.
- ② Design systems that emphasize investment and funding returns when developing stores or making new investments.
- ③ Make the spirit of compliance an integral part of management by establishing a Compliance Promotion Office and action guidelines.
- ④ Foster a positive and open corporate culture that encourages teamwork and puts employees at ease, while structuring a new personnel system.
- ⑤ Promote higher efficiency by unifying operating processes.
- ⑥ Eliminate redundancies and fixed costs by adhering to low-cost management.
- ⑦ Nurture area franchisers and improve the accuracy of their management practices by offering multi-dimensional support.
- ⑧ Develop new businesses and business formats to drive sustainable growth at Circle K Sunkus.

In October 2004, Circle K Sunkus formulated a three-year earnings plan running from the fiscal year ended February 2005 to the fiscal year ending February 2007. As discussed in the following section on operating results and financial position, all earnings targets were achieved for the fiscal year ended February 28, 2005. Although certain figures in the earnings plan will be revised to reflect the early adoption of accounting standards for the impairment of fixed assets, Circle K Sunkus will continue to press ahead with the above initiatives to achieve the goals of the earnings plan for each period in real terms.

#### (5) Issues to Be Addressed

In the fiscal year ending February 28, 2006, Circle K Sunkus intends to deliver consistent growth by addressing the following issues:

1. Develop differentiated products and services that give Circle K Sunkus competitive advantages
2. Establish support framework, and provide ample head-office guidance to stores to enhance customer satisfaction
3. Improve store development capabilities across the board
4. Study feasibility of developing new businesses

The Circle K Sunkus group was formed through a merger on September 1, 2004, that saw CIRCLE K JAPAN absorb C&S Co., Ltd. and SUNKUS & ASSOCIATES INC. and change its name to Circle K Sunkus Co., Ltd. These actions were preceded by the absorption of consolidated subsidiary CKTOHOKU Co., Ltd. on June 1, 2004. The overriding objective of these steps was to reinforce the collective strengths of the group and realize even greater merger benefits.

The completion of this merger marked the first phase of integration for the Circle K Sunkus group. To maximize the benefits of the merger, the company intends to press on with the second and third phases of integration in the fiscal years ending February 28, 2006 and 2007, respectively. The aim is to fully unify all operating processes, including the consolidation of vendor and logistics networks, information systems, and various personnel systems by the fiscal year ending February 28, 2007.

In March 2005, Circle K Sunkus took the integration of its organization one step further. The business unit system, which had previously structured the company around the existing Circle K and Sunkus store brands, was reorganized into a new structure based on functions, centered on an General Store Operations Headquarters and General Store Development Headquarters. The aim here is to share more information and capture greater synergies across the company.

To this end, Circle K Sunkus will continue to implement reforms aimed at realizing the goals of the new three-year management plan prepared in October 2004.

## (6) Corporate Governance—Basic Approach and Implementation Status

### ① Basic Approach to Corporate Governance

Engaged in the retailing sector, Circle K Sunkus 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 playing a key role in the group strategy of the Uny Group, Circle K Sunkus views its shareholders, franchised stores, business partners and employees as key stakeholders, with a particular emphasis on relationships with shareholders. While building strong relationships with every stakeholder, Circle K Sunkus 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

During the fiscal year ended February 28, 2005, the Board of Directors held 17 meetings to approve legally mandated matters and key management decisions.

The following management structure enhancements were made in conjunction with the formation of Circle K Sunkus on September 1, 2004.

#### Board of Directors

Circle K Sunkus' policy is to limit its Board of Directors to around ten members, a size deemed appropriate for focusing decision-making proceedings on important decisions related to overall

management issues, based on a management framework centered on a corporate auditor system. The company currently has a Board of Directors comprising eight members. Circle K Sunkus' management framework is further underpinned by a robust auditing framework of five corporate auditors, including three standing corporate auditors. One external director and external auditor have each been invited from the Board of Directors of Uny Co., Ltd., the parent company of Circle K Sunkus, to ensure that information is effectively shared among group companies.

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

#### Introduction of Executive Officer System and Delegation of Authority

An executive officer system has been introduced to delegate primary decision-making authority for the management of day-to-day operations to executive officers in order to expedite decision-making. Meanwhile, as part of the new organizational structure effective March 2005, the general managers of the General Store Operations Headquarters and General Store Development Headquarters, as senior managing directors, will be granted considerable decision-making authority over most issues pertaining to their respective headquarters. This structure will facilitate the speedy management of convenience store operations.

#### Internal Structures

Circle K Sunkus has consolidated head office divisions through integration, while enhancing internal management structures. In addition to the existing General Affairs Division, a Legal Affairs Office has been established to improve document management. The Company has also established a Compliance Promotion Office to develop concrete measures to reinforce internal management systems. Circle K Sunkus has also put in place various offices, including the Strategic Planning Office, Operational Audit Office, Customer & Franchisee Relations Office and Corporate Communications & Environmental Affairs Office. Under this framework, Circle K Sunkus will maintain a sincere commitment to fair disclosure, environmental protection and social contribution activities.

### (7) Basic Policy Regarding Relationships Among Group Members

#### Parent Company

Circle K Sunkus is a member of the Uny Group, a retailing group comprising retailers, most notably Uny Co., Ltd. and specialty stores. Uny holds a voting interest of 47.4% in Circle K Sunkus.

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 Circle K Sunkus both operate in the retail sector, the two companies have different business models—superstores and convenience stores, respectively. Accordingly, the parent company respects the autonomy of Circle K Sunkus in respect to management strategy in the operation of convenience stores. With the exception of concurrent directorships between the Company and Uny, there is no exchange of personnel or funds between the two companies at this time.

### Subsidiaries and Affiliated Companies

Circle K and Sunkus have entered into agreements with area franchisers to expand their store networks. The Company has a total of 14 area franchisers, including two subsidiaries, ten affiliates and two other companies. The consolidated subsidiaries are Sunkus Aomori Co., Ltd. and Sunkus Nishi-Saitama Co., Ltd. The Company'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.

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.

## 2. Consolidated Operating Results and Financial Position

### (1) Overview of Fiscal Year ended February 28, 2005 (from March 1, 2004 to February 28, 2005)

During fiscal 2005, the year ended February 28, 2005, Japan's economy returned to a recovery track on the back of improvements in corporate earnings and a gradual upturn in capital expenditures, despite slower growth in exports and production output. Against this backdrop, there was a modest increase in consumer spending, but this was not sufficient to drive an overall improvement in retail performance throughout the fiscal year. Casting a pall over consumer sentiment were concerns such as the growing cost-burden placed on younger generations in Japan due to its aging society with fewer children, and uncertainty about retirement exemplified by pension issues.

In the retail sector, despite some differences in the extent of recovery across various business formats, sales on the whole held firm in the first half of the fiscal year, supported by a spell of hot weather in July and later. However, from midway through the fiscal year the effects of an unusually mild winter hampered growth in sales of seasonal products, holding back overall retail sector sales. These and other factors led to a year-on-year decline of 0.9% in existing store sales (including sales at Sunkus before the merger) for the full fiscal year at Circle K Sunkus.

Total store sales, a figure encompassing the combined sales of the Circle K Sunkus group's consolidated subsidiaries, were ¥715,085 million. Total operating revenues were ¥138,619 million, slightly higher than the original target, reflecting a larger-than-planned increase in company-owned stores. However, average product markups declined due to a greater percentage of products with lower margins, reflecting sales growth in products with low margins such as tobacco.

On the earnings front, consolidated operating income was ¥8,517 million, coming in higher than planned. This reflected the fact that selling, general and administrative (SG&A) expenses were lower than initially projected, due partly to cost-cutting measures continued on from the previous fiscal year. Recurring profit and net income were also higher than planned, at ¥17,719 million and ¥9,372 million, respectively.

Operating performance for Circle K and Sunkus for the fiscal year ended February 28, 2005 is presented along with an overview of their businesses, as follows.

Please note that unless otherwise stated, operating figures such as the number of stores, product markups and net sales exclude corresponding figures for consolidated subsidiaries Sunkus Aomori Co., Ltd., Sunkus Nishi-Saitama Co., Ltd., and CKTOHOKU Co., Ltd. (before the merger).

On the store development front, the primary focus was on opening new stores in prime new locations offering greater convenience for customers. These locations included the premises of expressway parking areas, hospitals, and Central Japan International Airport, which opened in February 2005. In the first half, Circle K Sunkus was able to open new stores according to budget. However, the company was forced to open fewer stores than planned in the second half, reflecting its emphasis on opening immediately profitable new stores, a key priority since the previous fiscal year. During fiscal 2005, Circle K and Sunkus both opened fewer stores than the previous fiscal year, with the former opening 193 stores and the latter 153. Another key priority was to develop high-quality stores centered on store relocations. In this vein, Circle K and Sunkus relocated 51 and 15

stores, respectively, collectively relocating four more stores than the previous fiscal year, albeit falling below initial projections. Average daily sales per store were lackluster on the whole, with Circle K recording ¥445,000 and Sunkus ¥435,000, reflecting slowing growth at existing stores.

Furthermore, store development departments at Circle K and Sunkus actively worked to renegotiate leases, collect receivables, and reduce costs following on from the previous fiscal year.

As to the number of stores closed, during the previous fiscal year, Circle K Sunkus pressed forward with a major store closure program focused mainly on unprofitable stores, resulting in a net decrease in stores. In the fiscal year ended February 2005, however, the number of stores closed settled down to normal levels, namely 143 at Circle K and 80 at Sunkus, allowing for a net increase in stores.

On the store operations front, a set of guidelines for improving store management at Circle K called the “Six Stages of Store Management” were introduced at Sunkus from September 2004. The main priorities are to raise the awareness of store managers, enhance retail spaces by upgrading the skills of part-time store staff, and fully carry out single-product inventory management at all stores. Following on from the previous fiscal year, Sunkus also focused on improving customer service based on its four cardinal principles of store operations. Circle K positioned improvement in single-product inventory management as a priority issue, with the aim of assembling a product lineup better matched to customer needs. Supervisor guidance on improving the quality of order placement and training systems for store staff were reinforced.

Other initiatives that followed the September 2004 merger included joint sales campaigns carried out by both Circle K and Sunkus, such as the WAKUWAKU? Campaign to commemorate the merger, as well as the Dodon to Oishii Hokkaido Fair and Happy Come on Fair. Circle K Sunkus ran more television advertisements, while working to promote both convenience store chains and provide ample head-office support for store operations.

On the product side, the fast foods category saw Circle K and Sunkus put emphasis on improving the quality of products. In the first half, Circle K sought to expand sales of Kodawari no Tonkatsu Bento (Premium Pork Cutlet Lunch) and Ebi Furai Bento (Breaded Shrimp Lunch). The highlight of the second half was the Kiwami series of boxed lunches, which features seasonal dishes prepared using premium-grade ingredients. In delicatessen items, a far-reaching renewal of fresh salads and processed salads was carried out. On top of this, Circle K also implemented a plan for raising overall sales of delicatessen items. Based on the theme of eliminating lost sales opportunities, product and store operations initiatives were combined to propose product lineups structured for various targeted customers and time periods, as well as product lineups and displays suggesting better combinations of products for customers. For its part, Sunkus insisted on the finest ingredients, switching over to rice grown with less agrochemicals, and adopting preparation methods that tightly pack fillings in the center of rice balls, as is the case with sweet-bean fillings for steamed buns. In the second half, Sunkus refined the chilled boxed lunch format to unveil products that cannot be prepared with existing boxed lunch formats, such as Roast Tonkatsu Zen (Breaded Pork Loin Cutlet Lunch). These products are made from quality ingredients that take full advantage of the chilled temperature range for boxed lunches. Notably, one initiative undertaken by both Circle K and Sunkus was to develop new systems for incorporating customer feedback into the improvement of products. One illustration is a system designed to gather feedback from

customers via mobile phones through the use of QR codes (two-dimensional bar codes) affixed to certain boxed lunch products. February 2005 saw Circle K and Sunkus both expand sales of Marukaburi Eho Sushi, a traditional dish associated with the Japanese Setsubun holiday in the Kansai region. The result was significant growth in sales of this product compared with the previous fiscal year. Reinforcing countertop fast foods was another priority. Strong-selling fried chicken products originally introduced at Sunkus stores were extended to Circle K stores, boosting sales as a result. Drawing on expertise at Circle K, meanwhile, Sunkus increased sales by introducing oden (stewed meat, fish and vegetables) at 800 or more stores from midway through the fiscal year.

In general merchandise, Circle K Sunkus introduced KACHIAL, an original brand underpinned by the concepts of safety, value and trust. The KACHIAL lineup features high-quality products that are highly functional and also address environmental concerns. This brand was extended to snacks and processed foods in August 2004. Through this step, the purchasing power of the entire Circle K Sunkus group was brought to bear on improving product quality and increasing profit margins. In the service category, Circle K and Sunkus stores in Aichi, Gifu, Mie and Shizuoka prefectures as well as Hokkaido began accepting Edy electronic money in July 2004. Stores have also started to offer KARUWAZA CLUB cards, a house card, and have been working to increase cardmembers. The introduction of Edy electronic money has been providing added convenience to customers, improving store operations and lifting sales. All stores will begin accepting Edy electronic money in April 2005.

In other areas, Circle K Sunkus commenced joint delivery in the snacks, processed foods, chilled beverages, and alcoholic beverages categories effective from October 2004, unifying the store delivery networks of both Circle K and Sunkus. This step was taken to maximize merger benefits across the entire group. Joint delivery is being successively expanded to include more geographic regions.

Average product markups for the full fiscal year from March 1, 2004 to February 28, 2005 declined 0.2 of a percentage point year on year to 28.4% at Circle K and rose 0.1 of a percentage point to 29.2% at Sunkus.

As a result of the foregoing business activities, existing store sales for the February 2005 fiscal year increased 0.3% at Circle K and decreased 2.3% at Sunkus. Consequently, existing store sales for Circle K Sunkus as a whole were down 4.5% year on year. Total store sales for Circle K Sunkus were ¥907,407 million. Total store sales at Circle K, including sales of CKTOHOKU Co., Ltd., which was absorbed in June 2004, increased 4.9% to ¥503,889 million. Total store sales at Sunkus remained mostly the same at ¥403,517 million. Total store sales for the group, including area franchisers, increased 1.6% to ¥1,109,428 million.

As of February 28, 2005, Circle K Sunkus had a total of 5,128 stores. Circle K proper had a network of 2,855 stores, representing a net increase of 204 stores, including 154 stores transferred from CKTOHOKU Co., Ltd. The total number of Sunkus stores at the fiscal year-end was 2,273, representing a net increase of 73 stores from a year earlier. As of February 28, 2005, the total number of stores for the Circle K Sunkus group, including area franchisers, was 6,339.

As explained in the section on consolidated operating results on page 3, actual consolidated operating results

for the full fiscal year represent the sum of operating results of the former C&S Co., Ltd. before the merger (March 1, 2004 ~ August 31, 2004) and the consolidated results of Circle K Sunkus Co., Ltd. after the merger (September 1, 2004 ~ February 28, 2005). Presented on this basis, the Circle K Sunkus group reported total operating revenues of ¥176,843 million, up 4.3% year on year and operating income of ¥24,384 million, 8.7% higher than the previous fiscal year. On the same basis, recurring profit increased 19.9% year on year to ¥23,625 million, while net income rose 65.4% year on year to ¥12,654 million. All of the above results exceeded initial projections.

\*Year-on-year comparisons are drawn with the operating results of C&S Co., Ltd. for the fiscal year ended February 29, 2004.

### **Cash Flows**

Looking at consolidated cash flows during this fiscal year, net cash provided by operating activities was ¥12,033 million. One major component was income before income taxes of ¥16,641 million, due to the merger. Other components included an increase in trade payables, such as accounts payable.

Net cash used in investing activities totaled ¥10,783 million. The significant uses of cash were ¥6,567 million for the acquisition of property and equipment related to the opening of new stores and improving store conditions, and ¥4,983 million for long-term leasehold deposits. Other components included an increase in investment securities.

Net cash used in financing activities totaled ¥2,864 million. This figure included ¥1,375 million for the merger payment and the payment and ¥1,103 million for the payment of dividends to C&S Co., Ltd.

As of February 28, 2005, cash and cash equivalents were ¥58,820 million, ¥24,039 million higher than a year earlier. This increase, however, included the addition of ¥23,553 million in cash and cash equivalents from newly consolidated subsidiaries following the merger, as well as the effects of the merger itself. Excluding these effects, cash and cash equivalents decreased ¥1,614 million during the fiscal year ended February 28, 2005.

### **(2) Outlook for the Fiscal Year Ending February 28, 2006**

Japan's economy has returned to a firm recovery track, as evidenced by consistently strong performances in the corporate sector. However, steep crude oil prices and other concerns continue to cast a shadow over economic prospects. Consumer spending has remained flat, reflecting ongoing debate over raising consumption taxes and social insurance premiums amid tight employment conditions.

The convenience store industry will continue to face a difficult operating environment, as fewer new stores are opened and existing stores struggle to grow amid intensifying competition. In addition to the presence of rival convenience store chains, Circle K Sunkus must also contend with actions taken by industry outsiders, such as the emergence of new business formats, a sharp rise in supermarkets with late-night operating hours and rapidly expanding drugstore chains. On the other hand, Aichi Prefecture, the home ground of Circle K Sunkus, will benefit from a number of landmark events that will attract more customers to stores in the region. These include the opening of Central Japan International Airport(Centrair) in February 2005 and The 2005 World Exposition, Aichi, Japan, which will be held from March to September this year.

In this climate, the Circle K Sunkus group has positioned the fiscal year ending February 2006 as the year to fully realize merger benefits and will be taking steps to maximize the effect of the previous fiscal year's merger on operating results. To this end, it is imperative that Circle K Sunkus press on with further internal integration at a faster pace. Guided by this thinking, Circle K Sunkus implemented organizational reforms in March 2005. This process involved reorganizing the business unit system, which had previously structured the company around the existing Circle K and Sunkus store brands, into a new structure based on functions, centered on a General Store Operations Headquarters and General Store Development Headquarters. This move was designed to share more information and capture greater synergies across the company. In parallel with this reorganization, certain employees involved with the Sunkus business were reassigned to the Circle K business and vice versa in order to assign the most qualified people to the right positions from a company-wide perspective.

As for store guidance, Circle K Sunkus will work to more deeply ingrain into operations the thinking behind the "Six Stages of Store Operations," a set of guidelines introduced throughout the company. The objective is to reduce lost sales opportunities by upgrading the skills of part-time staff at franchised stores with the objective of building a framework for stores to place more detailed product orders. Training programs for franchisees, including programs held prior to opening new stores, will also be reviewed.

On the product side, Circle K Sunkus will take actions to earn greater support from customers through the provision of higher quality and safer products offered nowhere else. This will include measures to enhance its lineup of original products under its private brand, KACHIAL, which was unveiled in the previous fiscal year. In the service category, all stores will accept Edy electronic money from April 2005. In addition to this, Circle K Sunkus will begin installing proprietary "Zero Bank" ATM machines at stores in Aichi and Gifu prefectures to provide added convenience for customers. This is just one way Circle K Sunkus is creating convenience stores that cannot be matched by rivals.

On the store development front, Circle K Sunkus will work to share information on store properties and prospective franchisees through the new framework created by the above organizational reforms, as well as upgrade methods for identifying prime store locations. The company is also seeking to maintain the quality of its stores by diversifying its means of attracting prospective franchisees. One initiative will see Circle K Sunkus provide prospective franchisees who have been certified as "Sub-managers" through the new "Sub-Manager Certification System" with preferential franchise entry-fee benefits when they choose to open new stores on their own. This certification system was established to raise the quality of existing stores.

By February 28, 2006, Circle K Sunkus plans to open a total of 370 new stores and close 208, resulting in a net increase of 162 stores. This is projected to lift the total number of stores at Circle K Sunkus to 5,290. Area franchisers, meanwhile, are scheduled to open 129 stores and close 59. With 499 new stores planned and the scheduled closure of 267 stores, the Circle K Sunkus group projects that the total number of stores will increase to 6,571 stores by February 28, 2006.

The group is forecasting total store sales, including area franchisers, of ¥1,140,000 million for the year. This figure assumes a decline of 0.9% in existing store sales, with Circle K Sunkus posting projected sales of

¥933,510 million. 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 further promote its 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 step up joint distribution between Circle K and Sunkus stores and substantially increase the number of products purchased under the terms of joint negotiations. These measures are expected to lift the average product markup by 0.15 of percentage point over the previous year.

Circle K Sunkus is projecting total operating revenues of ¥181,580 million, on the back of a year-on-year increase in the number of stores. On the earnings front, due to lower SG&A expenses, the company is forecasting operating income of ¥27,620 million, recurring profit of ¥25,930 million and net income of ¥12,550 million.

For the fiscal year ending February 28, 2006, as a result of the early adoption of new accounting standards for the impairment of fixed assets, depreciation expenses and leasing fees are projected to decrease ¥680 million compared with the previous accounting method. Consequently, Circle K Sunkus expects to book an extraordinary loss of ¥4,550 million on the impairment of fixed assets for the fiscal year ending February 28, 2006.

On the other hand, Circle K Sunkus is projecting an extraordinary gain of ¥1,492 million on the return of the substitutional portion of the Employees' Pension Fund of the Uny Group to the Japanese government in line with accounting standards for retirement benefits.

Furthermore, of the enterprise tax provision to be booked in line with the introduction of a pro forma enterprise tax, a tax obligation of ¥550 million corresponding to equity and value-added tax components is expected to be included in selling, general and administrative (SG&A) expenses.

The above accounting changes and other factors are projected to increase both consolidated operating income and recurring profit by ¥130 million and decrease consolidated net income by ¥1,500 million compared with the previous accounting method.

### 3. 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 (As of February 29, 2004)		Fiscal year ended February 28, 2005 (As of February 28, 2005)	
	Amount	Composition ratio	Amount	Composition ratio
<b>ASSETS</b>		%		%
1 Current assets				
Cash and cash equivalents	22,779		46,917	
Due from franchised stores	2,292		3,564	
Marketable securities	12,001		12,701	
Inventories	1,299		2,213	
Prepaid expenses	1,524		3,241	
Deferred tax assets	1,140		863	
Other accounts receivable	1,725		8,299	
Other current assets	3,208		3,789	
Allowance for doubtful accounts	(142)		(629)	
<i>Total current assets</i>	45,828	41.9	80,962	40.3
2 Fixed assets				
Property and equipment				
Buildings and structures	15,677		29,004	
Equipment	29		23	
Furniture and fixtures	4,008		3,531	
Land	7,330		9,537	
Other property and equipment	147		256	
<i>Total property and equipment</i>	27,193	24.8	42,353	21.0
Intangible fixed assets				
System software	3,014		5,092	
System software development in Progress			73	
Excess of cost investments over equity in net assets acquired			428	
Other intangible fixed assets	1,795		2,399	
<i>Total intangible fixed assets</i>	4,810	4.4	7,994	4.0
Investments and other assets				
Investment in securities	4,234		5,793	
Deferred tax assets	1,541		3,130	
Long-term leasehold deposits	21,927		54,616	
Other investments	4,538		7,545	
Allowance for doubtful accounts	(630)		(1,340)	
<i>Total investment and other assets</i>	31,611	28.9	69,744	34.7
<i>Total fixed assets</i>	63,615	58.1	120,093	59.7
<i>Total assets</i>	109,443	100.0	201,055	100.0

(millions of yen)

	Fiscal year ended February 29, 2004 (As of February 29, 2004)		Fiscal year ended February 28, 2005 (As of February 28, 2005)	
	Amount	Composition ratio	Amount	Composition ratio
<b><u>LIABILITIES</u></b>		%		%
1 Current liabilities				
Trade payables	20,502		39,034	
Due to franchised stores	885		3,184	
Short-term borrowings			169	
Other accounts payable	2,854		5,442	
Income taxes payable	1,630		2,892	
Payments received	7,827		17,670	
Allowance for bonuses to employees	379		722	
Other current liabilities	3,104		3,410	
<i>Total current liabilities</i>	37,185	34.0	72,526	36.1
2 Long-term liabilities				
Long-term borrowings	-		42	
Allowance for employees' retirement benefits	2,480		4,553	
Allowance for directors' and corporate auditors' severance benefits	51		68	
Guarantee deposits received	10,369		12,737	
Other long-term liabilities	1,577		1,083	
<i>Total long-term liabilities</i>	14,479	13.2	18,485	9.2
<i>Total liabilities</i>	51,665	47.2	91,011	45.3
<b><u>MINORITY INTEREST</u></b>				
Minority Interest	-	-	0	0.0
<b><u>SHAREHOLDERS' EQUITY</u></b>				
1 Common stock	8,380	7.7	8,380	4.1
2 Capital surplus	36,090	33.0	36,091	18.0
3 Retained earnings	12,761	11.6	64,829	32.2
4 Net unrealized gains on available-for- sale securities	546	0.5	748	0.4
5 Less, treasury stock	-	-	(5)	(0.0)
Total shareholders' equity	57,778	52.8	110,043	54.7
Total liabilities and shareholders' equity	109,443	100.0	201,055	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 (From March 1,2003 to February 29, 2004)		Fiscal Year ended February 28, 2005 (From March 1,2004 to February 28, 2005)	
	Amount	Composition ratio	Amount	Composition ratio
1 Operating revenues				
Franchise commission from franchised stores	49,657		77,153	
Net sales reported by franchised stores (Figures for exclude non-consolidated area franchised stores.)				
Fiscal year ended Feb.29, 2004	456,638			
Fiscal year ended Feb.28, 2005	664,706			
Net sales of franchised and company- owned stores (Figures for exclude non-consolidated area franchised stores.)				
Fiscal year ended Feb.29, 2004	498,806			
Fiscal year ended Feb.28, 2005	715,086			
Other operating revenues	9,715		11,086	
2 Net sales of company-owned stores	42,168		50,379	
<i>Total operating revenues</i>	101,540	100.0	138,619	100.0
3 Cost of goods sold	32,108	31.6	38,410	27.7
<i>Gross profit</i>	69,431	68.4	100,208	72.3
4 Selling, general and administrative expenses	54,406	55.6	81,691	58.9
<i>Operating Income</i>	13,025	12.8	18,517	13.4
5 Non-operating income	451	0.4	727	0.5
6 Non-operating expenses	1,967	1.9	1,526	1.1
<i>Recurring profit</i>	11,509	11.3	17,719	12.8
7 Extraordinary gains	82	0.1	86	0.0
8 Extraordinary losses	2,473	2.4	1,164	0.8
<i>Income before income taxes</i>	9,117	9.0	16,641	12.0
Income taxes-current	4,293	4.3	5,020	3.6
Income taxes-deferred	(191)	(0.2)	2,248	1.6
Minority interest in earnings of consolidated subsidiaries	-	-	0	0.0
<i>Net Income</i>	5,015	4.9	9,372	6.8

**(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 (From March 1, 2003 to February 29, 2004)	Fiscal Year ended February 28, 2005 (From March 1, 2004 to February 28, 2005)
	Amount	Amount
(Capital surplus)		
1. Balance of capital surplus at beginning of the period	36,090	36,090
2. Increase in capital surplus		
Surplus from transaction in treasury stock	-	0
3. Balance of capital surplus at end of the period	36,090	36,091
(Retained earnings)		
1. Balance of retained earnings at beginning of the period	9,983	12,761
2. Increase in retained earnings		
Net income	5,015	9,372
Increase resulting from the merger	-	43,827
3. Decrease in retained earnings		
Dividends	2,201	1,100
Directors' bonuses	36	30
4. Balance of retained earnings at end of the period	12,761	64,829

**(4) Consolidated Statements of cash flow**

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

(millions of yen)

	Fiscal Year ended February 29, 2004 (From March 1,2003 to February 29, 2004)	Fiscal Year ended February 28, 2005 (From March 1,2004 to February 28, 2005)
	Amount	Amount
<b>1 Cash flows from operating activities:</b>		
Income before income taxes	9,117	16,641
Depreciation and amortization	7,314	8,075
Amortization of excess of cost of investments over equity in net assets acquired	124	53
Loss on write-down of investment securities	96	58
Gain on sales of investment securities	-	( 26 )
Gain or loss on sale of fixed assets	1,113	773
Decrease in allowance for doubtful receivables	( 40 )	( 185 )
Increase or decrease in accrued bonuses to employees	( 6 )	5
Increase or decrease in allowance for employees' retirement benefits	153	( 3 )
Increase in allowance for directors' and corporate auditors' severance benefits	9	16
Interest and cash dividends income	( 176 )	( 409 )
Interest expenses	18	26
Decrease in other accounts receivable	834	297
Increase or decrease in inventories	262	( 74 )
Increase in trade payable	1,002	( 6,633 )
Decrease in other accounts payable	-	( 1,739 )
Increase in deposits received	1,001	( 339 )
Directors' and corporate auditors' bonuses payments	( 36 )	( 30 )
Compensation expenses	1,247	668
Other	( 289 )	( 370 )
Sub-total	21,747	16,803
Interest and dividends received	144	308
Interest paid	( 0 )	( 1 )
Income taxes paid	( 5746 )	( 5,077 )
Net cash provided by operating activities	16,144	12,033
<b>2 Cash flows from investing activities:</b>		
Payments to time deposits	-	( 100 )
Proceeds from time deposits	-	12
Increase in property and equipment	( 5,988 )	( 6,567 )
Decrease in property and equipment	328	410
Increase in intangible fixed assets and long-term prepaid expenses	( 1,216 )	( 2,246 )
Increase in investment securities	( 4 )	( 1,089 )
Decrease in investment securities	1,000	47
Net proceeds from acquisition of newly consolidated subsidiary	254	
Increase in acceptance of long-term advance received profit	-	593
Increase in loans receivable	( 1,620 )	( 1,485 )
Correction of loans receivable	1,161	1,545
Increase in long-term leasehold deposits	( 3,258 )	( 4,983 )
Correction of fixed leasehold deposits	2,266	2,984
Other	( 738 )	96
Net cash used in investing activities	( 7,814 )	( 10,783 )

(millions of yen)

	Fiscal Year ended February 29, 2004 (From March 1,2003 to February 29, 2004)	Fiscal Year ended February 28, 2005 (From March 1,2004 to February 28, 2005)
	Amount	Amount
<b>3 Cash flows from financing activities:</b>		
Net proceeds from short-term borrowings	-	155
Repayments of long-term debt	-	( 7 )
Dividends paid	( 2,201 )	( 1,103 )
Payments of merger payment	-	( 1,375 )
Increase in guarantee deposits received	1,239	1,219
Repayments of guarantee deposits received	( 1,436 )	( 1,747 )
Other	-	( 4 )
Net cash used in financing activities	( 2,398 )	( 2,864 )
<b>4 Net change in cash and cash equivalents</b>	<b>5,930</b>	<b>( 1,614 )</b>
<b>5 Cash and cash equivalents at beginning of year</b>	<b>28,850</b>	<b>34,780</b>
<b>6 Net change in cash and cash equivalents by consolidation of newly subsidiaries</b>	<b>-</b>	<b>25,653</b>
<b>7 Cash and cash equivalents at end of period</b>	<b>34,780</b>	<b>58,820</b>