

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Circle K Sunkus Co., Ltd.  
For the Years Ended February 28, 2007 and 2006

### 1. Basis of Consolidated Financial Statements

#### (a) Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of Circle K Sunkus Co., Ltd. (the "Company") and its consolidated subsidiaries (together with the Company, the "Circle K Sunkus Group") have been prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. These consolidated financial statements are compiled from the original consolidated financial statements in Japanese prepared by the Company as required by the Securities and Exchange Law of Japan and submitted to the Director of the Kanto Finance Bureau of Japan.

The primary business of the Circle K Sunkus Group is to conduct management of stores and franchise operations in respect to the Circle K and Sunkus convenience store chains. Segment information is not shown because the Circle K Sunkus Group operated predominantly in a single industry during the years ended February 28, 2007 and 2006.

#### (b) Principal shareholder

UNY CO., LTD. ("UNY") directly owned 40,746 thousand shares of common stock of the Company at February 28, 2007, which represented 48.8% of the total voting interest of the Company at the balance sheet date. UNY has also significant influence to the Company. Accordingly, the Company is a subsidiary of UNY.

#### (c) U.S. dollar amounts

The Circle K Sunkus Group maintains its accounting records in Japanese yen. The U.S. dollar amounts included in the accompanying consolidated financial statements and notes thereto represent the arithmetic results of translating yen into dollars at a rate of ¥118 to US\$1, the approximate rate of exchange at February 28, 2007. The inclusion of such dollar amounts is solely for the convenience of the readers outside Japan and is not intended to imply that yen and the assets and liabilities originating in yen have been or could be readily converted, realized or settled in dollars at ¥118 to US\$1 or at any other rate.

#### (d) Reclassification

Certain comparative figures have been reclassified to conform to the current year's presentations.

### 2. Summary of Significant Accounting Policies

#### (a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. Investments in unconsolidated subsidiaries and affiliates are stated at cost, as unconsolidated subsidiaries and affiliates had no significant effect on the consolidated results of the operations. The difference between the acquisition cost of investments in subsidiaries and the underlying equity in the net assets adjusted based on the fair value at the time of acquisition are deferred as goodwill and amortized over five years. All significant inter-company accounts and transactions have been eliminated on consolidation.

The number of consolidated subsidiaries, unconsolidated subsidiaries and affiliates for the years ended February 28, 2007 and 2006 was as follows:

	2007	2006
Consolidated subsidiaries	5	2
Unconsolidated subsidiaries, stated at cost	7	10
Affiliates, stated at cost	9	11

### (b) Franchise agreement and basis of recognizing franchise commission

The Company is an exclusive franchiser in Japan of the Circle K stores and Sunkus stores for retail sales of daily necessities to consumers. The Company enters into the franchise agreements to allow each independent franchisee to operate the relatively small-sized convenience stores using specific designs and the name of "Circle K" or "Sunkus" and provides them with related managerial or technical know-how. Under the agreements, all franchised stores are provided with a variety of services and advice on the operation of convenience stores from the Company as the franchiser. In return, such franchised stores are required to pay continuing franchise commission to the Company based on certain percentages of the respective franchised store's gross margin (net sales less cost of goods sold) on a monthly basis. As the franchiser, the Company accounts for such franchise commission on an accrual basis by reference to the gross margin earned by each franchised store and the applicable commission percentage.

For the years ended February 28, 2007 and 2006, net sales, which were reported by franchised stores as a calculation basis for franchise commission, were ¥835,868 million (\$7,083,627 thousand) and ¥852,456 million, respectively.

The term of a franchise agreement is effective for ten years from the commencement date of a franchised store, and may be renewed upon expiration subject to renegotiation of contract terms between the Company and the franchisee.

As a normal course of franchise operation, the Company generally acquires furniture, fixtures and equipment designed for the Circle K stores and Sunkus stores or leases them as lessee under the long-term noncancelable lease agreements (See Note 12). The Company also leases land and/or buildings for its own Company-owned stores or the franchised stores as lessee principally under the long-term cancelable lease agreements with a few months' advance notice. The Company pays to the landlords leasehold deposits equivalent to approximately several months' rent, which are noninterest bearing and principally refundable on an installment basis. These deposits are recorded as "Long-term leasehold deposits" in the accompanying consolidated balance sheets.

In relation to the franchise agreement, the Company also enters into the lease agreement with each franchisee to lease land and/or buildings for the store spaces, as lessor. These leases are normally for the same terms as the franchise agreement, and the guarantee deposits received from franchised stores which are included in "Guarantee deposits received" in the accompanying consolidated balance sheets are refundable for their major portion on an installment basis and are noninterest bearing.

### (c) Area franchise agreement

The Company has entered into area franchise agreements with thirteen companies (area franchisers) located throughout Japan. The agreement provides each area franchiser with a right to operate its own "Circle K" or "Sunkus" convenience stores and to be franchisers in limited areas determined by the respective agreement. Each area franchiser is required to pay a license fee to the Company based on certain percentages of revenue from its franchising business. Such license fee is included in "Franchise commission from franchised stores" in the accompanying consolidated statements of income.

### (d) Cash equivalents

The Circle K Sunkus Group considers cash equivalents to be highly liquid debt instruments purchased with an original maturity of three months or less.

### (e) Inventories

Merchandise inventories are stated at cost, being determined by the retail method. Supplies are stated at cost, being determined by the last purchase price.

#### (f) Investments and marketable securities

The Circle K Sunkus Group classifies certain investments in debt and equity securities as “held-to-maturity”, “trading” or “available-for-sale”, whose classification determines the respective accounting method as stipulated by the accounting standard of financial instruments. Marketable securities with market quotations for available-for-sale securities are stated at fair value and net unrealized gains or losses on these securities are reported as a component of equity, net of applicable income taxes. Gains and losses on disposition of marketable securities are computed by the moving average method. Nonmarketable securities without available market quotations are carried at cost determined by the moving average method. Adjustments in carrying values of individual investment securities are charged to income through write-downs, when a decline in value is deemed other than temporary.

#### (g) Allowance for doubtful accounts

Allowance for doubtful accounts is provided for at the aggregate amount of estimated credit loss for doubtful or troubled receivables and a general reserve for other receivables calculated based on the prior loss experience for a certain past period.

#### (h) Property and equipment, and depreciation

Property and equipment, including significant renewals and additions, are stated at cost, and have been depreciated by the declining-balance method at rates based on the estimated useful lives of the assets, except that the buildings acquired on and after April 1, 1998 have been depreciated by the straight-line method. The aggregate expenditures capitalized for the property of not less than ¥100,000 and below ¥200,000 each are amortized over a three-year period by the straight-line method.

Expenditure on maintenance and repairs is charged to operating income as incurred. Upon the disposal of property, the cost and accumulated depreciation are removed from the accounts and any gain or loss is recorded as income or expense.

#### (i) Leases

Where financing leases do not transfer ownership of the leased property to the lessee during the term of the lease, the leased property is not capitalized and the relating rental and lease expenses are charged to income as incurred as accepted by the “Opinion Concerning Accounting Standard for leases” issued by the Business Accounting Deliberation Council of Japan (“BADC”) and the related practical guideline issued by the Japanese Institute of Certified Public Accountants (“JICPA”).

#### (j) Software

Software is amortized by the straight-line method over a five-year period as estimated useful lives.

#### (k) Accounting standard for impairment of fixed assets

On August 9, 2002, BADC issued “Accounting Standard for Impairment of Fixed Assets”, which is effective for the fiscal years beginning on and after April 1, 2005. The Accounting Standards Board of Japan (“ASBJ”) issued related practical guidance on October 31, 2003. The Circle K Sunkus Group has adopted this new accounting standard and related practical guidance from the year ended February 28, 2006. The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of the asset’s net selling price or value in use. Fixed assets include land, buildings and structures, and equipment and fixtures as well as intangible assets and are to be grouped at the lowest level for which there are identifiable cash flows from other groups of assets.

For the purpose of recognition and measurement of an impairment loss, fixed assets of the Circle K Sunkus Group are principally grouped into cash-generating units, such as stores. The Circle K Sunkus Group determines if assets are impaired based on the analysis of significant downfalls of the fair value of lands, the schedules of closing stores and ongoing operating losses of stores. An impairment loss is recognized if undiscounted expected cash flows are less than the carrying amount of the asset. Recoverable amounts of the assets were measured based on their net selling prices primarily for appraisal valuations or amounts of operating cash flows discounted by interest rates of 6.3% and 8.0% for the years ended February 28, 2007 and 2006, respectively.

For the years ended February 28, 2007 and 2006, the Circle K Sunkus Group recognized an impairment loss on fixed assets of ¥3,170 million (\$26,864 thousand) and ¥4,985 million as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Convenience stores:			
Land	¥ 348	¥ 766	\$ 2,949
Buildings and structures	1,202	2,115	10,186
Furniture, fixtures and equipment	113	161	958
Leased property and equipment	1,206	995	10,220
Other	301	948	2,551
Total	¥3,170	¥4,985	\$26,864

As a result of adoption of this new accounting standard, for the year ended February 28, 2006, operating income increased by ¥896 million and income before income taxes and minority interests decreased by ¥3,696 million, as compared with the previous accounting method.

#### (l) Employee retirement benefit liability

Employees who terminate their service with the Circle K Sunkus Group are entitled to retirement and severance benefits determined by reference to current basic rates of pay, length of service and conditions under which the termination occurs. Such retirement and severance benefits for employees are covered by a noncontributory pension plan organized by UNY, its subsidiaries and affiliates ("UNY" Group) including the Company and the employees taken in from SUNKUS & ASSOCIATES INC. ("SUNKUS") on the occasion of the merger are covered by the same noncontributory welfare pension plan or qualified pension plan as the plans organized by SUNKUS. Consolidated subsidiaries have lump-sum retirement benefit plans.

The Circle K Sunkus Group has principally recognized the retirement benefits including pension cost and related liability based on actuarial present value of projected benefit obligation using actuarial appraisal approach and the pension plan assets available for benefits at the fiscal year-end. Unrecognized actuarial differences as changes in the projected benefit obligation or pension plan assets resulting from the experience different from that assumed and from changes in assumptions are amortized on a straight-line basis over eight to ten years as a certain period within remaining service lives of employees from the next year in which they arise. Unrecognized past service costs are amortized on a straight-line basis over ten years as a certain period within remaining service lives of employees.

In conjunction with enforcement of the Defined Benefit Enterprise Pension Plan Law, the Company, as a member of the noncontributory welfare pension plan organized by UNY, its subsidiaries and affiliates, received approval from the Minister of Health, Labor and Welfare of Japan, for exemption from payment of future benefit regarding the substituted portion of the employee welfare pension fund on February 17, 2003 and received an approval for returning the assets relating to the substituted portion of the employee welfare pension fund on January 1, 2006, and then recognized an extinguishment of the retirement benefit obligation with respect to such substituted portion during the year ended February 28, 2006. As a result, the Company recorded this effect of ¥2,152 million as other income on the consolidated statements of income for the year ended February 28, 2006. The Company, as a member of the noncontributory welfare pension plan of UNY Group, also received an approval from the Minister of Health, Labor and Welfare of Japan on January 1, 2006 to transfer from the employee welfare pension fund plan to the corporate pension fund plan.

In addition, the Company received an approval from the Minister of Health, Labor and Welfare of Japan, for exemption from payment of future benefit regarding the substituted portion of the employee welfare pension fund organized by SUNKUS on July 29, 2005. As of February 28, 2007, pension plan assets equivalent to the amount to be returned to the Japanese government amounted to ¥1,532 million (\$12,983 thousand). As the Company has not elected to apply for the transitional accounting treatment specified in paragraph 47-2 of the "Practical Guidelines of Accounting for Retirement Benefits (Interim Report)" (Accounting Committee Report No.13 issued by JICPA), the Company has not recognized an extinguishment of retirement benefit obligation with respect to such substituted portion as of the date of the approval. If the Company had applied for the transitional treatment as of the fiscal year ended February 28, 2007, an income of ¥897 million (\$7,602 thousand) for an extinguishment of the retirement benefit obligation would have been recognized on the accompanying consolidated statements of income.

#### (m) Severance benefits for officers

Until May 2005, the Circle K Sunkus Group paid severance benefits to directors and corporate auditors, which were subject to the approval of the shareholders. The Circle K Sunkus Group provided for this liability at the amount which would be payable assuming all directors and corporate auditors terminate their service at the balance sheet date. On May 25, 2005, the Circle K Sunkus Group terminated the severance benefits plan for directors and corporate auditors and the shareholders approved to pay the severance benefits granted prior to the termination date of the severance benefits plan. At February 28, 2007 and 2006, the unpaid portion of such severance indemnity benefits were included in other long-term liabilities in the accompanying consolidated balance sheets.

#### (n) Income taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

#### (o) Enterprise taxes

With the implementation of the 'Revision of the Local Tax Law' issued on March 31, 2003, a local corporate enterprise tax base such as "added value amount" and "capital amount" has been adopted. Enterprise taxes based on "added value amount" and "capital amount" are included in selling, general and administrative expenses, pursuant to "Practical Treatment for Presentation of Sized Based-Corporate Enterprise Taxes in the Statement of Income" (ASBJ, Report of Practical Issues No.12).

#### (p) Accounting for consumption tax

The consumption tax imposed on the Circle K Sunkus Group's revenues from customers is withheld by them at the time the revenue is received and is paid subsequently to the national and local governments. The consumption tax withheld upon revenue receipts and consumption tax paid by the Circle K Sunkus Group on the purchases of products, merchandise and services from vendors are not included in operating revenue and operating costs and expenses, respectively, in the accompanying consolidated statements of income.

#### (q) Accounting standard for directors' bonuses

From the year ended February 28, 2007, the Circle K Sunkus Group has adopted "Accounting Standard for Directors' Bonuses (ASBJ Statement No.4)" issued by ASBJ on November 29, 2005. The standard requires that the directors' bonuses, including those for corporate auditors, shall be accounted for as an expense of the accounting period in which such bonuses are accrued. Until the year ended February 28, 2006, bonuses to directors and corporate auditors were recorded as a part of the appropriation of retained earnings in the fiscal year when a proposed appropriation of retained earnings for directors and corporate auditors' bonuses was approved by the Board of Directors and/or shareholders. As a result, as the Circle K Sunkus Group has accrued such bonuses, operating income and income before income taxes and minority interests decreased by ¥47 million (\$398 thousand) for the year ended February 28, 2007, respectively, as compared with the previous accounting method.

#### (r) Accounting standard for presentation of net assets in the balance sheet

ASBJ issued "Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Statement No.5)" and Implementation Guidance "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Guidance No.8)" on December 9, 2005, which are applied for the year ending on and after May 1, 2006. The standard requires presenting the equity section in the balance sheet as similar to International Financial Reporting Standards. The Circle K Sunkus Group has adopted these new accounting standards from the year ended February 28, 2007. If the previous accounting method had been applied for the consolidated balance sheet at February 28, 2007, equity would have amounted to ¥119,883 million (\$1,015,958 thousand).

#### (s) Appropriation of retained earnings

Cash dividends and bonuses to directors and corporate auditors are recorded in the fiscal year when a proposed appropriation of retained earnings is approved by the Board of Directors and/or shareholders. See Note 2 (q) for the accounting for bonuses to directors and corporate auditors.

#### (t) Per share data

Net income per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the respective years. Diluted net income per share is not disclosed, as the Circle K Sunkus Group had no diluted common shares for the years ended February 28, 2007 and 2006. Cash dividends per share shown for each fiscal year in the accompanying consolidated statements of income represent dividends declared as applicable to the respective years.

### 3. Acquisition

In March 2006, the Company acquired a 100% interest in the issued and outstanding shares of common stock of Sunkus Nishi-Shikoku Co., Ltd. for an aggregate amount of ¥603 million (\$5,110 thousand.) Sunkus Nishi-Shikoku is a certain area franchiser for SUNKUS stores in the Nishi-Shikoku region of Japan. A summary of the assets and liabilities of Sunkus Nishi-Shikoku is as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥ 906	\$ 7,678
Noncurrent assets	1,650	13,983
Goodwill	97	822
Current liabilities	(1,590)	(13,475)
Noncurrent liabilities	(450)	(3,813)
Common stock owned by the Company	(10)	(85)
Acquisition cost	603	5,110
Cash and cash equivalents held by Sunkus Nishi-Shikoku	(719)	(6,093)
Increase in cash presented on the accompanying consolidated statements of cash flows	¥ (116)	\$ (983)

#### 4. Investments

At February 28, 2006, short-term investments consisted of marketable debt securities.

At February 28, 2007 and 2006, investments securities consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Marketable securities:			
Equity securities	<b>¥2,401</b>	¥2,776	<b>\$20,347</b>
Bonds	<b>1,905</b>	1,875	<b>16,144</b>
Total marketable securities	<b>4,306</b>	4,651	<b>36,491</b>
Other nonmarketable securities	<b>248</b>	252	<b>2,102</b>
	<b>¥4,554</b>	¥4,903	<b>\$38,593</b>

During the years ended February 28, 2007 and 2006, the Circle K Sunkus Group recorded a loss on write-down of available-for-sale securities and investments in unconsolidated subsidiaries and affiliates due to a permanent diminution in value in the amounts of ¥228 million (\$1,932 thousand) and ¥127 million, respectively, on the accompanying consolidated statements of income.

Marketable securities are classified as available-for-sale and are stated at fair value with unrealized gains and losses excluded from the current earnings and reported as a net amount within the equity account until realized. At February 28, 2007 and 2006, gross unrealized gains and losses for marketable securities are summarized as follows:

	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
		Millions of Yen		
At February 28, 2007:				
Marketable securities:				
Equity securities	¥ 945	¥1,466	¥ (10)	¥2,401
Bonds	2,000	–	(95)	1,905
	<b>¥2,945</b>	<b>¥1,466</b>	<b>¥(105)</b>	<b>¥4,306</b>

At February 28, 2006:

Marketable securities:				
Equity securities	¥ 933	¥ 1,848	¥ (5)	¥ 2,776
Bonds	2,700	1	(125)	2,576
	<b>¥ 3,633</b>	<b>¥ 1,849</b>	<b>¥ (130)</b>	<b>¥ 5,352</b>

Thousands of U.S. Dollars

At February 28, 2007:

Marketable securities:				
Equity securities	<b>\$ 8,008</b>	<b>\$12,424</b>	<b>\$ (85)</b>	<b>\$20,347</b>
Bonds	<b>16,949</b>	–	<b>(805)</b>	<b>16,144</b>
	<b>\$24,957</b>	<b>\$12,424</b>	<b>\$(890)</b>	<b>\$36,491</b>

Expected maturities of debt securities classified as available-for-sale of ¥1,905 million (\$16,144 thousand) at February 28, 2007 were due after five years through ten years.

## 5. Accounts Receivable: Due from Franchised Stores

Under the franchise agreement, the Company as franchiser and the consolidated subsidiaries as area franchisers are responsible for providing architectural and designing services with respect to the respective franchised stores' facilities, for training of the franchisees' personnel, and for the centralized processing of invoices from suggested vendors of merchandise and subsequent payments of amounts payable to such vendors.

The EDP system of the Circle K Sunkus Group generates a record of merchandise purchased by each franchised store and accumulates the amounts payable to respective vendors. Under the agreement, the Circle K Sunkus Group, as a representative for all franchised stores, pays the amounts payable to the vendors on behalf of them. When the merchandise is received by each franchised store, the Circle K Sunkus Group records the cost of the merchandise in "Accounts receivable: Due from franchised stores" account, since such costs shall be subsequently recovered from respective franchised stores.

"Accounts receivable: Due from franchised stores" account in the accompanying consolidated balance sheets represents the net amounts recoverable from the franchised stores.

## 6. Property and Equipment

At February 28, 2007 and 2006, property and equipment consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Land	¥ 8,945	¥ 8,864	\$ 75,805
Buildings and structures	55,109	50,245	467,025
Machinery, equipment and vehicles	197	246	1,669
Furniture and fixtures	16,023	15,894	135,788
Construction in progress	844	466	7,153
	81,118	75,715	687,440
Less, accumulated depreciation	(34,798)	(33,264)	(294,898)
	¥ 46,320	¥ 42,451	\$ 392,542

## 7. Investments in and Long-term Loans to Unconsolidated Subsidiaries and Affiliates

At February 28, 2007 and 2006, investments in and long-term loans to unconsolidated subsidiaries and affiliates consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Investments in:			
Unconsolidated subsidiaries and affiliates, stated at cost	¥1,281	¥2,417	\$10,856
Interest-bearing long-term loans	47	62	398
	¥1,328	¥2,479	\$11,254

## 8. Accounts Payable: Due to Franchised Stores

The cost of merchandise supplied to the franchised stores is debited as "Accounts receivable: Due from franchised stores" account as described in Note 5 above.

On the contrary, all franchised stores make remittances of cash proceeds from daily sales to the Circle K Sunkus Group. In certain instances, the remittance from a franchised store exceeds the balance of "Accounts receivable: Due from franchised stores" account. In the accompanying consolidated balance sheet, such negative balances are shown as "Accounts payable: Due to franchised stores".

## 9. Short-term Borrowings and Long-term Debt

No short-term borrowings and long-term debt were recorded at February 28, 2007, while there were short-term borrowings represented as unsecured bank loans bearing interest rates of 1.9% per annum at February 28, 2006. Long-term debt of ¥42 million, including a current portion of ¥14 million, at February 28, 2006 was fully repaid as an early redemption during the year ended February 28, 2007.

## 10. Employee Retirement Benefits

The following table reconciles the benefit obligation and net periodic retirement benefit expense as at or for the years ended February 28, 2007 and 2006:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Projected benefit obligation	¥13,327	¥12,478	\$112,941
Fair value of pension plan assets at end of year	(9,949)	(8,728)	(84,314)
Project benefit obligation in excess of pension plan assets	3,378	3,750	28,627
Less, unrecognized actuarial differences (loss)	(1,980)	(2,339)	(16,780)
Unrecognized past service costs	869	989	7,365
	2,267	2,400	19,212
Prepaid pension cost	113	-	957
Total amounts of employee retirement benefit liability recognized on the consolidated balance sheets	¥ 2,380	¥ 2,400	\$ 20,169

Note: Prepaid pension cost was included in "Other" of investments and other assets in the accompanying balance sheets.

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Component of net periodic retirement benefit expense:			
Service cost	¥ 621	¥ 717	\$ 5,263
Interest cost	248	313	2,102
Expected return on pension plan assets	(347)	(319)	(2,941)
Amortization of actuarial differences	445	634	3,771
Amortization of past service costs	(120)	(120)	(1,017)
Net periodic retirement benefit expense	¥ 847	¥1,225	\$ 7,178

Major assumptions used in calculation of the above information for the years ended February 28, 2007 and 2006 were as follows:

	2007	2006
Method attributing the projected benefits to periods of services	<b>Straight-line method</b>	Straight-line method
Discount rate	<b>2.0%</b>	2.0%
Expected rate of return on pension plan assets	<b>4.0%</b>	4.0%
Amortization of unrecognized actuarial differences	<b>8 to 10 years</b>	8 to 10 years
Amortization of unrecognized past service costs	<b>10 years</b>	10 years

## 11. Equity

The authorized number of shares of common stock without par value is 180 million. At February 28, 2007 and 2006, respectively, the number of shares of common stock issued was 86,183,226 shares. During the year ended February 28, 2007, the Company acquired 2,386,700 shares of treasury stock on the market based on the resolution of the Board of Directors. At February 28, 2007 and 2006, respectively, the number of treasury stock was 2,423,589 and 34,296 shares.

At February 28, 2007 and 2006, capital surplus principally consisted of additional paid-in capital. In addition, retained earnings included legal reserve of the Company in the amount of ¥688 million (\$5,831 thousand) at February 28, 2007 and 2006, respectively. The Corporate Law of Japan (formerly the Commercial Code of Japan) provides that an amount equivalent to 10% of cash dividends as an appropriation of retained earnings shall be appropriated as legal reserve until a total amount of additional paid-in capital and such legal reserve equals 25% of common stock. The reduction of legal reserve is restricted under the certain circumstances by proper actions of shareholders of the Company.

On May 23, 2007, the appropriations of retained earnings were approved at the annual general meeting of shareholders of the Company as follows:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends	<b>¥1,591</b>	<b>\$13,483</b>

## 12. Lease Commitments

The Circle K Sunkus Group leases store and office spaces principally under long-term cancelable lease agreements. The Circle K Sunkus Group also leases computer equipment, store fixtures and equipment principally under five-year noncancelable lease agreements. (See also Note 2 (b))

As disclosed in Note 2 (i), the leased property for noncancelable financing leases of the Circle K Sunkus Group is not capitalized as permitted by the accounting standard for leases of Japan. If the leased property of the Company had been capitalized, the related accounts would have been increased/(decreased) at February 28, 2007 and 2006, as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Property and equipment, net of accumulated depreciation *1	<b>¥20,791</b>	¥19,782	<b>\$176,195</b>
Lease obligations as liabilities *2	<b>22,455</b>	20,890	<b>190,296</b>
Allowance for impairment loss on leased property	<b>(1,151)</b>	(615)	<b>(9,754)</b>
Net effect on retained earnings at year-end	<b>¥ (513)</b>	¥ (493)	<b>\$ (4,347)</b>

Additionally, for the years ended February 28, 2007 and 2006, income before income taxes and minority interests would have been increased by ¥20 million (\$169 thousand) and ¥76 million, respectively.

Notes: \*1. Pro forma depreciation of the leased property is computed by the straight-line method over the lease contract terms, assuming the leased property had been capitalized.

\*2. Pro forma interest on lease obligations for financing leases is computed by the interest method over the lease contract terms.

Future minimum payments for noncancelable finance leases, excluding the imputed interest, and operating leases at February 28, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Finance leases:			
Due within one year	¥ 7,263	¥ 7,566	\$ 61,551
Due after one year	15,192	13,324	128,745
	<b>¥22,455</b>	¥20,890	<b>\$190,296</b>
Operating leases:			
Due within one year	¥ 1,018	¥ 1,085	\$ 8,627
Due after one year	699	1,099	5,924
	<b>¥ 1,717</b>	¥ 2,184	<b>\$ 14,551</b>

### 13. Contingent Liabilities

At February 28, 2007 and 2006, contingent liabilities in respect of guarantees of indebtedness of unconsolidated subsidiaries, affiliates, franchisees and others amounted to ¥3,771 million (\$31,958 thousand) and ¥4,244 million, respectively.

### 14. Derivative Instruments

The Circle K Sunkus Group does not hold or has not issued any derivative instruments.

### 15. Income Taxes

Income taxes for the years ended February 28, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Income taxes:			
Current	¥7,933	¥9,061	\$67,229
Deferred	217	(701)	1,839
	<b>¥8,150</b>	¥8,360	<b>\$69,068</b>

The tax effects on temporary differences that give rise to a significant portion of deferred tax assets at February 28, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Deferred tax assets:			
Enterprise tax accruals	¥ 296	¥ 479	\$ 2,508
Allowance for doubtful accounts	610	666	5,170
Employee retirement benefit liability	959	968	8,127
Long-term deferred credit	524	540	4,441
Accrued bonus	346	344	2,932
Write-down of investment securities	407	408	3,449
Impairment loss on fixed assets	1,970	1,490	16,695
Other	755	668	6,398
Less, valuation allowance	(807)	(361)	(6,839)
	5,060	5,202	42,881
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(548)	(693)	(4,644)
	(548)	(693)	(4,644)
Net deferred tax assets	¥4,512	¥4,509	\$38,237

In assessing realizability of deferred tax assets, management of the Circle K Sunkus Group considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of the future taxable income during the periods in which these temporary differences become deductible. At February 28, 2007 and 2006, a valuation allowance was established to reduce the deferred tax assets to the extent that the management of the Circle K Sunkus Group believes that the amount of the deferred tax assets is expected to be realizable.

The reconciliation of the difference between the Japanese statutory effective tax rate and the effective income tax rate on pre-tax income reflected in the accompanying consolidated statements of income for the year ended February 28, 2007 was as follows:

	Percentage of pre-tax income
Japanese statutory effective tax rate	40.28%
Increase (decrease) due to:	
Permanently nondeductible expenses	0.74
Tax exempt income	(0.11)
Local minimum taxes-per capita levy	1.22
Change in valuation allowance	2.75
Other	(0.56)
Effective income tax rate	44.32%

Such difference for the year ended February 28, 2006 was not material.

## 16. Additional Income Statement Information

Additional income statement information for the years ended February 28, 2007 and 2006 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Payroll and remuneration expenses	¥20,675	¥21,093	\$175,212
Advertising expenses	10,859	10,496	92,025
Depreciation	6,695	7,350	56,737
Utility expenses	2,314	2,240	19,610
Rental and lease expenses	47,656	45,983	403,864
Amortization of goodwill	123	240	1,042

## 17. Related Party Transactions

During the years ended February 28, 2007 and 2006, the Circle K Sunkus Group had operational transactions with unconsolidated subsidiaries, an affiliate and a UNY group company. A summary of the significant transactions with such related parties for the years ended February 28, 2007 and 2006 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Cost on termination of area franchise agreement	¥ -	¥271	\$ -
Cost on disposal of store equipment	16	-	136
Cost on disposal of leased equipment	15	-	127
Acceptance of commercial paper	5,999	-	50,839