

FINANCIAL SECTION

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This graphic indicates that further details are available in the Circle K Sunkus Investors' Guide (IG) 2008. Certain figures in this annual report differ from corresponding figures in the IG due to differences in rounding methods.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL POSITION

(as of February 29, 2008)

Note 1: Unless stated otherwise, figures for store results on pages 25 to 31 of the MD&A are shown on a non-consolidated basis.

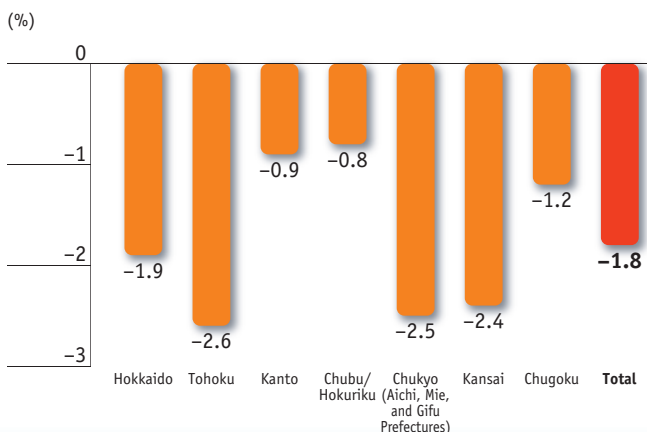
Business Environment

In fiscal 2008, the year ended February 29, 2008, the Japanese economy continued to stage a gradual recovery, supported by generally strong corporate earnings. However, there were some signs of a slowdown around the end of the fiscal year, mainly due to soaring crude oil and raw material prices and the impact of the sub-prime loan problem.

In the retail sector, overall sales of food, apparel, luxury goods and other items were lackluster, reflecting weak consumer sentiment caused by a residents' tax hike, tumbling stock prices, and rising gasoline and food prices. This was despite relatively favorable weather conditions in fiscal 2008. Furthermore, the disparity between urban areas, such as Tokyo and Nagoya, and regional areas in terms of signs of economic recovery and income levels widened, while differences between regions were also apparent in terms of sales trends at retailers.

In the convenience store industry, Circle K Sunkus continued to face a challenging business environment, characterized by increasingly intense competition transcending industry lines, involving not only rival convenience store chains, but also restaurants, supermarkets, drug stores, and discount retailers. Intensified competition was partly compounded by diversifying customer needs due to the impact of Japan's aging society with fewer births. Against this background, the convenience store industry as a whole saw a year-on-year decrease in existing store sales.

Year-on-Year Changes in Existing Stores Sales by Region



Store Results

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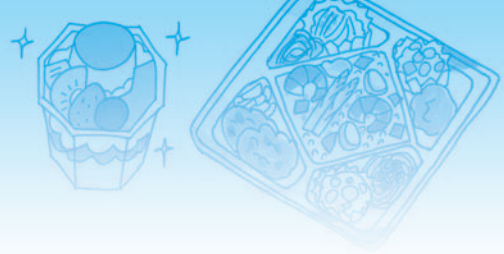
Sales and Existing Store Sales (Y-o-Y Comparisons)

In fiscal 2008, existing store sales improved in year-on-year terms, particularly in the Kanto region, partly due to comparably favorable weather as well as strong performances by newly established original baked goods and dessert brands and the benefits of active sales promotions. However, customer footfall declined throughout the fiscal year, resulting in continued lackluster regional sales in Hokkaido and the Tohoku region, and in the Chukyo and Kansai regions. Overall, existing store sales at Circle K Sunkus for fiscal 2008 decreased 1.8% year on year, 0.6 of a percentage point more than forecast, although the decrease was smaller than in the previous fiscal year.

Sales at Circle K and Sunkus proper, including franchised stores, decreased 1.5% year on year to ¥860,041 million. This was mainly attributable to the opening of 36 fewer stores than planned and the closure of 102 more stores than in the previous fiscal year.

The outlook for fiscal 2009 is for the Japanese economy to experience a standstill in growth amid increasing risk of a downturn in corporate earnings and consumer spending, against the backdrop of the ongoing U.S. economic slowdown, lackluster financial and stock markets and rising price levels driven up by high crude oil and grain prices. As competition in the convenience store industry escalates, Circle K Sunkus will continue to face a challenging business environment.

Factoring these trends into forecasts, Circle K Sunkus is projecting another year-on-year decline in existing store sales of 1.0% for fiscal 2009. Circle K Sunkus expects sales at Circle K and Sunkus proper, including franchised stores, to decrease 1.4% year on year to ¥848,390 million, mainly because it will begin fiscal 2009 with a net 175 fewer stores due to the mass closure of 459 stores in fiscal 2008. Fiscal 2009 projections for existing store sales and sales at Circle K and Sunkus proper do not reflect the impact of the introduction of taspo cards (Note).



Existing store sales in the convenience store industry during the fiscal year under review recorded a smaller year-on-year decrease than in fiscal 2007. However, consumer spending has yet to fully recover, regional disparity between urban centers and regional areas is increasing and competition transcending traditional business boundaries is intensifying. Due to these and other factors, three major convenience store chains suffered year-on-year declines in existing store sales, while FamilyMart recorded an increase.

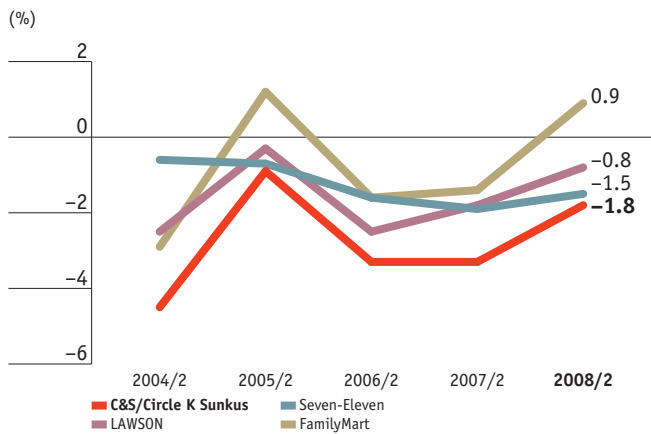
Note: As part of an initiative to prevent underage smoking, "age verifying cigarette vending machines" compatible with taspo cards will be introduced from 2008. Because taspo cards will be needed to use cigarette vending machines, smokers without taspo cards are expected to purchase their cigarettes at convenience stores.

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Average Daily Sales and Average Number of Customers Per Store, and Average Purchase Per Customer

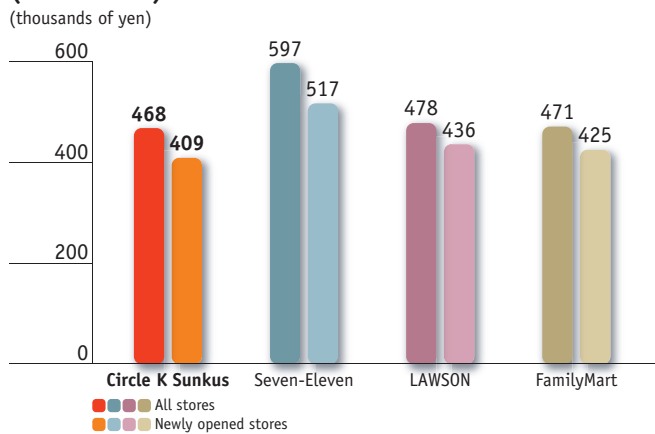
In fiscal 2008, customer footfall declined throughout the fiscal year, decreasing 1.8% year on year. An analysis of the number of customers showed that the percentage of male customers in their 20s, Circle K Sunkus' main customer segment, has decreased 2.8 percentage points compared with fiscal 2006. By time period, we found that overall customer footfall at night, including late-night hours, has declined 1.1 percentage points over the same timeframe. However, the average purchase per customer was largely unchanged from the previous fiscal year,

Existing Store Sales of Major Convenience Store Chains



Source: Financial reports prepared by each company.
 Note: All major convenience store chains except Seven-Eleven were adversely affected by the termination of sales of prepaid highway toll cards in denominations of ¥30,000 and ¥50,000 in the February 2004 fiscal year, and ¥10,000 in the second and first halves of the February 2006 and 2007 fiscal years, respectively.

Average Daily Sales at Major Convenience Store Chains (Fiscal 2008)



Source: Financial reports prepared by each company.

Average Daily Sales, Average Number of Customers, and Average Purchase Per Customer

	Fiscal 2006		Fiscal 2007		Fiscal 2008	
		Change		Change		Change
Existing stores						
Average daily sales per store	¥485,000	-3.3%	¥476,000	-3.3%	¥472,000	-1.8%
Average number of daily customers per store	821	-2.1%	811	-2.8%	806	-1.8%
Average purchase per customer	¥ 591	-1.2%	¥ 586	-0.7%	¥ 586	0.0%
Average daily sales at all stores	¥482,000	-2.4%	¥470,000	-2.5%	¥468,000	-0.4%
Average daily sales at newly opened stores	¥424,000	-3.0%	¥394,000	-7.1%	¥409,000	3.8%



putting an end to a slide in this number over the past few years. Nonetheless, the drop in customer footfall weighed heavily on sales, reducing average daily sales per store by ¥2,000 and ¥9,000 year on year on an all-store and existing-store basis, respectively.

Circle K Sunkus regards lower customer footfall as a serious issue, and plans to arrest any further decrease. Head Office and franchised stores will work as one in fiscal 2009 to enhance customer service, as well as introduce more attractive products and new services.

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Stores Opened/Closed and Number of Stores at Fiscal Year-end

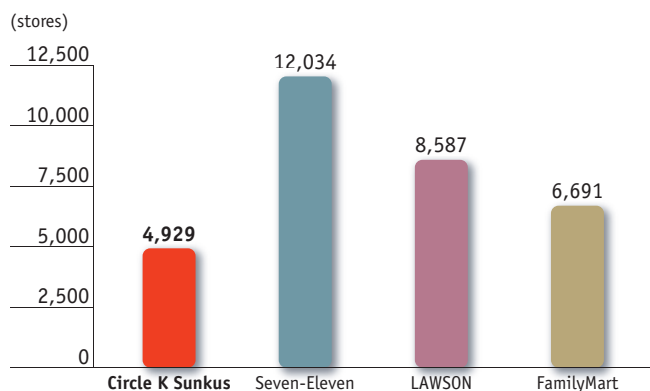
In fiscal 2008, Circle K Sunkus gave top priority to quality in opening new stores. Specifically, the Company reviewed its strategies for opening new stores in each region. In profitable regions, the Company strove to reestablish a dominant presence by focusing investment in new stores in key areas. In regions with lackluster sales, the Company prioritized store relocations over opening new stores. As a result, Circle K Sunkus achieved a measure of success in improving store quality, with average daily sales at newly opened stores improving ¥15,000 from the previous fiscal year to ¥409,000.

Stores Opened/Closed

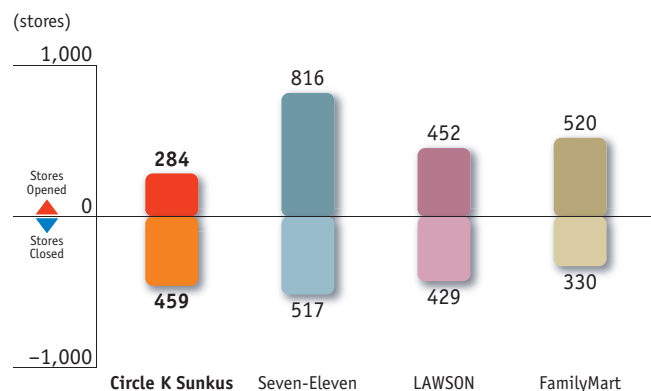
	Fiscal 2006			Fiscal 2007			Fiscal 2008		
	Circle K	Sunkus		Circle K	Sunkus		Circle K	Sunkus	
Stores opened	335	196	139	307	187	119	284	174	110
Stores closed	309	160	149	357	180	177	459	263	196
Stores relocated	82	63	19	103	77	26	98	65	33
Net increase (decrease)	26	36	(10)	(50)	7	(58)	(175)	(89)	(86)
Fiscal year-end	5,154	2,891	2,263	5,104	2,898	2,205	4,929	2,809	2,119

Notes: 1. In fiscal 2007, Circle K Sunkus totals for stores opened and total stores at the fiscal year-end include one new-concept store called *Fork Talk*. The sum of the corresponding figures for Circle K and Sunkus therefore do not match these figures.
2. The total number of stores for the fiscal years ended February 28, 2007 and February 29, 2008 includes one new-concept store.

Total Number of Stores at Fiscal Year-end

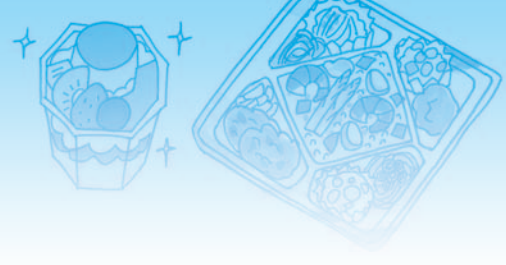


Stores Opened/Closed of Major Convenience Store Chains



Notes: 1. Figures for each convenience store chain represent stores in Japan only, excluding those of consolidated subsidiaries.
2. The total number of stores for the fiscal years ended February 28, 2007 and February 29, 2008 includes one new-concept store.

Source: Financial reports prepared by each company and news reports.



By convenience store chain, average daily sales at new Circle K stores improved ¥8,000 to ¥421,000, while they increased ¥23,000 to ¥389,000 at newly opened Sunkus stores. However, average daily sales at newly opened Sunkus stores were under ¥400,000, partly because we opened fewer new Sunkus stores than planned in the Kanto region, where high sales are expected.

Circle K Sunkus opened stores largely as planned through the first half of fiscal 2008, but the pace dropped in the second half. Consequently, the Company opened 284 stores during fiscal 2008, 36 stores short of target. The number of stores opened by relocating existing stores to better locations within the same market area was 98. In fiscal 2008,

Circle K Sunkus made steady progress with the “Venture Employee System,” which was launched in September 2006 to sign up franchisee candidates. During the fiscal year, seven program participants began operating their own franchised stores. In addition, Circle K Sunkus closed 459 unprofitable and Company-owned stores in fiscal 2008, 102 more stores than in the previous fiscal year. As a result, Circle K Sunkus had a total of 4,929 stores as of February 29, 2008, a net decrease of 175 stores.

In terms of franchise agreement type, Type A stores have been declining in number year by year, whereas Type C stores have been increasing. One main reason is the increasing difficulty in securing locations suited to Type A

Stores by Geographic Region

(stores, percent)

	Fiscal 2008					
	Circle K Sunkus		Circle K		Sunkus	
	Stores	Share	Stores	Share	Stores	Share
Hokkaido	205	4.2%	–	–	205	9.7%
Tohoku	497	10.1%	141	5.0%	356	16.8%
Kanto	1,116	22.7%	215	7.7%	900	42.5%
Chubu·Hokuriku	707	14.3%	707	25.2%	–	–
Chukyo (Aichi, Mie, and Gifu prefectures)	1,421	28.8%	1,236	44.0%	185	8.7%
Kansai	810	16.4%	427	15.2%	383	18.1%
Chugoku	173	3.5%	83	2.9%	90	4.2%
Total	4,929	100.0%	2,809	100.0%	2,119	100.0%
No. of prefectures covered	30	–	21	–	19	–

Types of Franchise Agreement

	Type A		Type C	
Franchise agreements	The owner of the facility, who has received franchisee approval, sets up and runs the store with his/her own investment.		The Company rents the property and recruits the store manager separately to run the store.	
Contract period	10 years			
Investments required by franchisees	¥32.3 million		¥7.3 million	
Franchise membership fees	¥7.3 million, borne by franchisees		¥7.3 million, borne by franchisees	
Land, buildings and internal remodeling	¥25.0 million, borne by franchisees		Borne by the Company	
Royalty percentage (Relative to monthly gross profit)	Circle K	Sunkus	Circle K	Sunkus
	30% on average	31% on average	46% on average	49% on average
A 24-hour subsidy	–	¥100 thousand/month	–	¥100 thousand/month
Utility expenses borne by:	Franchisees			

Note: The average royalty percentage was calculated assuming average daily store sales of ¥468,000 and an average product markup of 28.99% for the year ended February 29, 2008.



agreements. Another reason is that more and more new stores require larger site areas to provide more parking, or locations inside buildings; these locations entail larger investments that are better suited to Type C agreements. Consequently, as Type A store openings dwindle year after year, Type C stores now account for roughly 90% of all new stores. Furthermore, Circle K Sunkus achieved a net year-on-year reduction of 48 Company-owned stores as of the fiscal year-end, by closing 188 of these stores, after their numbers had increased for the past few years.

In fiscal 2009, Circle K Sunkus will continue to open stores with an emphasis on quality, as it strives to implement strategies for opening stores by region to reestablish a dominant presence in key areas. In particular, the Company aims to improve average daily sales at new stores by opening more stores in the profitable Kanto region. Furthermore, in terms of securing volume, the number of outstanding contracts to be signed for new stores was 199 at the beginning of the fiscal year, while 33 program participants in the “Venture Employee System” are expected to begin operating their own franchised stores, which will help us to secure outstanding franchisee candidates. We plan to open 280 stores, including 126 relocations, while closing stores at a normal pace of 260 stores, resulting in a net increase of 20 stores. Consequently, Circle K Sunkus expects to have 4,949 stores as of February 28, 2009.

In fiscal 2008, the major convenience store chains all opened fewer stores than in the previous fiscal year. The convenience store industry as a whole continues to face difficulties in opening new stores, as reflected in net decreases in the number of stores at Circle K Sunkus following a major store closure drive, and smaller net increases at various other major convenience store chains.

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Product Details and Markup Rates

In fiscal 2008, Circle K Sunkus completed vendor and logistics integration in the fast food and perishable food categories. Leveraging this integration, Circle K Sunkus has developed unified brands for original baked goods and desserts, both of which were previously developed independently by Circle K and Sunkus. The concept behind these brands is to develop great-tasting products from scratch by enhancing ingredient quality. Steady sales of these new original brands helped to lift overall perishable food sales 2.2% year on year. In the service category, sports events and cinema tickets, as well as tickets to concerts by popular artists from Japan and abroad, sold well. In addition, sales were extremely strong for *Net Preca*, a service where various prepaid cards are issued online at the points of sale in stores. Consequently, service category sales rose 7.8% year on year.

Number of Stores by Franchise Agreement Type

(stores, percent)

	Fiscal 2006	Fiscal 2007	Fiscal 2008
Type A	1,689	1,498	1,322
Share	32.8%	29.3%	26.8%
Type E	586	543	482
Share	11.4%	10.6%	9.8%
Type C	2,350	2,465	2,575
Share	45.6%	48.3%	52.2%
Company-owned stores	529	598	550
Share	10.3%	11.7%	11.2%

Note: Type E agreement: This agreement lies between Type A and Type C agreements. The average royalty percentage for Type E agreements is approximately 44%. Type E agreements specific to Sunkus were abolished in September 2004 with some exceptions such as relocations.

Fast food:

Rice dishes, bread, noodles, delicatessen snacks, and countertop fast foods

Perishable food:

Milk, chilled beverages, pastries, bread, desserts, and fresh food items

Processed food:

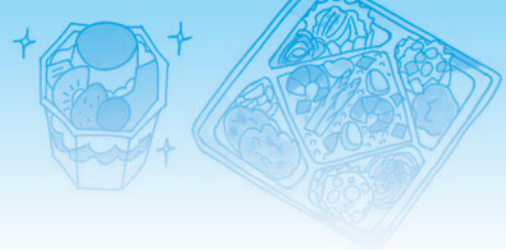
Alcoholic beverages, soft drinks, snacks, instant noodles, ice cream, and dried foods

Non-food items:

Magazines, newspapers, tobacco, cosmetics, general merchandise

Service:

Prepaid highway toll cards, tickets, stamps, and parcel delivery



However, overall fast food sales decreased 4.0% year on year, reflecting lackluster sales of boxed lunches, baked goods and delicatessen items. In the boxed lunch category, where sales have been declining over the past few years, vendor integration has allowed Circle K Sunkus to develop even better tasting products. The Company has adopted a new saturated vapor food preparation technology using special food preparation equipment and steadily rolled out new boxed lunches in the health-conscious *Balance Shokudo* series as a result. However, due to external factors such as a shift in demand away from rice, these initiatives were unable to lift overall boxed lunch sales in year-on-year terms. In the processed food category, overall sales decreased 2.6% year on year, mainly due to lackluster sales of soft drinks, where sales of tea-based beverages in 500 ml

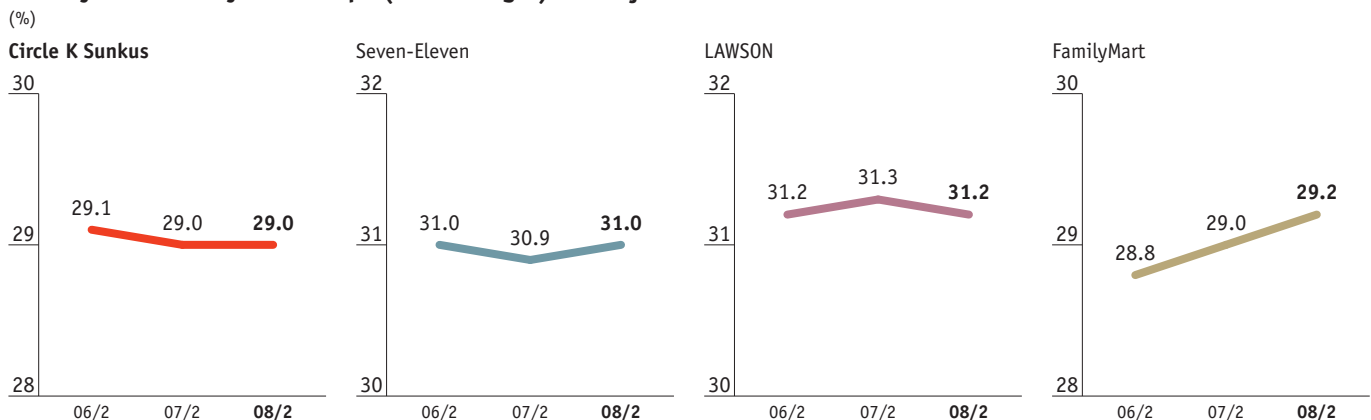
PET bottles were weak, and sluggish overall sales of alcoholic beverages. In the non-food items category, tobacco sales continued to hold firm, increasing 1.4% year on year. However, Circle K Sunkus once again recorded weak sales of general merchandise, cosmetics products and daily necessities in fiscal 2008 due to the impact of discount sales by traditional industry outsiders such as ¥100 discount shops and drug stores. In addition, sales of magazines and other periodicals declined, largely due to Japan's aging society with fewer children and the influence of the Internet. As a result, sales in the non-food items category decreased 1.8% year on year.

As a result, total product sales decreased 1.5% year on year.

Sales by Product and Product Markups

	Fiscal 2006				Fiscal 2007				Fiscal 2008			
	Sales Growth	Share	Markup		Sales Growth	Share	Markup		Sales Growth	Share	Markup	
			Change	Change			Change	Change				
Fast food	0.0%	20.4%	35.3%	0.4%	-4.9%	20.0%	35.7%	0.4%	-4.0%	19.5%	36.0%	0.3%
Perishable food	-0.9%	12.5%	33.5%	0.3%	-0.4%	12.8%	33.7%	0.2%	2.2%	13.3%	34.2%	0.5%
Processed food	-3.6%	32.1%	35.4%	0.7%	-4.1%	31.7%	35.6%	0.2%	-2.6%	31.3%	36.0%	0.4%
Non-food items	0.9%	29.3%	19.2%	-0.2%	0.3%	30.2%	18.5%	-0.7%	-1.8%	30.1%	18.2%	-0.3%
Service	-6.5%	5.7%	7.7%	-0.1%	-10.1%	5.3%	7.7%	0.0%	7.8%	5.8%	6.7%	-1.0%
Total	-1.0%	100.0%	29.05%	0.26%	-2.9%	100.0%	28.97%	-0.08%	-1.5%	100.0%	28.99%	0.02%

Three-year Summary of Markups (Gross Margin) for Major Convenience Store Chains



Source: Financial reports prepared by each company and news reports.



Strong sales of tobacco and services, both of which have low markups, had the effect of reducing the average product markup by 0.55 of a percentage point. However, thanks partly to the benefits of having completed integration in fiscal 2008, product markups improved in the fast food, perishable food and processed food categories by 0.3, 0.5 and 0.4 of a percentage point, respectively. Consequently, the average product markup for fiscal 2008 was 28.99% as planned, improving 0.02 of a percentage point.

For fiscal 2009, Circle K Sunkus is targeting a year-on-year improvement in the average product markup of 0.05 of a percentage point to 29.04%.

Area Franchisers

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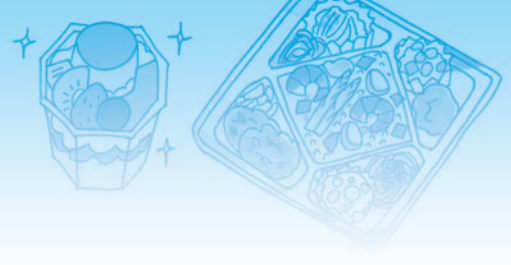
Circle K Sunkus and its area franchisers each develop store networks. The Company establishes area franchisers as joint venture companies with prominent local firms to operate franchised stores in specific regions. Area franchisers receive expertise and guidance from the Company on their respective convenience store chains. The Company provides guidance to area franchisers on topics such as store development, operations and accounting, while at the same time supplying them with products, information systems and other items. Fees from area franchisers are paid to the Company in return. The Circle K Sunkus Group maximizes scale merits across the Group, including at area franchisers, with regard to product policies and developing its store network.

Area Franchisers

(As of February 29, 2008)

Company	Equity interest	Date of agreement	Number of stores (stores)		Sales (millions of yen)		Area license fees (millions of yen)
				Change		Change	
Sunkus Aomori Co., Ltd. *	100.0%	1994. 3.01	63	-7	¥ 8,726	-5.8%	
Sunkus Nishi-Saitama Co., Ltd. *	100.0%	1987. 2.28	75	0	11,520	-0.4%	
SUNKUS KITAKANTO Co., Ltd. *	100.0%	1997. 3.12	35	3	4,884	-0.7%	
Sunkus Nishi-Shikoku Co., Ltd. *	100.0%	1992. 8.27	84	-4	11,743	-7.5%	
Circle K Shikoku Co., Ltd.	35.0%	1996. 5.14	148	-11	23,040	0.2%	
Sunkus Higashi-Saitama Co., Ltd.	19.0%	1988. 7.19	66	0	9,428	1.1%	
Sunkus Tokai Co., Ltd.	19.0%	1989. 9.06	101	2	15,521	2.5%	
Sunkus Keihanna Co., Ltd.	19.0%	1989.10.26	102	-11	17,454	-4.6%	
Sunkus and Associates Higashi-Shikoku Co., Ltd.	19.0%	1995. 1.12	138	3	19,741	-5.1%	
Sunkus Hokulia Corporation	19.0%	1995. 1.24	88	-2	15,579	-1.6%	
Sunkus and Associates Toyama Co., Ltd.	19.0%	1996. 7.02	82	0	13,573	-0.8%	
Minami-Kyushu Sunkus Co., Ltd.	19.0%	1998. 8.21	96	4	13,916	1.8%	
CVS Bay Area Inc.	2.4%	1997. 1.14	132	1	27,565	0.1%	
Total			1,210	-22	¥192,696	-1.6%	¥2,999

* Consolidated subsidiaries



Circle K Sunkus respects the autonomy of management at area franchisers. While carefully considering returns on investments from a Group-wide perspective, the Company provides personnel and funding support for area franchisers as necessary. Going forward, the Circle K Sunkus Group will work to capture group-wide synergies by deepening collaboration with area franchisers, while further strengthening management guidance.

As of February 29, 2008, the Circle K Sunkus Group had 13 area franchisers who operated 1,210 stores in 20 prefectures. In fiscal 2008, area franchisers posted sales of ¥192,696 million, down 1.6% year on year.

Consolidated Operating Results for Fiscal 2008

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In fiscal 2008, Circle K Sunkus had six consolidated subsidiaries, with the inclusion of 99 ICHIBA Co., Ltd., an operator of small fresh food supermarkets.

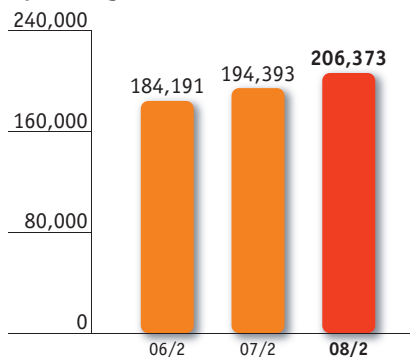
Sales at Circle K and Sunkus proper, including franchised stores, declined 1.0% to ¥902,424 million, despite the sales contribution from the newly consolidated subsidiary. Sales decreased due to the opening of 40 fewer stores than planned, closure of 102 stores more than in fiscal 2007, and weak existing store sales.

The Company's operating revenue is drawn from franchise commissions from franchised stores, license fees from area franchisers, net sales of Company-owned stores and other operating revenue. Franchise commissions from franchised stores declined 1.3% year on year as a result of a net decrease of 131 stores and weaker sales. Nonetheless, net sales of Company-owned stores climbed 16.7% year on year to ¥92,475 million, reflecting an increase in the number of Company-owned stores, the inclusion of total store sales of ¥5,507 million from newly consolidated subsidiary 99 ICHIBA Co., Ltd., and a year-on-year increase of ¥759 million in operating revenue of ZERO NETWORKS Co., Ltd. Consequently, operating revenue increased 6.2% to ¥206,373 million.

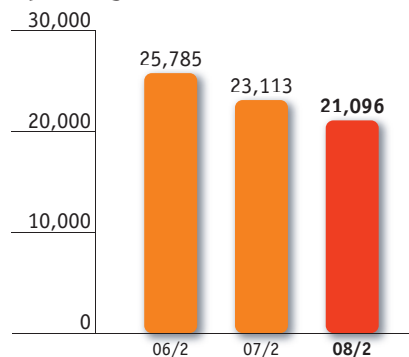
Consolidated Operating Results

(millions of yen)

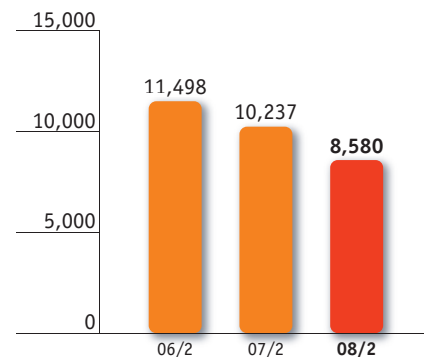
Operating revenue



Operating income



Net income





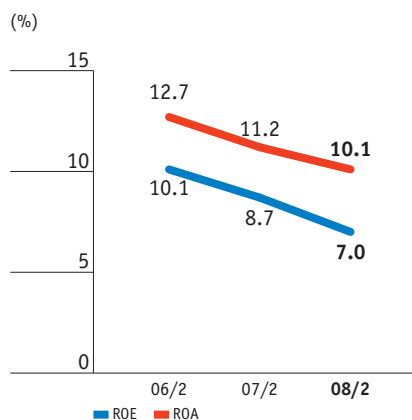
Consolidated selling, general and administrative (SG&A) expenses increased 3.4% year on year to ¥114,663 million, partly due to the inclusion of a newly consolidated subsidiary. The main factors behind higher SG&A expenses were an increase of 6.1% in personnel expenses due to an increase in the number of participants in the “Venture Employee System” for signing up and nurturing franchisee candidates, as well as sales promotion and advertising expenses, which rose 2.1% year on year because of aggressive spending on sales promotions to boost sales at franchised stores. Moreover, rental and lease expenses rose 2.2% year on year despite the decline in lease expenses following the end of the lease period for the store information system currently in use. This was mainly attributable to higher rental and lease expenses due to an increase in the number of Type C franchise agreement stores, rising rents and the impact of expansion in parking space. Management consignment fees also rose in year-on-year terms in line with an increase in the number of stores under consigned management. As a result, consolidated operating income decreased 8.7% to ¥21,096 million.

In fiscal 2008, Circle K Sunkus closed 102 more stores than in the previous fiscal year on a consolidated basis, resulting in a large increase in spending on store closures. The loss on sales or disposal of property and equipment

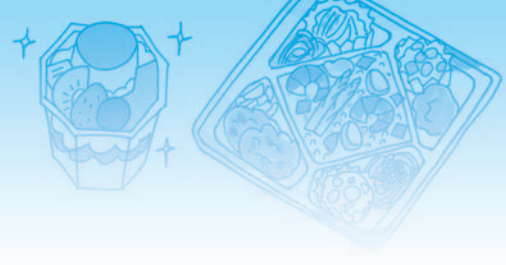
increased 104.3% to ¥1,843 million, while the loss on cancellation of lease contracts rose 56.4% to ¥3,384 million. Meanwhile, the Company booked an impairment loss on fixed assets of ¥2,716 million, down 14.3% year on year. In addition, the Company posted a gain of ¥1,339 million on the return of the substitutional portion of the employees’ pension fund for employees of the former SUNKUS & ASSOCIATES INC. Consequently, income before income taxes and minority interests fell 17.1% to ¥15,240 million and net income dropped 16.2% to ¥8,580 million. Net income per share amounted to ¥102.43, down 14.6% from the previous fiscal year.

Looking at projections for fiscal 2009, Circle K Sunkus expects sales at Circle K and Sunkus proper, including franchised stores, to decrease 0.5% to ¥898,280 million and operating revenue to decline 0.1% to ¥206,160 million, mainly because it will begin fiscal 2009 with a net 149 fewer stores due to the mass closure of stores in fiscal 2008. In fiscal 2009, Circle K Sunkus expects large capital investments related to the introduction of a new store information system and new services. Consequently, SG&A expenses are projected to increase 3.3%. As a result, operating income is projected to fall 19.4% to ¥17,000 million, while net income for fiscal 2009 is projected to decrease 22.8% to ¥6,620 million.

Return on Equity (ROE) and Return on Assets (ROA)



Notes: 1. $ROA = (\text{Operating income} + \text{Interest and dividend income}) / \text{Total assets (Yearly average)} \times 100$
2. $ROE = \text{Net income} / \text{Total equity (Yearly average)} \times 100$



Consolidated Subsidiaries

Investors' Guide P.10-11

In fiscal 2008, Circle K Sunkus had six consolidated subsidiaries comprising four area franchisers; ZERO NETWORKS Co., Ltd., which is contracted to conduct original ATM operations; and 99 ICHIBA Co., Ltd., which operates small fresh food supermarkets.

Sales of the above four area franchisers were down 4.1% year on year due to intensifying competition, but their operating profitability was better than forecast, resulting in a smaller operating loss. ZERO NETWORKS began installing "Bank Time" ATMs at stores in the Kansai region in fiscal 2008, bringing the number of original ATMs installed at stores to 2,475 as of February 29, 2008. Supported by growing public awareness, steady increase in usage of these ATMs, and lower-than-planned SG&A expenses, ZERO NETWORKS achieved profitability in fiscal 2008, posting operating income of ¥165 million. Meanwhile, 99 ICHIBA Co., Ltd. opened 35 stores on schedule in fiscal 2008, increasing its number of stores to 52 at the fiscal year-end. 99 ICHIBA achieved a large increase in sales based on this net growth in stores, but fell short of target. Product markups were also below target mainly due to surging prices for fresh fruit and vegetables. Consequently, 99 ICHIBA's operating income was lower than expected in fiscal 2008.

In fiscal 2009, the four area franchisers are projecting an operating loss of ¥124 million because of an increase in SG&A expenses in line with the full-scale capital investments related to introducing the new store sales system. ZERO NETWORKS is forecasting an operating loss of ¥138 million based on higher SG&A expenses for reinforcing sales promotion and advertising initiatives in the six Kansai region prefectures, where full-fledged installation of ATMs is under way. 99 ICHIBA plans to increase the pace of store openings with the planned opening of 46 stores in fiscal 2009. 99 ICHIBA expects a smaller operating loss than in fiscal 2008 based on a projected 115% net sales increase in line with the planned net increase in the number of stores.

From fiscal 2009, DO NEXT INC., a planner, developer and operator of logistics, production and information systems for convenience stores, will become a subsidiary accounted for by the equity method. The company is wholly owned by Circle K Sunkus Co., Ltd.

Business Performance of Consolidated Subsidiaries

(stores, millions of yen)

	Fiscal 2008			Fiscal 2009 (Forecast)		
	Four area franchisers total	ZERO NETWORKS	99 ICHIBA	Four area franchisers total	ZERO NETWORKS	99 ICHIBA
Stores opened	20	–	35	29	–	46
Stores closed	28	–	1	16	–	6
Fiscal year-end	257	–	52	270	–	92
Total store sales	¥36,874	–	¥5,507	¥38,050	–	¥11,843
Total operating revenue	7,811	¥4,774	5,510	7,829	¥5,548	11,843
Operating income (loss)	(14)	165	(491)	(124)	(138)	(214)

Reference: Circle K Sunkus' consolidated subsidiaries are listed below. 99 ICHIBA Co., Ltd. became a consolidated subsidiary in fiscal 2008, bringing the number of consolidated subsidiaries to six.

- Sunkus Aomori Co., Ltd. (Area franchiser)
- SUNKUS KITAKANTO Co., Ltd. (Area franchiser)
- ZERO NETWORKS Co., Ltd. (Outsourced ATM operations)
- Sunkus Nishi-Saitama Co., Ltd. (Area franchiser)
- Sunkus Nishi-Shikoku Co., Ltd. (Area franchiser)
- 99 ICHIBA Co., Ltd. (Mini supermarkets that specialize in fresh foods)



Consolidated Financial Position

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Total current assets increased ¥5,733 million from the previous fiscal year-end to ¥94,244 million. This mainly reflected an increase of ¥1,806 million in cash and cash equivalents, a component of liquidity on hand, as well as a ¥3,000 million joint monetary investment trust for investment purposes recorded under short-term investments.

Net property and equipment rose ¥1,035 million from the previous fiscal year-end to ¥47,355 million. This mainly reflects an increase of ¥2,441 million in buildings and structures, as Type C franchise agreements, where Circle K Sunkus supplies new stores for franchisees, now account for more than 90% of all new stores.

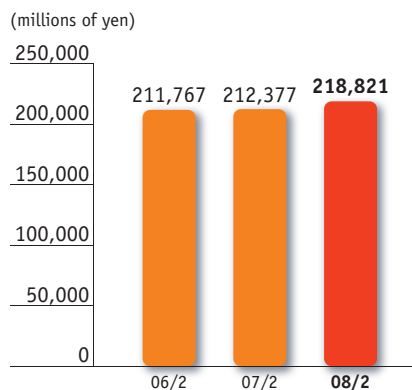
Investments and other assets decreased ¥324 million from a year earlier to ¥77,222 million. This was mainly because of a decrease of ¥1,596 million in long-term leasehold deposits, and a drop of ¥527 million in investments in and long-term loans to unconsolidated subsidiaries and affiliates, reflecting a decrease in the number of stores following a mass closure of stores. However, software increased ¥797 million from a year earlier due to software development for new POS registers installed during fiscal 2008 and for new services.

Total current liabilities rose ¥2,365 million from a year ago to ¥78,451 million. This mainly reflected an increase of ¥2,990 million in money held as agent in line with higher transaction volume. This includes payments from customers for utility and other bills that are accepted at convenience stores and proceeds from customers recharging their Edy electronic money cards.

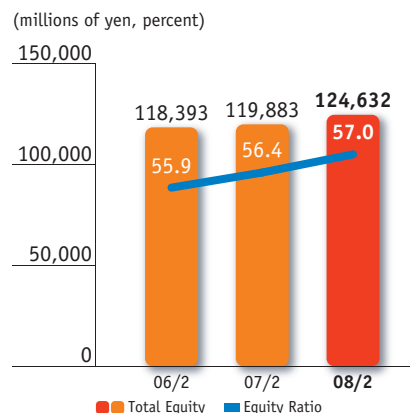
Total long-term liabilities decreased ¥670 million from a year earlier to ¥15,738 million. This mainly reflected a decline of ¥1,671 million in the employee retirement benefit liability due to the return of the substitutional portion of the employees' pension fund for employees of the former SUNKUS & ASSOCIATES INC.

Total equity increased ¥4,749 million to ¥124,632 million. This change was attributable to an increase of ¥5,019 million in retained earnings from a year earlier, which reflected net income of ¥8,580 million, despite payments of ¥3,264 million for dividends. Consequently, the equity ratio was 57.0%, and total equity per share was ¥1,487.72.

Total Liabilities and Equity



Total Equity/Equity Ratio



Capital Expenditures

Investors' Guide P.22

In fiscal 2008, total investments rose ¥7,457 million to ¥34,697 million. Investments in new stores were ¥1,975 million less than in the previous fiscal year partly due to a decrease in store leases in process. This was despite opening 11 more stores than in fiscal 2007 due to the increase in stores opened by consolidated subsidiary 99 ICHIBA Co., Ltd. Furthermore, investments in systems increased ¥2,010 million from the previous fiscal year, mainly reflecting the installation of new point-of-sales (POS) systems at all stores. This was accompanied by an increase of ¥7,971 million in corresponding leasing expenditures.

Looking ahead to fiscal 2009, Circle K Sunkus is expecting a large increase in system investments because of the planned installation of new Store Communications Servers, fiber-optic cable, new in-store multimedia terminals and other innovations. Accordingly, the Company is budgeting for total capital expenditures of ¥42,800 million, ¥8,103 million more than in fiscal 2008.

Consolidated Cash Flows

In fiscal 2008, operating activities provided net cash of ¥21,262 million, ¥1,561 million more than in the previous fiscal year. This was mainly attributable to increases of

¥941 million in loss on sales or disposal of property and equipment, ¥643 million in trade payables, and ¥966 million in money held as agent. These increases were partially offset by a decrease of ¥3,147 million in income before income taxes and minority interests.

Net cash used in investing activities was ¥15,791 million, ¥582 million more than in the previous fiscal year. This was mainly attributable to the payment of ¥3,000 million for the acquisition of marketable securities for short-term investment purposes.

Consequently, free cash flow, which is net cash provided by operating activities minus net cash used in investing activities, amounted to ¥5,471 million, ¥979 million more than in the previous fiscal year.

Financing activities used net cash of ¥4,168 million, ¥5,689 million less than in the previous fiscal year. This mainly reflected dividends paid of ¥3,264 million and a decrease in guarantee deposits received of ¥1,614 million due to the repayment of guarantee deposits upon closing stores.

Consequently, as of February 29, 2008, cash and cash equivalents were ¥66,763 million, ¥1,806 million higher than a year earlier.

Capital Expenditures

(millions of yen)

	2006/2	2007/2	2008/2	2009/2 (Forecast)
New store investments	¥12,977	¥14,990	¥13,015	¥12,703
Existing store investments	2,014	2,339	3,008	1,437
System investments	1,742	2,392	4,402	12,515
Head office investments	733	1,498	280	435
Capital expenditures < 1 >	17,466	21,219	20,705	27,090
Leasing expenditures < 2 >	4,221	6,021	13,992	15,710
Total investments < 1+2 >	21,687	27,240	34,697	42,800
Depreciation and amortization	7,426	6,694	6,804	7,759

Note: Capital expenditures represent the sum of increases in property and equipment, intangible fixed assets, long-term prepaid expenses, and leasehold deposits. Investments treated as operating expenses are excluded from capital expenditures.



Returning Profits to Shareholders

Investors' Guide P.24

Circle K Sunkus regards dividends as the most important means of returning earnings to shareholders. The Company's basic policy is to return profits to shareholders based on earnings growth, while building up retained earnings to bolster the operating base as necessary to sustain business growth into the future. More specifically, Circle K Sunkus considers the maintenance of stable dividends its first priority as it returns earnings to shareholders while carefully monitoring its medium-term earnings outlook, capital expenditure plans and financial position, with the aim of paying out at least 30% of consolidated net income as dividends.

In fiscal 2008, Circle K Sunkus declared interim and year-end dividends of ¥20 per share, both of which were ¥1 more than in the previous fiscal year. As a result, the annual dividend for fiscal 2008 was ¥40 per share. Despite its increasingly challenging business environment, Circle K Sunkus has decided to increase its dividend, as it regards enhancing shareholder returns as an important management priority. Circle K Sunkus also projects an annual dividend for fiscal 2009 of ¥40 per share, despite the projected earnings decline.

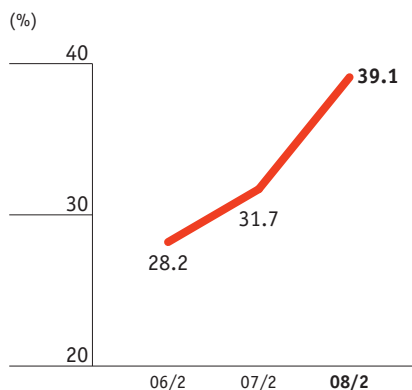
Retained earnings will be earmarked for investments related to store information systems, and for investments in developing new stores, revitalizing existing ones, and procuring product displays and other equipment for new products.

Outlook

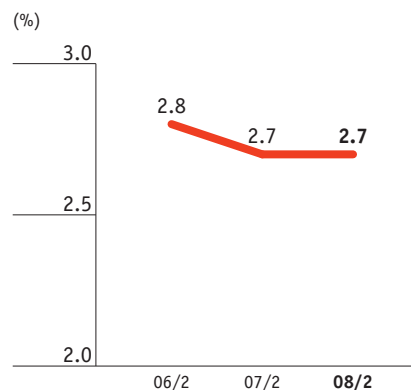
The convenience store industry faces an increasingly challenging business environment and Japan's society is experiencing constant change. Pressing issues faced by Circle K Sunkus include lackluster sales due to lower customer footfall and changes in its earnings structure.

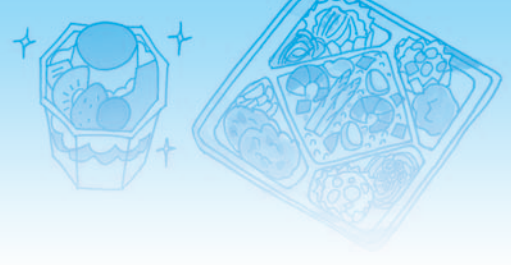
Against this backdrop, Circle K Sunkus formulated a new medium-term management plan beginning in fiscal 2009. Under this plan, while maintaining its emphasis on quality, the Company will work to build a stronger earnings structure by strengthening its sales capabilities and transforming its earnings (cost) structure across a diverse array of operations. Furthermore, while driving future sales and earnings growth and making large investments in introducing new services, Circle K Sunkus aims to increase its corporate value through the pursuit of low-cost operations and greater return on investments.

Dividend Payout Ratio



Ratio of Dividends to Total Equity





The Company's first step in fiscal 2009, the first fiscal year of the medium-term management plan, was a bold reorganization. Because Circle K Sunkus believes that a stronger focus on regions and individual stores is crucial to rising above the increasingly intense competition, it newly established regional divisions. By promoting regional strategies and managing earnings by region under this new organization, the Company aims to speed up operations to generate stronger results. The *Yume WAKU2* project was launched in March 2008 to bring Circle K Sunkus employees and franchised stores together to develop stores that are better appreciated by customers. This project is part of efforts to offer "true value to customers." Coinciding with the launch of a newly designed joint uniform for Circle K and Sunkus stores in June, Circle K Sunkus plans to take steps to enhance its brand image in many ways. On the product development front, Circle K Sunkus aims to develop and foster new flagship products from scratch, while continuing to provide reliable, safe and great-tasting products. Circle K Sunkus will also work even harder than before to capture synergies with the UNY Group, with the aim of enhancing profitability. Furthermore, Circle K Sunkus will begin making large investments in advanced services. Beginning with the full-scale launch of ATM services in the Kansai region, the Company will successively install multi-use copy machines from April and in-store multimedia terminals from August 2008.

Earnings are projected to decrease in the first and second fiscal years of the medium-term management plan because of increased spending related to the above innovations. However, Circle K Sunkus aims to return to a growth trajectory by fiscal 2011, the plan's final fiscal year, by transforming its earnings structure.

Business Risks

The Circle K Sunkus Group's Risk Management Guidelines set forth Company-wide risks that, if they materialize, may impede efforts to achieve Group-wide objectives. Three major risk areas have been identified: (1) reliability of financial reporting; (2) compliance with laws and regulations concerning business activities; and (3) business activities. As of February 29, 2008, the Group recognizes the following five areas as major risks associated with the aforementioned "(3) business activities." Circle K Sunkus will make every effort to prevent these kinds of events from occurring and to respond promptly if they occur. However, an unforeseen event could have an impact on the Circle K Sunkus Group's operating results and financial position.

[1] Food Product Safety

The Circle K Sunkus Group gives the highest priority to food safety. The Group has already eliminated the use of preservatives and artificial coloring from mainstay products such as rice balls and boxed lunches. Circle K Sunkus also develops new products to consistently offer items that help to build trust among customers. Food safety is also ensured through an inspection and control system and other inspections at stores. However, the food industry has faced a range of issues in recent years, including BSE, bird flu and genetically modified food products. Although Circle K Sunkus takes steps to identify and take preventive measures to deal with these and other risks, an unforeseen event could impact the Group's operating results and financial position.



[2] Information Systems

The Group holds franchise store information through its franchise business, and personal information on customers and other individuals gained from sales promotion campaigns and purchases made with Edy electronic money enabled *KARUWAZA CLUB* cards. To prevent the leak or corruption of customers' information, Circle K Sunkus takes appropriate security measures in information management, including computer systems. However, there is a risk that unforeseen events such as disasters, unauthorized access, or infection by computer viruses could result in the leak of internal information, which could prevent the Group from carrying out its operations and other activities.

[3] Litigation

The Group's business operations are subject to food safety, fair trading, environmental protection and other laws and regulations, as well as licenses granted by government agencies. In the course of its business activities, the Circle K Sunkus Group works to ensure compliance with all relevant laws and regulations, while encouraging all directors and employees to understand and practice compliance. To this end, the Group has established an Internal Control & Environmental Management Office to strengthen internal control systems. However, the Group may incur additional expenses as a result of unforeseen changes in laws and regulations or government policies, and is open to the risk of litigation in the course of its operations. These changes or legal action taken against Circle K Sunkus, or the result of such action, could impact the operating results and financial position of the Group.

[4] Area Franchisers

The Group grants permission to third parties to operate stores through area franchises. In area franchiser operations, the characteristics of each region are respected and importance is given to profitability through synergies with other parts of the Group and results-driven business development in each area. Nonetheless, deteriorating operating performance in some areas amid changes in consumption patterns, intensifying competition, and growing disparity in income and regional economic performance, is a cause for concern. In dealing with this situation, the Group's policy is to provide the necessary personnel and financial support to area franchisers. However, an unforeseen situation could impact the Group's operating results and financial position.

[5] Disasters and Other Factors

The Group defines disasters as natural disasters such as earthquakes and typhoons, terrorist acts, and crimes targeting companies. The Group believes that convenience stores have an important role to play in society in the event of such a disaster, through the provision of vital support to affected communities. However, an unexpected disaster, unforeseen accident or similar event could halt the Group's logistics system, leading to opportunity losses. Additionally, the Group's operating results and financial position could be impacted by changes in the natural environment such as unseasonable weather.