

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Circle K Sunkus Co., Ltd. and its subsidiaries
For the Years Ended February 29, 2008 and February 28, 2007

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 in accordance with the provisions set forth in the Japanese Financial Instrument and Exchange Law (formerly, the Japanese Securities and Exchange Law) and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

(b) Principal shareholder

UNY CO., LTD. ("UNY") directly owned 40,746 thousand shares of common stock of the Company at February 29, 2008, which represented 48.8% of the total voting interests of the Company at the balance sheet date. UNY also has significant influence over the Company. Accordingly, the Company is a subsidiary of UNY.

(c) U.S. dollar amounts

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing approximate exchange rate at February 29, 2008, which was ¥104 to U.S.\$1.00. The translation should not be construed as a representation that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

(d) Reclassification

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2007 financial statements to conform to the classifications used in 2008.

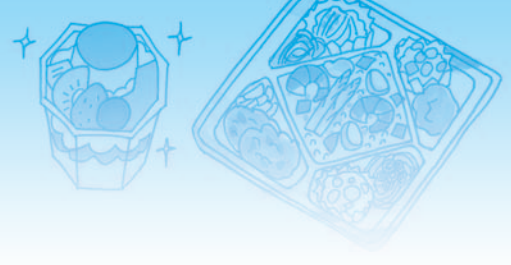
2. Summary of Significant Accounting Policies

(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 29, 2008 and February 28, 2007 was as follows:

	2008	2007
Consolidated subsidiaries	6	5
Unconsolidated subsidiaries, stated at cost	6	7
Affiliates, stated at cost	9	9



(b) Franchise agreement and basis of recognizing franchise commissions

The Company is the exclusive franchiser in Japan of Circle K stores and Sunkus stores for retail sales of daily necessities to consumers. The Company enters into franchise agreements to allow independent franchisees to operate the relatively small-sized convenience stores using specific designs and the name “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 the convenience stores from the Company as the franchiser. In return, such franchised stores are required to pay continuing franchise commissions 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 commissions 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 29, 2008 and February 28, 2007, net sales, which were reported by franchised stores as a calculation basis for franchise commissions, were ¥814,407 million (\$7,830,837 thousand) and ¥835,868 million, respectively.

The term of a franchise agreement is typically 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 Circle K stores and Sunkus stores or leases them as lessee under long-term noncancelable lease agreements (See Note 13). The Company also leases land and/or buildings for its own Company-owned stores or the franchised stores as lessee principally under long-term cancelable lease agreements with a few months’ advance notice. The Company pays 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 agreements, the Company also enters into lease agreements, as lessor, with each franchisee to lease land and/or buildings for the store spaces. These leases are normally for the same term 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 (the major portion) on an installment basis and are noninterest bearing.

(c) Area franchise agreements

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 fees are included in “Franchise commission from franchised stores” in the accompanying consolidated statements of income.

(d) Cash equivalents

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

(e) Inventories

Merchandise inventories are stated at cost, determined by the retail method. Supplies are stated at cost, 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.” The classification determines the respective accounting method as stipulated by the accounting standard for 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 the disposition of marketable securities are computed by the moving average method. Non-marketable 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

The allowance for doubtful accounts is provided for at the aggregate amount of estimated credit loss based on the financial review approach for individual 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 are depreciated by the declining balance method at rates based on the estimated useful life of the asset, except that buildings acquired on and after April 1, 1998 are depreciated by the straight-line method. The aggregate capitalized expenditure for property of not less than ¥100,000 but below ¥200,000 is amortized over a three-year period by the straight-line method.

In accordance with the amendment of the Corporation Tax Law of Japan, effective for the fiscal year ended February 29, 2008, the Company and its consolidated subsidiaries have changed the depreciation method for property and equipment acquired on or after April 1, 2007 to the method pursuant to the amended Corporation Tax Law of Japan. As a result, operating income and income before income tax and minority interests for the year ended February 29, 2008 were each ¥142 million (\$1,365 thousand), less than what would have been recorded under the previous accounting 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

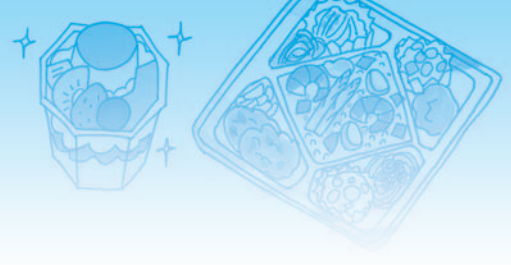
With regard to financing leases that do not transfer ownership of the leased property to the lessee during the term of the lease, the leased property is not capitalized and the relating rental and lease expenses are charged to income as incurred, as provided by the “Opinion Concerning Accounting Standard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

(j) Software

Software is amortized by the straight-line method over the estimated useful life of five years.

(k) Impairment of fixed assets

The Circle K Sunkus Group reviews fixed assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized in the income statement by reducing the carrying amount of the impaired asset or a group of assets to the recoverable amount, which is 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.



(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 (together, the “UNY” Group), including the Company. 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 the actuarial present value of projected benefit obligation using an actuarial appraisal approach and the value of pension plan assets available for benefits at the fiscal year-end. Unrecognized actuarial differences arising from the projected benefit obligation or pension plan assets being different from that assumed or from changes in assumptions are amortized on a straight-line basis over eight to ten years, a period within the remaining service years of the employees, from the next year in which they arise. Unrecognized past service costs are amortized on a straight-line basis over ten years, a period within the remaining service years of the employees.

Until August 31, 2007, the employees who transferred from SUNKUS & ASSOCIATES INC. (“SUNKUS”) on the occasion of the merger were covered by the same noncontributory welfare pension plan or qualified pension plan as the plans organized by SUNKUS.

In conjunction with the Defined Benefit Enterprise Pension Plan Law, the Company, as a member of the noncontributory welfare pension plan organized by SUNKUS, received approval from the Minister of Health, Labor and Welfare of Japan for exemption from payment of future benefits regarding the substituted portion of the employee welfare pension fund on July 29, 2005 and received approval for returning the assets relating to the substituted portion of the employee welfare pension fund on September 1, 2007. The Company then recognized an extinguishment of the retirement benefit obligation with respect to such substituted portion during the year ended February 29, 2008. As a result, the Company recorded ¥1,339 million (\$12,875 thousand) as other income on the consolidated statements of income for the year ended February 29, 2008. The Company also received approval from the Minister of Health, Labor and Welfare of Japan to transfer from the employee welfare pension fund plan to a corporate pension fund plan.

(m) Directors’ bonuses

Directors’ bonuses, including those for corporate auditors are accrued at the year end to which such bonuses are attributable.

From the year ended February 28, 2007, the Circle K Sunkus Group has adopted the “Accounting Standard for Directors’ Bonus (ASBJ Statement No. 4)” issued by ASBJ on November 29, 2005. The standard requires that directors’ bonuses, including those for corporate auditors, shall be accounted for as an expense in 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 were each ¥47 million less the year ended February 28, 2007 than they would have been under the previous accounting method.

(n) Allowance for incentive points

Effective from the fiscal year ended February 29, 2008, an allowance for incentive points granted to members of KARUWAZA CLUB, which is the Company’s original club for customers, is provided in the amount estimated for the future use of incentive points, as a reasonable estimation has become available. Until the fiscal year ended February 28, 2007, such costs were recorded at the time the points were used.

As a result, operating income and income before income taxes and minority interests for the year ended February 29, 2008 were each ¥80 million (\$769 thousand) less than they would have been under the previous accounting method.

(o) Allowance for debt guarantees

The allowance for debt guarantees is provided to prepare for losses arising from the fulfillment of debt guarantees in an amount estimated based on the financial condition of the parties’ provided guarantees and other factors.



(p) 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.

(q) 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 the "Practical Solution on Presentation for Corporate Size-Based Portion of Corporate Business Tax on Income Statement" (ASBJ, Report of Practical Issues No. 12).

(r) Consumption tax

The consumption tax imposed on the Circle K Sunkus Group's revenues from customers is withheld at the time the revenue is received and subsequently is paid 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.

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

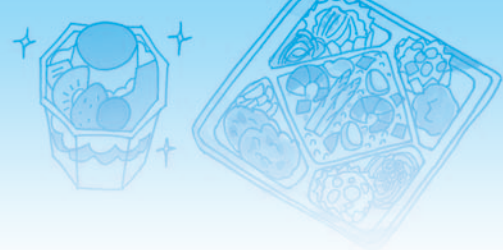
ASBJ issued the "Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Statement No. 5)" and Implementation Guidance "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Guidance No. 8)" on December 9, 2005, and are effective for the year ending on and after May 1, 2006. The standard requires the presentation of the equity section in the balance sheet be similar to that required by 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.

(t) Appropriation of retained earnings

Cash dividends are recorded in the fiscal year when a proposed appropriation of retained earnings is approved by the Board of Directors and/or shareholders.

(u) 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 because the Circle K Sunkus Group had no diluted common shares for the years ended February 29, 2008 or February 28, 2007. 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. 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
Current assets	¥ 906
Noncurrent assets	1,650
Goodwill	97
Current liabilities	(1,590)
Noncurrent liabilities	(450)
Common stock owned by the Company	(10)
Acquisition cost	603
Cash and cash equivalents held by Sunkus Nishi-Shikoku	(719)
Increase in cash presented on the accompanying consolidated statements of cash flows	¥ (116)

4. Investments

At February 29, 2008, short-term investments consisted of a joint money trust.

At February 29, 2008 and February 28, 2007, investment securities consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Marketable securities:			
Equity securities	¥1,856	¥2,401	\$17,846
Bonds	1,959	1,905	18,837
Total marketable securities	3,815	4,306	36,683
Other non-marketable securities	218	248	2,096
	¥4,033	¥4,554	\$38,779



During the years ended February 29, 2008 and February 28, 2007, the Circle K Sunkus Group recorded a loss on the 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 ¥19 million (\$183 thousand) and ¥228 million, respectively. This loss is reflected in 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 current earnings and reported as a net amount in an equity account until realized. At February 29, 2008 and February 28, 2007, gross unrealized gains and losses for marketable securities were summarized as follows:

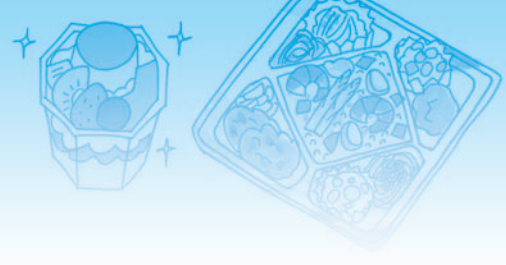
	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
Millions of Yen				
At February 29, 2008:				
Marketable securities:				
Equity securities	¥ 938	¥ 961	¥ (43)	¥1,856
Bonds	2,000	–	(41)	1,959
	¥2,938	¥ 961	¥ (84)	¥3,815

At February 28, 2007:				
Marketable securities:				
Equity securities	¥ 945	¥1,466	¥ (10)	¥ 2,401
Bonds	2,000	–	(95)	1,905
	¥ 2,945	¥1,466	¥(105)	¥ 4,306

Thousands of U.S. Dollars				
At February 29, 2008:				
Marketable securities:				
Equity securities	\$ 9,019	\$9,240	\$(413)	\$17,846
Bonds	19,231	–	(394)	18,837
	\$28,250	\$9,240	\$(807)	\$36,683

At February 29, 2008, expected maturities of available-for-sale debt securities were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due in one year or less	¥3,000	\$28,846
Due after one year through five years	1,959	18,837
	¥4,959	\$47,683



5. Accounts Receivable: Due from Franchised Stores

Under franchise agreements, 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 store facilities, for training of franchisee 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 of all franchised stores, pays the amounts payable to the vendors on behalf of the franchised stores. 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 will be subsequently recovered from the respective franchise stores.

The "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 29, 2008 and February 28, 2007, property and equipment consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Land	¥ 8,816	¥ 8,945	\$ 84,769
Buildings and structures	57,550	55,109	553,366
Machinery, equipment and vehicles	189	197	1,817
Furniture and fixtures	15,561	16,023	149,625
Construction in progress	1,009	844	9,702
	83,125	81,118	799,279
Less, accumulated depreciation	(35,770)	(34,798)	(343,942)
	¥ 47,355	¥ 46,320	\$ 455,337



7. Impairment of Fixed Assets

For the purpose of recognition and measurement of 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 whether assets are impaired based on an analysis of significant downturns in the fair value of land, the schedules of closing stores and the ongoing operating losses of stores. An impairment loss is recognized if undiscounted expected cash flows are less than the carrying amount of an asset. Recoverable amounts of assets were measured based on their net selling prices primarily from appraisal valuations or amounts of operating cash flows discounted by interest rates of 8.1% and 6.3% for the years ended February 29, 2008 and February 28, 2007, respectively.

For the years ended February 29, 2008 and February 28, 2007, the Circle K Sunkus Group recognized an impairment loss on fixed assets of ¥2,716 million (\$26,115 thousand) and ¥3,170 million respectively as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Convenience stores:			
Land	¥ 523	¥ 348	\$ 5,029
Buildings and structures	1,297	1,202	12,471
Furniture, fixtures and equipment	141	113	1,356
Leased property and equipment	624	1,206	6,000
Other	131	301	1,259
Total	¥2,716	¥3,170	\$26,115

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

At February 29, 2008 and February 28, 2007, investments in and long-term loans to unconsolidated subsidiaries and affiliates consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Investments in:			
Unconsolidated subsidiaries and affiliates, stated at cost	¥768	¥1,281	\$7,385
Interest-bearing long-term loans	33	47	317
	¥801	¥1,328	\$7,702

9. Accounts Payable: Due to Franchised Stores

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

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."

10. Short-term Borrowings and Long-term Debt

No short-term borrowings or long-term debt were recorded at February 29, 2008 or February 28, 2007.

11. Employee Retirement Benefits

The following table reconciles the benefit obligation and net periodic retirement benefit expense as of and for the years ended February 29, 2008 and February 28, 2007:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Projected benefit obligation	¥ 9,877	¥13,327	\$ 94,971
Fair value of pension plan assets at end of year	(8,849)	(9,949)	(85,087)
Project benefit obligation in excess of pension plan assets	1,028	3,378	9,884
Less, unrecognized actuarial differences (loss)	(1,754)	(1,980)	(16,865)
Unrecognized past service costs	1,435	869	13,798
	709	2,267	6,817
Prepaid pension cost	-	113	-
Total amounts of employee retirement benefit liability recognized on the consolidated balance sheets	¥ 709	¥ 2,380	\$ 6,817

Note: Prepaid pension cost was included in "Other" in investments and other assets in the accompanying balance sheet for the year ended February 28, 2007.

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Component of net periodic retirement benefit expense:			
Service cost	¥ 626	¥ 621	\$ 6,019
Interest cost	225	248	2,164
Expected return on pension plan assets	(362)	(347)	(3,481)
Amortization of actuarial differences	387	445	3,721
Amortization of past service costs	(148)	(120)	(1,423)
Net periodic retirement benefit expense	¥ 728	¥ 847	\$ 7,000

Major assumptions used in the calculation of the above information for the years ended February 29, 2008 and February 28, 2007 were as follows:

	2008	2007
Method attributing the projected benefits to periods of services	Straight-line method	Straight-line method
Discount rate	2.0%	2.0%
Expected rate of return on pension plan assets	4.0%	4.0%
Amortization of unrecognized actuarial differences	8 to 10 years	8 to 10 years
Amortization of unrecognized past service costs	10 years	10 years



12. Equity

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the former Japanese Commercial Code. The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Law, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting. Additional paid-in capital and legal earnings reserve may not be distributed as dividends. All additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

At February 29, 2008 and February 28, 2007, 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 (\$6,615 thousand) at February 29, 2008 and ¥688 million at February 28, 2007.

The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the annual shareholders' meeting held on May 21, 2008, the shareholders approved cash dividends amounting to ¥1,675 million (\$16,106 thousand). Such appropriations have not been accrued in the consolidated financial statements as of February 29, 2008 and are recognized in the period in which they are approved by the shareholders.

13. 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))

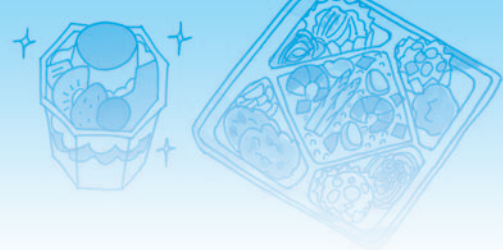
As disclosed in Note 2 (i), the leased property for non-cancelable financing leases of the Circle K Sunkus Group is not capitalized as permitted by the accounting standard for leases of Japan. If the leased property of the Company had been capitalized, the related accounts would have been increased (decreased) at February 29, 2008 and February 28, 2007 as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Property and equipment, net of accumulated depreciation *1	¥26,436	¥20,791	\$254,192
Lease obligations as liabilities *2	27,852	22,455	267,807
Allowance for impairment loss on leased property	(915)	(1,151)	(8,798)
Net effect on retained earnings at year-end	¥ (501)	¥ (513)	\$ (4,817)

Additionally, for the years ended February 29, 2008 and February 28, 2007, income before income taxes and minority interests would have decreased by ¥12 million (\$115 thousand) and increased by ¥20 million, respectively.

Notes: *1. Pro forma depreciation of the leased property is computed by the straight-line method over the term of the lease, 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 term of the lease.



Future minimum payments for non-cancelable finance leases, excluding the imputed interest, and operating leases at February 29, 2008 and February 28, 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Finance leases:			
Due within one year	¥ 7,737	¥ 7,263	\$ 74,394
Due after one year	20,115	15,192	193,414
	¥27,852	¥22,455	\$267,808
Operating leases:			
Due within one year	¥ 691	¥ 1,018	\$ 6,644
Due after one year	310	699	2,981
	¥ 1,001	¥ 1,717	\$ 9,625

14. Contingent Liabilities

At February 29, 2008 and February 28, 2007, contingent liabilities in respect of guarantees of indebtedness of unconsolidated subsidiaries and affiliates, franchisees and others amounted to ¥3,766 million (\$36,212 thousand) and ¥3,771 million, respectively.

15. Derivative Instruments

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

16. Income Taxes

Income taxes for the years ended February 29, 2008 and February 28, 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Income taxes:			
Current	¥7,265	¥7,933	\$69,856
Deferred	(503)	217	(4,837)
	¥6,762	¥8,150	\$65,019



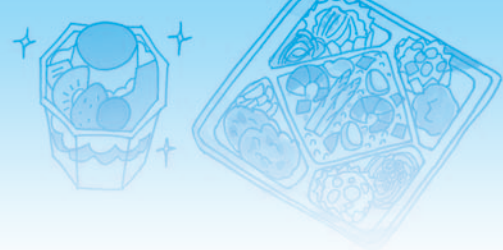
The tax effects on temporary differences that give rise to a significant portion of deferred tax assets at February 29, 2008 and February 28, 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Deferred tax assets:			
Enterprise tax accruals	¥ 279	¥ 296	\$ 2,683
Allowance for doubtful accounts	620	610	5,962
Accrued bonus	311	346	2,990
Depreciation	142	64	1,365
Employee retirement benefit liability	285	959	2,741
Impairment loss on fixed assets	2,200	1,970	21,154
Long-term deferred income	1,042	307	10,019
Write-down of investment securities	413	407	3,971
Long-term deferred credit	484	524	4,654
Other	1,128	384	10,846
Less, valuation allowance	(1,340)	(807)	(12,885)
	5,564	5,060	53,500
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(353)	(548)	(3,394)
	(353)	(548)	(3,394)
Net deferred tax assets	¥ 5,211	¥4,512	\$ 50,106

In assessing the 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 future taxable income during the periods in which these temporary differences become deductible. At February 29, 2008 and February 28, 2007, 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 realized.

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 29, 2008 and February 28, 2007 was as follows:

	Percentage of pre-tax income	
	2008	2007
Japanese statutory effective tax rate	40.27%	40.28%
Increase (decrease) due to:		
Permanently nondeductible expenses	1.02	0.74
Tax exempt income	(0.25)	(0.11)
Local minimum taxes per capita levy	1.28	1.22
Change in valuation allowance	2.43	2.75
Other	(0.38)	(0.56)
Effective income tax rate	44.37%	44.32%



17. Additional Income Statement Information

Additional income statement information for the years ended February 29, 2008 and February 28, 2007 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Payroll and remuneration expenses	¥21,935	¥20,675	\$210,913
Advertising expenses	11,084	10,859	106,577
Depreciation	6,729	6,695	64,702
Utility expenses	2,435	2,314	23,413
Rental and lease expenses	48,716	47,656	468,423
Amortization of goodwill	75	123	721

18. Related Party Transactions

During the years ended February 29, 2008 and February 28, 2007, 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 29, 2008 and February 28, 2007 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Cost on disposal of store equipment	¥ -	¥ 16	\$ -
Cost on disposal of leased equipment	61	15	587
Acceptance of commercial paper	23,995	5,999	230,721

19. Segment Information

The primary business of the Circle K Sunkus Group is the 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 29, 2008 and February 28, 2007.