

FINANCIAL SECTION

CONSOLIDATED SIX-YEAR SUMMARY

FamilyMart Co., Ltd. and Consolidated Subsidiaries Years Ended the Last Day of February

	Millions of yen						Thousands of U.S. dollars (Note)
	2006	2005	2004	2003	2002	2001	2006
Results of operations:							
Operating revenues:							
Commission from franchised stores	¥138,636	¥132,864	¥127,164	¥122,738	¥116,478	¥111,729	\$1,195,138
Net sales	118,551	103,599	87,083	80,952	67,822	54,122	1,021,991
Other operating revenues	19,256	16,438	14,730	13,778	11,305	10,248	166,000
Total operating revenues	276,443	252,901	228,977	217,468	195,605	176,099	2,383,129
Operating income	32,662	30,869	29,093	27,921	23,756	24,123	281,569
Net income	14,195	12,623	13,788	12,880	8,549	8,112	122,371
Net cash provided by operating activities.....	42,778	1,428	73,593	32,694	34,219	23,305	368,776
Net cash used in investing activities	(32,249)	(23,183)	(10,719)	(29,327)	(28,812)	(30,980)	(278,009)
Net cash used in financing activities	(4,238)	(3,922)	(3,892)	(3,626)	(4,338)	(6,160)	(36,534)
Financial position:							
Total assets	314,121	286,771	309,315	250,609	242,517	230,883	2,707,940
Total shareholders' equity	168,233	156,931	147,524	137,636	130,510	126,190	1,450,285
Per share of common stock:							
Shareholders' equity (in yen and U.S. dollars)...	1,736.2	1,619.5	1,522.3	1,420.4	1,346.6	1,302.2	14.97
Basic net income (in yen and U.S. dollars)	145.7	129.5	141.5	132.3	87.6	82.8	1.26
Cash dividends applicable to the year (in yen and U.S. dollars)	43.0	38.0	38.0	38.0	38.0	38.0	0.37
Ratio:							
Shareholders' equity	53.6	54.7	47.7	54.9	53.8	54.6	
Return on equity	8.7	8.3	9.7	9.6	6.7	6.5	
Return on total assets	4.7	4.2	4.9	5.2	3.7	3.7	
Other data:							
Number of franchised stores and Company-owned stores	6,284	5,994	5,770	5,593	5,287	5,275	
Number of area franchised stores (including overseas area franchised stores)	6,168	5,507	4,556	3,530	2,897	2,341	
Number of stores	12,452	11,501	10,326	9,123	8,184	7,616	
Number of shareholders	17,444	18,644	21,173	24,263	28,088	31,429	
Number of full-time employees (on a consolidated basis)	6,048	5,458	4,675	4,466	4,205	3,917	
Weighted average number of shares (thousands).....	96,846	96,852	96,857	96,867	96,868	97,107	

Note: Conversion into U.S. dollars has been made at the exchange rate of ¥116 = U.S.\$1, the rate prevailing on February 28, 2006.

➤ BUSINESS OVERVIEW AND ANALYSIS

Operating Results

(Analysis of Revenues, Costs, and Expenses)

The FamilyMart Group comprises 23 companies, including FamilyMart Co., Ltd. (“the Company”), 11 subsidiaries (of which 7 are consolidated subsidiaries, 3 are non-consolidated subsidiaries accounted for by the equity method, and 1 is a non-consolidated subsidiary not accounted for by the equity method), and 11 affiliated companies (all of which are accounted for by the equity method). The Group’s main business is the operation of convenience stores, and it has recently diversified into the operation of e-commerce and other related services.

On a consolidated basis, total operating revenues, consisting of commissions from franchised stores, net sales, and other operating revenues, grew by ¥23,542 million, or 9.3%, to ¥276,443 million (US\$2,383 million). Within this total, operating revenues from convenience store operations rose ¥17,623 million, or 8.5%, to ¥226,089 million, as a result of a growth in commissions from franchised stores as well as an increase in sales of Company-owned stores. Operating revenues from the e-commerce business surged ¥5,912 million, or 13.4%, to ¥49,885 million, thanks to increased sales of prepaid services and other items via Famiport Multimedia Kiosk.

Total operating expenses rose ¥21,749 million, or 9.8%, to ¥243,781 million (US\$2,102 million). This is mainly attributable to a growth in SG&A expenses (store rents and utility expenses resulting from the increase in the number of stores), in addition to a higher cost of sales for the e-commerce business.

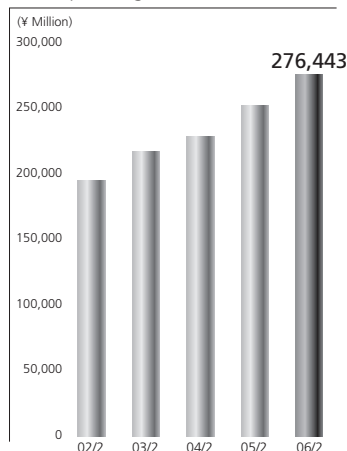
As a result, operating income grew ¥1,793 million, or 5.8%, to ¥32,662 million (US\$282 million). Of this total, operating income from convenience store operations rose ¥1,529 million, or 4.4%, to ¥36,188 million, while operating income from the e-commerce business was up ¥411 million, or 115.8%, at ¥766 million.

A net figure for “other expenses” of ¥8,291 million (US\$71 million) was registered for the reporting period, a year-on-year increase of ¥1,704 million, or 25.9%. This was mainly due to the recognition of expenses under the heading of “Loss on renewal of store management system,” stemming from the Company’s adoption of its third-generation store management system.

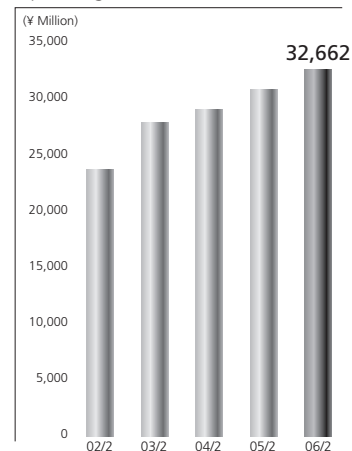
Consequently, income before income taxes and minority interests came to ¥24,371 million (US\$210 million), up by ¥89 million, or 0.4%, from the previous business term. Net income rose ¥1,572 million, or 12.5%, to ¥14,195 million (US\$122 million).

Net income per share amounted to ¥145.7 (US\$1.26).

Total operating revenues



Operating income



Financial Position

Total assets at the reporting term-end amounted to ¥314,121 million (US\$2,708 million), an increase of ¥27,350 million, or 9.5%, over the previous term-end.

Current assets increased ¥15,061 million, to ¥147,578 million (US\$1,272 million). This was due to rises in cash and cash equivalents, as well as marketable securities holdings.

The book value of property and store facilities declined ¥758 million to ¥54,111 million (US\$466 million) due mainly to depreciation.

Total investments and other assets rose ¥13,047 million, to ¥112,432 million (US\$969 million), due to increases in held-to-maturity securities and store-related leasehold deposits.

Total liabilities grew ¥14,374 million, or 11.6%, to ¥138,363 million (US\$1,193 million).

Current liabilities increased ¥13,198 million to ¥121,557 million (US\$1,048 million), principally owing to rises in utility payments received and trade accounts payable of the Company and its overseas subsidiaries.

Long-term liabilities grew ¥1,176 million to ¥16,806 million (US\$145 million), mainly due to increased liabilities for retirement benefits and a rise in the amount of leasehold deposits resulting from the increase in the number of franchised stores.

Minority interests grew ¥1,674 million, or 28.6%, to ¥7,525 million (US\$65 million), as a result of an increase in the net income of consolidated subsidiaries, among other factors.

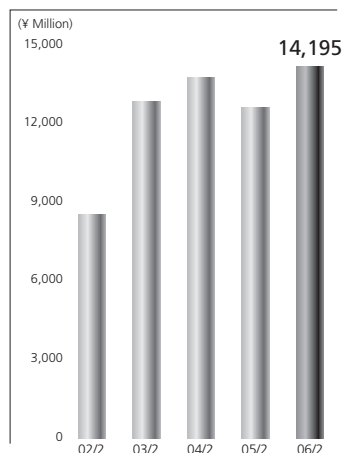
As a result, shareholders' equity came to ¥168,233 million (US\$1,450 million), while the shareholders' equity ratio declined slightly from 54.7% at the previous term-end, to 53.6%. Shareholders' equity per share amounted to ¥1,736.2 (US\$14.97).

Cash Flows

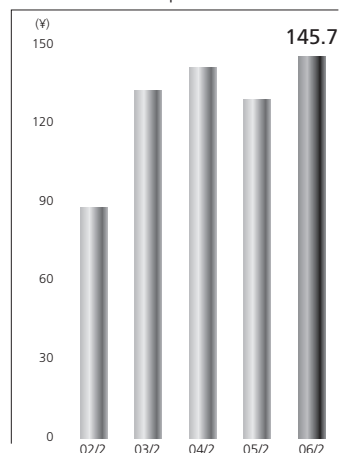
The term-end balance of cash and cash equivalents stood at ¥86,189 million (US\$743 million), up ¥6,655 million, or 8.4%.

Net cash provided by operating activities came to ¥42,778 million (US\$369 million), an increase of ¥41,350 million over the previous term. This is mainly attributable to the fact that, as the last day of the term before last (term ended February 2004) fell on a bank holiday, the settlement of accounts payable due on that date was carried over into the term ended February 2005. As a result of this, trade payables, which posted a year-on-year decrease of ¥36,787 million for the term ended February 2005, posted a year-on-year increase of ¥3,225 million for the reporting period ended February 2006. This resulted in a net cash inflow of ¥40,012 million.

Net income



Basic net income per share



Net cash used in investing activities increased ¥9,066 million, to ¥32,249 million (US\$278 million). This is mainly due to an increase of ¥2,396 million in payments of leasehold deposits, as well as a decline of ¥6,894 million in proceeds from the sales and redemption at maturity of marketable and investment securities.

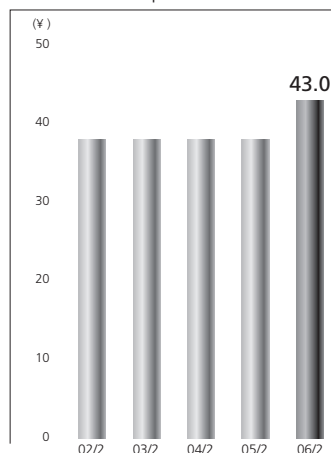
Net cash used in financing activities came to ¥4,238 million (US\$37 million), an increase of ¥316 million over the previous term. This is mainly due to the fact that an increase in revenues of ¥236 million resulting from contribution from minority-interest shareholders was more than offset by an increase of ¥240 million in dividend payments and an increase of ¥286 million in dividend payments to minority-interest shareholders.

Dividend Policy

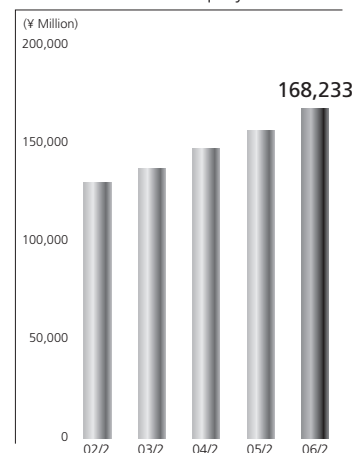
The Company regards the distribution of profits to shareholders, in the form of the payment of dividends, as a matter of the highest priority. In accordance with the Company's fundamental policy of the stable distribution of dividends to shareholders in line with the growth of operations, Company's management have decided to pay an annual per-share dividend (including an interim dividend) of ¥43.0 (US\$0.37), representing an increase of ¥5.0 per share over the previous business term.

For the current term, ending February 2007, in line with projections of strengthened business performance, the Company plans to increase its annual per-share dividend to ¥46.0 (US\$0.40).

Cash dividends per share



Total shareholders' equity



CONSOLIDATED BALANCE SHEETS
 FamilyMart Co., Ltd. and Consolidated Subsidiaries February 28, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
ASSETS			
Current assets:			
Cash and cash equivalents.....	¥ 86,189	¥ 79,534	\$ 743,009
Time deposits.....	5	14	43
Marketable securities (Note 5).....	9,853	6,930	84,940
Receivables:			
Due from franchised stores (Note 4).....	8,359	8,543	72,060
Short-term loans.....	259	283	2,233
Other.....	18,430	16,233	158,879
Allowance for doubtful receivables.....	(1,094)	(1,271)	(9,431)
Merchandise and supplies.....	6,906	6,715	59,534
Deferred tax assets (Note 11).....	3,548	1,940	30,586
Prepaid expenses and other current assets.....	15,123	13,596	130,371
Total current assets.....	<u>147,578</u>	<u>132,517</u>	<u>1,272,224</u>
Property and store facilities (Note 6):			
Land.....	13,004	13,226	112,103
Buildings and structures.....	51,700	50,525	445,690
Machinery and equipment.....	3,690	3,645	31,810
Furniture and fixtures.....	41,615	37,722	358,750
Construction in progress.....	182	47	1,569
Total.....	<u>110,191</u>	<u>105,165</u>	<u>949,922</u>
Accumulated depreciation.....	(56,080)	(50,296)	(483,448)
Net property and store facilities.....	<u>54,111</u>	<u>54,869</u>	<u>466,474</u>
Investments and other assets:			
Investment securities (Note 5).....	6,735	3,935	58,060
Investments in and advances to unconsolidated subsidiaries and associated companies (Notes 3 and 17).....	10,943	6,006	94,336
Software (Note 6).....	5,588	6,181	48,173
Goodwill (Notes 6 and 7).....	1,029	1,759	8,871
Leasehold deposits.....	80,644	74,902	695,207
Deferred tax assets (Note 11).....	2,750	2,780	23,707
Other assets.....	4,743	3,822	40,888
Total investments and other assets.....	<u>112,432</u>	<u>99,385</u>	<u>969,242</u>
Total	<u>¥314,121</u>	<u>¥286,771</u>	<u>\$2,707,940</u>

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans (Note 8)	¥ 518	¥ 481	\$ 4,466
Payables:			
Trade notes	744	836	6,414
Trade accounts for franchised and Company-owned stores	59,622	55,229	513,983
Due to franchised stores (Note 4)	2,835	2,455	24,440
Other	15,409	11,359	132,836
Income taxes payable (Note 11)	5,870	6,559	50,603
Utility payments received (Note 4)	31,003	24,308	267,267
Accrued expenses	3,596	3,360	31,000
Allowance for impairment loss on leased property (Note 12)	156	134	1,345
Other current liabilities	1,804	3,638	15,551
Total current liabilities	<u>121,557</u>	<u>108,359</u>	<u>1,047,905</u>
Long-term liabilities:			
Liability for retirement benefits (Note 9)	5,369	4,898	46,284
Leasehold deposits from franchised stores	10,449	10,205	90,078
Allowance for impairment loss on leased property (Note 12)	659	467	5,681
Other long-term liabilities	329	60	2,836
Total long-term liabilities	<u>16,806</u>	<u>15,630</u>	<u>144,879</u>
Minority interests	7,525	5,851	64,871
Commitments and contingent liabilities (Notes 12, 14 and 17)			
Shareholders' equity (Notes 10 and 16):			
Common stock—authorized, 250,000,000 shares; issued, 97,683,133 shares	16,659	16,659	143,612
Capital surplus	17,057	17,057	147,043
Retained earnings	135,576	125,366	1,168,759
Unrealized gain on available-for-sale securities (Note 5)	878	415	7,569
Foreign currency translation adjustments	(168)	(817)	(1,448)
Total	<u>170,002</u>	<u>158,680</u>	<u>1,465,535</u>
Treasury stock—at cost (840,136 shares in 2006 and 834,204 shares in 2005) ...	(1,769)	(1,749)	(15,250)
Total shareholders' equity	<u>168,233</u>	<u>156,931</u>	<u>1,450,285</u>
Total	<u>¥314,121</u>	<u>¥286,771</u>	<u>\$2,707,940</u>

See notes to consolidated financial statements.


CONSOLIDATED STATEMENTS OF INCOME
 FamilyMart Co., Ltd. and Consolidated Subsidiaries Years Ended February 28, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Operating revenues:			
Commission from franchised stores (Note 4).....	¥138,636	¥132,864	\$1,195,138
Net sales	118,551	103,599	1,021,991
Other operating revenues (Notes 3 and 4)	19,256	16,438	166,000
Total operating revenues	<u>276,443</u>	<u>252,901</u>	<u>2,383,129</u>
Operating expenses:			
Cost of sales.....	96,634	84,480	833,052
Selling, general and administrative expenses (Notes 7, 9, 12 and 17).....	147,147	137,552	1,268,508
Total operating expenses.....	<u>243,781</u>	<u>222,032</u>	<u>2,101,560</u>
Operating income	<u>32,662</u>	<u>30,869</u>	<u>281,569</u>
Other income (expenses):			
Interest and dividend income.....	835	708	7,198
Equity in earnings of unconsolidated subsidiaries and associated companies.....	29	1	250
Gain on sales of marketable and investment securities—net	164	274	1,414
Loss on sales of investment in a subsidiary and an associated company	(71)		(612)
Loss on devaluation of marketable and investment securities.....	(95)	(10)	(819)
Loss on disposals/sales of property and store facilities—net.....	(1,923)	(2,868)	(16,578)
Loss on impairment of long-lived assets (Notes 6 and 12)	(1,414)	(3,226)	(12,190)
Loss on renewal of store management system	(5,127)		(44,198)
Loss on cancellations of lease contracts	(804)	(971)	(6,931)
Other—net (Note 13)	115	(495)	992
Other expenses—net	(8,291)	(6,587)	(71,474)
Income before income taxes and minority interests	<u>24,371</u>	<u>24,282</u>	<u>210,095</u>
Income taxes (Note 11):			
Current	11,024	11,736	95,034
Deferred.....	(1,877)	(1,156)	(16,181)
Total income taxes	<u>9,147</u>	<u>10,580</u>	<u>78,853</u>
Minority interests in net income	1,029	1,079	8,871
Net income	<u>¥ 14,195</u>	<u>¥ 12,623</u>	<u>\$ 122,371</u>
		Yen	U.S. dollars
Per share of common stock:			
Basic net income (Note 15).....	¥145.7	¥129.5	\$1.26
Cash dividends applicable to the year	43.0	38.0	0.37

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

FamilyMart Co., Ltd. and Consolidated Subsidiaries Years Ended February 28, 2006 and 2005

	Thousands	Millions of yen					
	Issued number of shares of common stock	Common stock	Capital surplus	Retained earnings	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Treasury stock
Balance, March 1, 2004	97,683	¥16,659	¥17,057	¥116,504	¥102	¥(1,068)	¥(1,730)
Net income				12,623			
Cash dividends, ¥38.0 per share				(3,680)			
Bonuses to directors and corporate auditors				(61)			
Adjustments of retained earnings for:							
Newly consolidated subsidiary				(17)			
Inclusion of associated company accounted for by equity method				(3)			
Net increase in unrealized gain on available-for-sale securities					313		
Net increase in foreign currency translation adjustments						251	
Net increase in treasury stock—net (5,835 shares)							(19)
Balance, February 28, 2005	97,683	16,659	17,057	125,366	415	(817)	(1,749)
Net income				14,195			
Cash dividends, ¥40.5 per share				(3,922)			
Bonuses to directors and corporate auditors				(63)			
Net increase in unrealized gain on available-for-sale securities					463		
Net increase in foreign currency translation adjustments						649	
Net increase in treasury stock—net (5,932 shares)							(20)
Balance, February 28, 2006	97,683	¥16,659	¥17,057	¥135,576	¥878	¥ (168)	¥(1,769)

	Thousands of U.S. dollars (Note 1)						
	Common stock	Capital surplus	Retained earnings	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Treasury stock	
Balance, February 28, 2005	\$143,612	\$147,043	\$1,080,741	\$3,578	\$(7,043)	\$(15,078)	
Net income			122,371				
Cash dividends, \$0.35 per share			(33,810)				
Bonuses to directors and corporate auditors			(543)				
Net increase in unrealized gain on available-for-sale securities				3,991			
Net increase in foreign currency translation adjustments					5,595		
Net increase in treasury stock—net (5,932 shares)							(172)
Balance, February 28, 2006	\$143,612	\$147,043	\$1,168,759	\$7,569	\$(1,448)	\$(15,250)	

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FamilyMart Co., Ltd. and Consolidated Subsidiaries Years Ended February 28, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Operating activities:			
Income before income taxes and minority interests.....	¥ 24,371	¥ 24,282	\$ 210,095
Adjustments for:			
Income taxes—paid	(12,222)	(10,753)	(105,362)
Depreciation and amortization	11,368	12,146	98,000
Reversal of allowance for doubtful receivables	(253)	(99)	(2,181)
Equity in earnings of unconsolidated subsidiaries and associated companies....	(29)	(1)	(250)
Gain on devaluation/sale of marketable and investment securities—net	(69)	(264)	(595)
Loss on sale of investment in a subsidiary and an associated company	71		612
Loss on disposals/sales of property and store facilities—net	1,923	2,868	16,578
Loss on cancellations of lease contracts.....	530	571	4,569
Loss on impairment of long-lived assets	1,414	3,226	12,190
Loss on renewal of store management system	5,127		44,198
Bonuses to directors and corporate auditors.....	(63)	(61)	(543)
Changes in assets and liabilities:			
Decrease in due from/to franchised stores—net.....	564	9,939	4,862
Decrease (increase) in merchandise and supplies.....	224	(545)	1,931
Increase (decrease) in payables—trade.....	3,225	(36,787)	27,801
Increase in utility payments received	6,695	2,167	57,716
Increase in liability for retirement benefits.....	465	347	4,009
Other—net	(563)	(5,608)	(4,854)
Total adjustments.....	18,407	(22,854)	158,681
Net cash provided by operating activities	42,778	1,428	368,776
Investing activities:			
Decrease (increase) in time deposits—net	9	(4)	78
Purchases of marketable and investment securities	(120,793)	(123,292)	(1,041,319)
Purchases of investment in subsidiaries and associated companies.....	(479)	(1,066)	(4,129)
Proceeds from sales and redemption at maturity of marketable and investment securities	116,595	123,489	1,005,129
(Increase) decrease in receivables—short-term loans—net.....	(3,929)	1,647	(33,871)
Purchases of property and store facilities, software and other intangible assets...	(14,296)	(15,284)	(123,241)
Proceeds from sales of property and store facilities, software and other intangible assets.....	1,996	677	17,207
Payments of leasehold deposits	(14,508)	(12,112)	(125,069)
Refunds of leasehold deposits	2,992	1,792	25,793
Receipts of leasehold deposits from franchised stores	791	1,074	6,819
Refunds of leasehold deposits from franchised stores	(625)	(828)	(5,388)
Payments for acquisition of business.....	(65)	(687)	(561)
Other	63	1,411	543
Net cash used in investing activities.....	(32,249)	(23,183)	(278,009)
Financing activities:			
Purchase of treasury stock—net.....	(20)	(19)	(172)
Contribution from minority interest shareholders.....	544	308	4,690
Dividends paid.....	(3,925)	(3,685)	(33,836)
Dividends paid to minority interest shareholders	(812)	(526)	(7,000)
Other	(25)		(216)
Net cash used in financing activities	(4,238)	(3,922)	(36,534)
Foreign currency translation adjustments on cash and cash equivalents.....	364	7	3,138
Net increase (decrease) in cash and cash equivalents.....	6,655	(25,670)	57,371
Cash and cash equivalents, beginning of year	79,534	105,203	685,638
Cash and cash equivalents of newly consolidated subsidiary, beginning of year....		1	
Cash and cash equivalents, end of year.....	¥ 86,189	¥ 79,534	\$ 743,009

See notes to consolidated financial statements.

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

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 2005 consolidated financial statements to conform to the classifications used in 2006.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which FamilyMart Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥116 to \$1, the approximate rate of exchange at February 28, 2006. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. Summary of significant accounting policies

a. Consolidation—The consolidated financial statements as of February 28, 2006 included the accounts of the Company and its seven (eight in 2005) significant subsidiaries (together, the "Group"). In November 2005, the Company sold all of its shares of MBE Japan, Inc. ("MBE") which was formerly an 82.76% owned consolidated subsidiary. The Company's 2006 consolidated financial statements reflect the operations and cash flows of MBE through August 31, 2005.

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in 3 unconsolidated subsidiaries and investments in 11 associated companies are accounted for by the equity method. Hokkaido FamilyMart Co., Ltd., a 49.00% owned associated company, was included in the consolidated financial statements using the equity method because of its establishment in February 2006. The Company's 36.36% investment in e-PLAT JAPAN. CO., LTD. was recorded on the equity method in its August 31, 2005 interim financial statements but has been excluded in the 2006 consolidated financial statements due to the sale of the investment in November 2005.

Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The excess of the cost of the Company's investments in consolidated subsidiaries and associated companies accounted for by the equity method over its equity in the net assets at the respective date of acquisition is being amortized over a period of five years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. Cash Equivalents—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificate of deposits, commercial paper and bond funds, all of which mature or become due within three months of the date of acquisition.

c. Merchandise and Supplies—Most merchandise is primarily valued at cost determined by the retail method. Supplies are stated at cost determined by the last purchase price method.

d. Marketable and Investment Securities—Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) held-to-maturity debt securities, which are expected to be held-to-maturity with the positive intent and ability to hold to maturity, are reported at amortized cost and (2) available-for-sale securities, other than (1), are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity, while lower of cost method is applied to available-for-sale securities of consolidated foreign subsidiaries.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

e. Property and Store Facilities—Property and store facilities are stated at cost. Depreciation of property and store facilities of the Company and its consolidated domestic subsidiaries is computed substantially by the declining-balance method at rates based on the estimated useful lives of the assets, while the straight-line method is applied to the property and store facilities of consolidated foreign subsidiaries. Buildings acquired on or after April 1, 1998 are depreciated using the straight-line method. The range of useful lives is principally from 2 to 50 years for buildings and structures and from 2 to 20 years for furniture and fixtures.

f. Long-lived Assets—In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements were effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The Group adopted the new accounting standard for impairment of fixed assets from the year ended February 28, 2005.

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

g. Software—Capitalized software is stated at cost less accumulated amortization, which is calculated by the straight-line method over the estimated useful lives (five years).

h. Goodwill—Goodwill is stated at cost less accumulated amortization, which is calculated by the straight-line method over the estimated useful lives (five years).

i. Retirement and Pension Plans—The Company and certain consolidated subsidiaries have funded and/or unfunded retirement benefit plans for employees. In respect of the funded plans, a part of the annual provisions is funded as contributory pension plans with an outside trustee.

The Company and its consolidated domestic subsidiaries accounted for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date.

Foreign consolidated subsidiaries provide for the amount of retirement benefits required by local accounting standards.

Retirement benefits to directors and corporate auditors are provided at the amount which would be required if all directors and corporate auditors retired at the balance sheet date.

j. Leases—All leases are accounted for as operating leases. Under the Japanese accounting standard for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain “as if capitalized” information is disclosed in the notes to the lessee’s financial statements.

However, in certain foreign consolidated subsidiaries, leases are accounted for as capital leases.

k. Income Taxes—The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

l. Appropriations of Retained Earnings—Appropriations of retained earnings are reflected in the consolidated financial statements for the following year upon shareholders’ approval.

m. Foreign Currency Transactions—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income.

n. Foreign Currency Financial Statements—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of each balance sheet date except for shareholders’ equity, which is translated at the historical rate.

Differences arising from such translation were shown as “Foreign currency translation adjustments” in a separate component of shareholders’ equity.

Revenue and expense accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the annual average exchange rate.

o. Derivatives—The Company uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange. Foreign exchange forward contracts are utilized by the Company to reduce foreign currency exchange risks. The Company does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of income.

p. Per Share Information—Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share is not disclosed because it is anti-dilutive.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

q. New Accounting Pronouncements

Bonuses to directors and corporate auditors

Prior to the fiscal year ended February 28, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders meeting. The ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 13, “Accounting treatment for bonuses to directors and corporate auditors,” which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

3. Related parties and organization

The Company’s main shareholder is Family Corporation Inc., which owns 30.97% of the total outstanding shares of the Company. Family Corporation Inc. is 94.99% owned by ITOCHU Corporation, which distributes merchandise and supplies for “FamilyMart” stores in Japan.

The Company is a franchiser of "FamilyMart" stores for retail sales of daily necessities to consumers. The Company allows each independent franchisee to operate convenience stores using the specific designs and name of "FamilyMart" and provides them with related managerial and technical know-how under a franchise agreement. Under the agreement, each franchisee is provided with a variety of services and advice on the operation of convenience stores from the Company. In return, the franchisee is 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 sales).

The Company allows area franchised companies to be franchisers of "FamilyMart" stores in each area, including outside Japan. Area franchised companies are required to pay continuing royalty fees to the Company and the Company records this as "Other operating revenues." Area franchised companies as of February 28, 2006, are as follows:

Name of area franchiser	Area	The Company's ownership in area franchiser
Subsidiaries:		
Taiwan FamilyMart Co., Ltd.	Taiwan	40.95%
Siam FamilyMart Co., Ltd.	Thailand	90.13
FAMIMA CORPORATION	The United States of America	59.50
Associated companies:		
Okinawa FamilyMart Co., Ltd.	Okinawa, Japan	48.98
Minami Kyushu FamilyMart Co., Ltd.	Kagoshima and Miyazaki, Japan	49.00
Hokkaido FamilyMart Co., Ltd.	Hokkaido, Japan	49.00
Bokwang FamilyMart Co., Ltd.	Korea	21.45

FamilyMart China Holding, a 67.00% owned subsidiary, is a holding company of China CVS (Cayman Islands) Holding Corp. ("CCH"). CCH, a 49.50% owned associated company, is a holding company of Shanghai FamilyMart Co., Ltd. Shanghai FamilyMart Co., Ltd., a wholly owned associated company, is an area franchiser in Shanghai, China.

SFM HOLDING CO., LTD., a 90.71% owned subsidiary, is a holding company of Siam FamilyMart Co., Ltd.

In addition to the aforementioned, there are a number of subsidiaries and associated companies whose principal businesses are other than operating convenience stores.

Famima.com Co., Ltd., a 50.50% owned subsidiary, supports E-commerce operations.

Famima Credit Corporation, a 33.34% owned associated company, operates financial services, such as a settlement of credit card service and related services for its customer.

Kouyou Trading Co., Ltd., a wholly owned subsidiary, leases various equipment to "FamilyMart" stores in Japan.

Family Chef Co., Ltd., a 30.00% owned associated company, produces and distributes delicatessen items to "FamilyMart" stores in Japan.

4. Transactions with franchised stores

As discussed in Note 3 under the franchise agreement, each franchisee is provided with a variety of services and advice on the operation of convenience stores by the Company, and, in return, the franchisee is 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 sales). As the franchiser, the Company accounts for such franchise commissions on an accrual basis.

The term of a franchise agreement is generally for ten years and may be extended or renewed upon expiration subject to renegotiation of contract terms between the Company and the franchisee. The franchise agreement currently in use provides that, at the commencement of the agreement, the franchisee shall make a cash payment to the Company in the amount of ¥1,500,000 which is credited to income of the Company as "Other operating revenues" for the lump-sum franchise fee and which shall be spent for services such as research, training and preparations of store opening provided by the Company. In addition, the franchisee shall advance another ¥1,500,000 to the Company as a deposit for purchases and it is credited to "Payables—Due to franchised stores," accordingly.

Under the franchise agreement, each franchised store shall order merchandise and the store is supplied from suppliers using the centralized buy-order system maintained by the Company. The Company then accumulates such purchase orders by the franchised stores and pays the purchase amounts to suppliers on a monthly basis on behalf of the franchised stores. The Company records account receivable due from franchised stores for such purchases.

Each franchised store shall make a remittance of cash from sales to the Company on a daily basis. Furthermore, the franchised stores collect utility payments from customers on behalf of utility service providers, such as electric power companies and telecommunication companies, which are remitted to the Company on a daily basis. The receipts of such charges are recorded as a liability due to utility service suppliers and presented as "Utility payments received" on the accompanying consolidated balance sheets.

The monthly payments to purchase merchandise and other goods on behalf of each franchised store and the daily receipts of cash from the franchised stores are accumulated and offset against each other to present the net balance due to or from each franchised store.

The balances of "Receivables—Due from franchised stores" and "Payables—Due to franchised stores" in the accompanying consolidated balance sheets represent such net balances between the Company and franchised stores at the balance sheet date.

5. Marketable and investment securities

Marketable and investment securities as of February 28, 2006 and 2005, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Current:			
Government and corporate bonds...	¥1,000		\$ 8,621
Trust fund investments.....	8,853	¥6,930	76,319
Total	¥9,853	¥6,930	\$84,940

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Non-current:			
Marketable equity securities.....	¥2,198	¥1,457	\$18,948
Government and corporate bonds...	4,000	2,000	34,483
Non-marketable equity securities...	537	478	4,629
Total	¥6,735	¥3,935	\$58,060

The carrying amounts and aggregate fair values of marketable and investment securities at February 28, 2006 and 2005, were as follows:

February 28, 2006	Millions of yen			Fair value
	Cost	Unrealized gains	Unrealized losses	
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 780	¥1,444	¥ 26	¥2,198
Debt securities	8,853			8,853
Held-to-maturity	5,000		128	4,872

February 28, 2005	Millions of yen			Fair value
	Cost	Unrealized gains	Unrealized losses	
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 771	¥706	¥20	¥1,457
Debt securities	6,930			6,930
Held-to-maturity	2,000		10	1,990

February 28, 2006	Thousands of U.S. dollars			Fair value
	Cost	Unrealized gains	Unrealized losses	
Securities classified as:				
Available-for-sale:				
Equity securities	\$ 6,724	\$12,448	\$ 224	\$18,948
Debt securities	76,319			76,319
Held-to-maturity	43,103		1,103	42,000

Available-for-sale securities whose fair value is not readily determinable as of February 28, 2006 and 2005, were as follows:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Available-for-sale—Equity securities	¥537	¥478	\$4,629

The carrying values of debt securities by contractual maturities for securities classified as held-to-maturity at February 28, 2006, are as follows:

	Millions of yen	Thousands of U.S. dollars
Due in one year or less.....	¥1,000	\$ 8,621
Due after one year through five years	4,000	34,483

6. Long-lived assets

The Group reviewed its long-lived assets for impairment as of the years ended February 28, 2006 and 2005 and, as a result, recognized an impairment loss of ¥1,414 million (\$12,190 thousand) and ¥3,226 million as other expense for each stores, idle assets and others to a decline in value of the related asset categories due mainly to a continuous operating losses. The carrying amount of those assets was written down to the recoverable amount.

The Group recognized impairment losses on the following fixed assets and leased property for the years ended February 28, 2006 and 2005:

Fixed assets and leased property	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Land	¥ 270	¥ 955	\$ 2,328
Building	529	1,252	4,560
Leased property	413	601	3,560
Others	202	418	1,742
Total	¥1,414	¥3,226	\$12,190

The category and related assets which incurred impairment losses for the years ended February 28, 2006 and 2005, were as follows:

Category	Related assets	Millions of yen		Thousands of U.S. dollars
		2006	2005	2006
Stores	Land, building, leased property, etc. ...	¥1,414	¥2,595	\$12,190
Idle assets	Land and building		108	
Others	Land, building, etc.		523	
Total		¥1,414	¥3,226	\$12,190

The recoverable amount of those stores and the others was measured at their value in use and the discount rate used for computation of present value of future cash flows was 8.34% and 9.78% for the years ended February 28, 2006 and 2005, respectively. The recoverable amount of the idle assets was measured by its net selling price at disposition.

In addition, some associated companies accounted for by equity method recognized impairment losses using the same methodology. The Group recognized ¥141 million (\$1,216 thousand) and ¥125 million for the years ended February 28, 2006 and 2005, respectively, of losses on impairment of long-lived assets as "Equity in earnings of unconsolidated subsidiaries and associated companies."

7. Goodwill

Goodwill as of February 28, 2006 and 2005, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
	Consolidation goodwill	¥ 167	¥ 225
Acquisition goodwill	862	1,534	7,431
Total	¥1,029	¥1,759	\$8,871

Amortization charged to selling, general and administrative expenses for the years ended February 28, 2006 and 2005, was ¥752 million (\$6,483 thousand) and ¥917 million, respectively.

Loss on impairment of long-lived assets charged to other expense for the years ended February 28, 2006 and 2005, was ¥19 million (\$164 thousand) and ¥14 million, respectively.

8. Short-term bank loans

Short-term bank loans as of February 28, 2006 and 2005, consisted of bank overdrafts. The annual interest rate applicable to the short-term bank loan at February 28, 2006 was 5.6%.

9. Retirement and pension plans

The Company and its certain consolidated subsidiaries have severance payment plans for employees, directors and corporate auditors.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain consolidated subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age. The liability for retirement benefits for directors and corporate auditors at February 28, 2006 and 2005 is ¥523 million (\$4,508 thousand) and ¥397 million, respectively. The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

The liability for employees' retirement benefits as of February 28, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Projected benefit obligation	¥13,978	¥12,901	\$120,500
Fair value of plan assets	(6,895)	(5,485)	(59,440)
Unrecognized actuarial loss.....	(2,215)	(2,893)	(19,095)
Unrecognized transitional obligation...	(22)	(22)	(189)
Net liability.....	¥ 4,846	¥ 4,501	\$ 41,776

The components of net periodic benefit costs for the years ended February 28, 2006 and 2005, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Service cost.....	¥ 997	¥ 905	\$ 8,595
Interest cost	264	321	2,276
Expected return on plan assets.....	(6)	(4)	(52)
Recognized actuarial loss	254	136	2,190
Amortization of transitional obligation	4	3	34
Net periodic benefit costs.....	¥1,513	¥1,361	\$13,043

The contributory funded defined benefit pension plan, which is established under the Japanese Welfare Pension Insurance Law, covers a substitutional portion of the governmental pension program managed by the Company on behalf of the government and a corporate portion established at the discretion of the Company. According to the enactment of the Defined Benefit Pension Plan Law in April 2002, the Company applied for an exemption from obligation to pay benefits for future employee services related to the substitutional portion which would result in the transfer of the pension obligations and related assets to the government by another subsequent application. The Company obtained an approval of exemption from future obligation by the Ministry of Health, Labour and Welfare on April 23, 2002.

As a result of this exemption, the Company and certain subsidiaries recognized a gain on exemption from future pension obligation of the governmental program in accordance with a transitional measurement of the accounting standard for employees' retirement benefits for the year ended February 28, 2003.

The Company applied for transfer of the substitutional portion of past pension obligations to the government and obtained an approval by the Ministry of Health, Labour and Welfare on October 1, 2003.

The Company thereafter transferred the substitutional portion of the pension obligations and related assets to the government on March 19, 2004. This transfer had no effect to the consolidated statement of income for the year ended February 28, 2005.

Assumptions used for the years ended February 28, 2006 and 2005, are set forth as follows:

	2006	2005
Discount rate	Primarily 1.7%	Primarily 2.0%
Expected rate of return on plan assets	Primarily 0%	Primarily 0%
Recognition period of actuarial gain/loss	Primarily 15 years	Primarily 15 years
Amortization period of transitional obligation	Foreign consolidated subsidiary—15 years	Foreign consolidated subsidiary—15 years

Retirement benefits for directors and corporate auditors are paid subject to approval of the shareholders in accordance with the Japanese Commercial Code (the "Code").

The Company recorded a liability for its unfunded retirement benefits plan covering all of its directors and corporate auditors. The annual provisions for retirement benefits for directors and corporate auditors for the years ended February 28, 2006 and 2005 were ¥126 million (\$1,086 thousand) and ¥114 million, respectively.

10. Shareholders' equity

Japanese companies are subject to the Code.

The Code requires that all shares of common stock be recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total legal reserve and additional paid-in capital that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The Code allows Japanese companies to purchase treasury stock and dispose of such treasury stock upon resolution of the Board of Directors. The amount of treasury stock available for purchase cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the shareholders meeting.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash outlays, the Code also imposes certain limitations on the amount of capital surplus and

retained earnings available for dividends. The amount of capital surplus and retained earnings available for dividends under the Code was ¥132,165 million (\$1,139,353 thousand) as of February 28, 2006, based on the amount recorded in the parent company's general books of account.

Dividends are approved by the shareholders at a meeting held subsequent to the end of the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

On May 1, 2006, a new corporate law (the "Corporate Law") became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

a. Dividends—Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as: (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained to be at least ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus—The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the capital account charged at the payment of such dividends until the aggregate amount of legal reserve and additional paid-in capital equals 25% of common stock. Under the Code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights—The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot

exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders' equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of shareholders' equity or deducted directly from stock acquisition rights.

On December 9, 2005, the ASBJ published a new accounting standard for presentation of shareholders' equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of shareholders' equity. Such items include stock acquisition rights, minority interest, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006.

11. Income taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 41% and 42% for the years ended February 28, 2006 and 2005, respectively.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities as of February 28, 2006 and 2005, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets:			
Provision for doubtful receivables... ¥	320	¥ 364	\$ 2,759
Accrued bonuses	428	426	3,690
Provision for retirement benefits—employees	1,947	1,804	16,784
Provision for retirement benefits—directors and corporate auditors...	213	159	1,836
Depreciation	62	57	534
Loss on disposals of property and store facilities and cancellations of lease contracts	271	256	2,336
Loss on impairment of long-lived assets	1,589	1,280	13,698
Loss on renewal of store management system	1,827		15,750
Enterprise tax payable	448	541	3,862
Tax loss carryforwards	1,749	2,219	15,078
Other	342	521	2,949
Less valuation allowance	(1,800)	(2,272)	(15,517)
Total	7,396	5,355	63,759
Deferred tax liabilities:			
Special reserve for tax purpose depreciation	61	92	526
Unrealized gain on available-for-sale securities	572	270	4,931
Other	465	273	4,009
Total	1,098	635	9,466
Net deferred tax assets	¥6,298	¥4,720	\$54,293

A reconciliation between the normal effective statutory tax rate and the actual effective tax rates reflected in the accompanying consolidated statements of income for the year ended February 28, 2006 is as follows, and that for the year ended February 28, 2005 is not material.

	2006
Normal effective statutory tax rate	41%
Inhabitants taxes.....	1
Tax benefits not recognized on operating losses of subsidiaries	1
Tax credit	(3)
Lower income tax rates applicable to income in certain foreign countries	(2)
Actual effective tax rate	<u>38%</u>

As of February 28, 2006, certain subsidiaries have tax loss carryforwards aggregating approximately ¥5,180 million (\$44,655 thousand) which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending February 28 (or 29)	Millions of yen	Thousands of U.S. dollars
2007.....	¥1,309	\$11,285
2008.....	1,081	9,319
2009.....	484	4,172
2010.....	814	7,017
2011 and thereafter.....	1,492	12,862
Total	<u>¥5,180</u>	<u>\$44,655</u>

12. Leases

As Lessee

The Group leases certain furniture and fixtures, software and other assets.

Total rental expenses including lease payments for the years ended February 28, 2006 and 2005, were ¥11,962 million (\$103,121 thousand) and ¥12,617 million, respectively.

For the year ended February 28, 2006, the Group recorded an impairment loss of ¥413 million (\$3,560 thousand) on certain leased property held under finance leases that do not transfer ownership and an allowance for impairment loss on leased property.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, accumulated impairment loss, obligation under finance lease, depreciation expense, interest expense and other information of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended February 28, 2006 and 2005, was as follows:

	Millions of yen		
	2006		
	Furniture and fixtures	Software	Total
Acquisition cost	¥64,990	¥806	¥65,796
Accumulated depreciation	(36,549)	(608)	(37,157)
Accumulated impairment loss	(940)		(940)
Net leased property.....	<u>¥27,501</u>	<u>¥198</u>	<u>¥27,699</u>

	Millions of yen		
	2005		
	Furniture and fixtures	Software	Total
Acquisition cost	¥64,354	¥1,442	¥65,796
Accumulated depreciation	(33,868)	(1,068)	(34,936)
Accumulated impairment loss	(601)		(601)
Net leased property.....	<u>¥29,885</u>	<u>¥ 374</u>	<u>¥30,259</u>

	Thousands of U.S. dollars		
	2006		
	Furniture and fixtures	Software	Total
Acquisition cost	\$560,259	\$6,948	\$567,207
Accumulated depreciation	(315,078)	(5,241)	(320,319)
Accumulated impairment loss	(8,103)		(8,103)
Net leased property.....	<u>\$237,078</u>	<u>\$1,707</u>	<u>\$238,785</u>

Obligations under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Due within one year.....	¥ 7,876	¥ 9,544	\$ 67,897
Due after one year	23,727	22,374	204,543
Total	<u>¥31,603</u>	<u>¥31,918</u>	<u>\$272,440</u>

Allowance for impairment loss on leased property of ¥815 million (\$7,026 thousand) and ¥601 million as of February 28, 2006 and 2005 were not included in obligations under finance leases.

The imputed interest expense portion is included in the above obligations under finance leases.

Depreciation expense, interest expense and other information under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Depreciation expense.....	¥ 9,904	¥10,486	\$85,379
Interest expense.....	799	1,012	6,888
Total	<u>¥10,703</u>	<u>¥11,498</u>	<u>\$92,267</u>
Reversal of allowance for impairment loss on leased property	¥ 199		\$ 1,716
Impairment loss	413	¥ 601	3,560

Depreciation expense and interest expense, which are not reflected in the accompanying consolidated statements of income, are computed by the straight-line method and the interest method, respectively.

The minimum rental commitments under noncancelable operating leases as of February 28, 2006 and 2005, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Due within one year.....	¥ 458	¥ 65	\$ 3,948
Due after one year	3,061	256	26,388
Total	<u>¥3,519</u>	<u>¥321</u>	<u>\$30,336</u>

As Lessor

The Group subleases certain lands and buildings. The subleases are the finance leases that do not transfer ownership of leased buildings to the lessee. Receivable under such finance leases as of February 28, 2006 were as follows:

	Millions of yen	Thousands of U.S. dollars
Due within one year.....	¥ 241	\$ 2,078
Due after one year.....	2,229	19,216
Total	¥2,470	\$21,294

The minimum rental commitments under noncancelable operating subleases as of February 28, 2006 were as follows:

	Millions of yen	Thousands of U.S. dollars
Due within one year.....	¥ 307	\$ 2,647
Due after one year.....	2,795	24,095
Total	¥3,102	\$26,742

13. Derivatives

The Company enters into foreign currency forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Company does not hold or issue derivatives for trading purposes.

Derivatives are subject to market risk. Market risk is the exposure created by potential fluctuations in market conditions, including foreign exchange rates. Because the counterparties to those derivatives are limited to major international financial institutions, the Company does not anticipate any losses arising from credit risk.

The execution and control of derivatives are controlled by the Accounting and Finance Department of the Company in accordance with the Company internal regulation.

The Company had no derivative contracts outstanding as of February 28, 2006 and 2005.

14. Contingent liabilities

As of February 28, 2006, the Group had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
Guarantee of financial institution loan, borrowed by Famima Credit Corporation	¥3,795	\$32,716
Guarantee of financial institution loan, borrowed by SIAM DCM Co., Ltd.	62	534

SIAM DCM Co., Ltd., which is associated company, distributes merchandise and supplies for "FamilyMart" stores in Thailand.

15. Net income per share

Basis of computation of basic net income per share ("EPS") for the years ended February 28, 2006 and 2005 is as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars
	Net income	Weighted-average shares	EPS	
Year ended February 28, 2006				
EPS:				
Net income	¥14,195			
Bonuses to director and corporate auditors	(89)			
Net income available to common shareholders....	¥14,106	96,846	¥145.7	\$1.26

	Millions of yen	Thousands of shares	Yen	U.S. dollars
	Net income	Weighted-average shares	EPS	
Year ended February 28, 2005				
EPS:				
Net income	¥12,623			
Bonuses to director and corporate auditors	(86)			
Net income available to common shareholders....	¥12,537	96,852	¥129.5	

16. Subsequent events

(1) On April 10, 2006, the Company sold 560,000 shares of its treasury stock to Ryohin Keikaku Co., Ltd. at ¥3,556 (\$30.66) per share, in the aggregate of ¥1,991 million (\$17,164 thousand), in accordance with resolution approved at a meeting of the Board of Directors held on March 23, 2006. This sale was conducted in order to strengthen the relationship with Ryohin Keikaku Co., Ltd. The Company plans to buy the common stock of Ryohin Keikaku Co., Ltd. with the cash generated from the sale of treasury stock.

(2) On May 19, 2006, the Board of Directors of the Company made a resolution to repurchase up to 5,000,000 shares of the Company's common stock (aggregate amount of ¥20,000 million (\$172,414 thousand)) as treasury stock from May 22, 2006 to November 30, 2006.

(3) At the general shareholders meeting held on May 25, 2006, the Company's shareholders approved the following appropriations of retained earnings:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥21.5 (\$0.19) per share	¥2,082	\$17,948
Bonuses to directors and corporate auditors	47	405

17. Related party transactions

Transactions of the Company with related parties for the years ended February 28, 2006 and 2005, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
ITOCHU Corporation—Average short-term deposit balance to ITOCHU Corporation under cash management program	¥16,671	¥20,110	\$143,716
Tadashi Endo (corporate auditor and attorney)—Attorney's fee ...	27	35	233
Famima Credit Corporation (associated company):			
Receivable—long-term loans (included investments in and advances to unconsolidated subsidiaries and associated companies)	6,050	2,000	52,155
Guarantee of financial institution loan	3,795	2,058	32,716

¥3,162 million (\$27,259 thousand) of the above long-term loans outstanding as of February 28, 2006 are guaranteed by ITOCHU Corporation. Additionally, ¥1,031 million of the above long-term loans were guaranteed by ITOCHU Corporation and ITOCHU Finance Corporation for the year ended February 28, 2005.

18. Segment information

The Group operates in the following industries:

Convenience Store Business: Developing "FamilyMart" chain stores by franchise system and area franchise system

E-commerce Business: Sales by Famiport Multimedia Kiosks and internet shopping, etc.

Other Businesses: Leases, operating "MAIL BOXES ETC." franchised stores (until August 31, 2006), financial services, etc.

Information about industry segments, geographical segments and operating revenues from foreign customers of the Company and its subsidiaries for the years ended February 28, 2006 and 2005, was as follows:

(1) Industry Segments

The industry segments of the Company and its subsidiaries for the years ended February 28, 2006 and 2005, are summarized as follows:

a. Operating Revenues and Operating Income

	Millions of yen				Consolidated
	2006	2006	2006	2006	
	Convenience store business	E-commerce business	Other businesses	Eliminations/Corporate	
Operating revenues from outside the Group	¥226,089	¥49,885	¥ 469		¥276,443
Intersegment operating revenues	71	5,364	1,861	¥(7,296)	
Total operating revenues	226,160	55,249	2,330	(7,296)	276,443
Operating expenses	189,972	54,483	2,134	(2,808)	243,781
Operating income	¥ 36,188	¥ 766	¥ 196	¥(4,488)	¥ 32,662

b. Total Assets, Depreciation, Loss on Impairment of Long-lived Assets and Capital Expenditures

	Millions of yen				Consolidated
	2006	2006	2006	2006	
	Convenience store business	E-commerce business	Other businesses	Eliminations/Corporate	
Total assets	¥220,207	¥4,754	¥7,192	¥81,968	¥314,121
Depreciation	11,214	3	94		11,311
Loss on impairment of long-lived assets	1,414				1,414
Capital expenditures	29,453	2	36		29,491

a. Operating Revenues and Operating Income (Loss)

	Millions of yen				Consolidated
	2005	2005	2005	2005	
	Convenience store business	E-commerce business	Other businesses	Eliminations/Corporate	
Operating revenues from outside the Group	¥208,466	¥43,973	¥ 462		¥252,901
Intersegment operating revenues	61	5,244	2,389	¥(7,694)	
Total operating revenues	208,527	49,217	2,851	(7,694)	252,901
Operating expenses	173,868	48,862	2,860	(3,558)	222,032
Operating income (loss)	¥ 34,659	¥ 355	¥ (9)	¥(4,136)	¥ 30,869

b. Total Assets, Depreciation, Loss on Impairment of Long-lived Assets and Capital Expenditures

	Millions of yen				Consolidated
	2005	2005	2005	2005	
	Convenience store business	E-commerce business	Other businesses	Eliminations/Corporate	
Total assets	¥202,378	¥4,285	¥3,656	¥76,452	¥286,771
Depreciation	11,835	5	120		11,960
Loss on impairment of long-lived assets	3,130		96		3,226
Capital expenditures	26,538	4	81		26,623

a. Operating Revenues and Operating Income

	Thousands of U.S. dollars				
	2006				
	Convenience store business	E-commerce business	Other businesses	Eliminations/Corporate	Consolidated
Operating revenues from outside the Group	\$1,949,043	\$430,043	\$ 4,043		\$2,383,129
Intersegment operating revenues	612	46,241	16,044	\$(62,897)	
Total operating revenues	1,949,655	476,284	20,087	(62,897)	2,383,129
Operating expenses	1,637,690	469,681	18,396	(24,207)	2,101,560
Operating income	\$ 311,965	\$ 6,603	\$ 1,691	\$(38,690)	\$ 281,569

b. Total Assets, Depreciation, Loss on Impairment of Long-lived Assets and Capital Expenditures

	Thousands of U.S. dollars				
	2006				
	Convenience store business	E-commerce business	Other businesses	Eliminations/Corporate	Consolidated
Total assets	\$1,898,336	\$40,983	\$62,000	\$706,621	\$2,707,940
Depreciation	96,672	26	811		97,509
Loss on impairment of long-lived assets	12,190				12,190
Capital expenditures	253,905	17	311		254,233

(2) Geographical Segments

The geographical segments of the Company and its subsidiaries for the years ended February 28, 2006 and 2005, are summarized as follows:

	Millions of yen				
	2006				
	Japan	Asia	Other area	Eliminations/Corporate	Consolidated
Operating revenues from outside the Group	¥233,826	¥42,555	¥ 62		¥276,443
Interarea transfers	530	22		¥ (552)	
Total operating revenues	234,356	42,577	62	(552)	276,443
Operating expenses	199,158	40,317	363	3,943	243,781
Operating income (loss)	¥ 35,198	¥ 2,260	¥ (301)	¥ (4,495)	¥ 32,662
Total assets	¥185,694	¥41,806	¥1,415	¥85,206	¥314,121

	Millions of yen				
	2005				
	Japan	Asia	Other area	Eliminations/Corporate	Consolidated
Operating revenues from outside the Group	¥217,363	¥35,538			¥252,901
Interarea transfers	440	29		¥ (469)	
Total operating revenues	217,803	35,567		(469)	252,901
Operating expenses	184,689	33,679	¥ 5	3,659	222,032
Operating income (loss)	¥ 33,114	¥ 1,888	¥ (5)	¥ (4,128)	¥ 30,869
Total assets	¥173,772	¥32,770	¥99	¥80,130	¥286,771

	Thousands of U.S. dollars				
	2006				
	Japan	Asia	Other area	Eliminations/Corporate	Consolidated
Operating revenues from outside the Group	\$2,015,741	\$366,853	\$ 535		\$2,383,129
Interarea transfers	4,569	190		\$(4,759)	
Total operating revenues	2,020,310	367,043	535	(4,759)	2,383,129
Operating expenses	1,716,879	347,560	3,129	33,992	2,101,560
Operating income (loss)	\$ 303,431	\$ 19,483	\$(2,594)	\$(38,751)	\$ 281,569
Total assets	\$1,600,810	\$360,397	\$12,198	\$734,535	\$2,707,940

(3) Operating Revenues from Foreign Customers

Operating revenues from foreign customers for the years ended February 28, 2006 and 2005, amounted to ¥42,944 million (\$370,207 thousand) and ¥35,945 million, respectively.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
FamilyMart Co., Ltd.:

We have audited the accompanying consolidated balance sheets of FamilyMart Co., Ltd. (the "Company") and consolidated subsidiaries (together, the "Group") as of February 28, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of FamilyMart Co., Ltd. and consolidated subsidiaries as of February 28, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 2.f to the consolidated financial statements, the Group adopted the new accounting standard for impairment of fixed assets from the year ended February 28, 2005.

As discussed in Note 16(2) to the consolidated financial statements, the Board of Directors of the Company made a resolution to repurchase its common stock as treasury stock on May 19, 2006.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

May 25, 2006