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Our measures to strengthen the "FamilyMart Feel"



Our computer system is key to maintaining customer loyalty. I am committed to developing a system that makes FamilyMart highly competitive through anticipation of customer needs.

System development



To me, the "FamilyMart Feel" means greeting the customers, delivering satisfaction. Each day, I aim to provide our customers with an even warmer and more friendly experience.

Store staff



My job is to devise consistent communication strategies that help mobilize the enthusiasm of franchisees and store staff to more speedily share successful initiatives.

Executive Officer,
Marketing Department



In my supervisory work, I collaborate closely with franchisees to analyze and solve their problems, opening up bright prospects for their business expansion.

Supervisor

Consolidated Eight-Year Summary

FamilyMart Co., Ltd. and Consolidated Subsidiaries

Years Ended the Last Day of February

	Millions of yen		
	2008	2007	2006
Results of operations:			
Operating revenues:			
Commission from franchised stores	150,351	142,294	138,636
Net sales	147,856	134,506	118,551
Other operating revenues	21,232	21,049	19,256
Total operating revenues	319,439	297,849	276,443
Operating income	31,214	29,609	32,662
Net income	16,438	14,969	14,195
Net cash provided by operating activities	49,375	35,093	42,778
Net cash used in investing activities	(24,593)	(32,938)	(32,249)
Net cash provided by (used in) financing activities	3,956	(19,155)	(4,238)
Financial position:			
Total assets	351,271	315,256	314,121
Total equity (Note 2)	191,281	171,155	168,233
Per share of common stock:			
Total equity (in yen and U.S. dollars) (Note 2)	1,921.6	1,771.3	1,736.2
Basic net income (in yen and U.S. dollars)	173.5	158.8	145.7
Cash dividends applicable to the year (in yen and U.S. dollars)	60.0	46.0	43.0
Ratio:			
Equity ratio (%)	52.2	51.9	53.6
Return on equity (%)	9.5	9.0	8.7
Return on total assets (%)	4.9	4.8	4.7
Other data:			
Number of franchised stores and Company-owned stores	6,691	6,501	6,284
Number of area franchised stores (including overseas area franchised stores)	7,184	6,621	6,168
Number of stores	13,875	13,122	12,452
Number of full-time employees	6,647	6,735	6,048
Number of shareholders	14,933	17,880	17,444
Weighted average number of shares (thousands)	94,425	94,037	96,846

Notes: 1. Conversion into U.S. dollars has been made at the exchange rate of ¥105=U.S.\$1, the rate prevailing on February 29, 2008.

2. Beginning with the fiscal year ended February 28, 2007, minority interests have been included in total equity.

Millions of yen					Thousands of U.S. dollars (Note 1)
2005	2004	2003	2002	2001	2008
132,864	127,164	122,738	116,478	111,729	1,431,914
103,599	87,083	80,952	67,822	54,122	1,408,152
16,438	14,730	13,778	11,305	10,248	202,210
252,901	228,977	217,468	195,605	176,099	3,042,276
30,869	29,093	27,921	23,756	24,123	297,276
12,623	13,788	12,880	8,549	8,112	156,552
1,428	73,593	32,694	34,219	23,305	470,238
(23,183)	(10,719)	(29,327)	(28,812)	(30,980)	(234,219)
(3,922)	(3,892)	(3,626)	(4,338)	(6,160)	37,676
286,771	309,315	250,609	242,517	230,883	3,345,438
156,931	147,524	137,636	130,510	126,190	1,821,724
1,619.5	1,522.3	1,420.4	1,346.6	1,302.2	18.30
129.5	141.5	132.3	87.6	82.8	1.65
38.0	38.0	38.0	38.0	38.0	0.57
54.7	47.7	54.9	53.8	54.6	
8.3	9.7	9.6	6.7	6.5	
4.2	4.9	5.2	3.7	3.7	
5,994	5,770	5,593	5,287	5,275	
5,507	4,556	3,530	2,897	2,341	
11,501	10,326	9,123	8,184	7,616	
5,458	4,675	4,466	4,205	3,917	
18,644	21,173	24,263	28,088	31,429	
96,852	96,857	96,867	96,868	97,107	

Management's Discussion and Analysis

Business Environment

During the reporting term ended February 2008, the Japanese economy showed further signs of recovery, as indicated by improved corporate profits and increased private sector capital investment. By the term-end, however, the economy was experiencing an overall deceleration triggered by soaring oil and raw materials prices, and a full-scale recovery in personal consumption also failed to materialize. The operating environment for convenience stores remained challenging, characterized by greater variation in consumer demand trends, a changing population structure, advances in IT, and intensified competition from players outside the industry.

Business Performance (non-consolidated)

At a time when the majority of competitors were reporting year-on-year declines in daily sales on an existing store basis, the growth rate of FamilyMart's daily sales on an existing store basis came to 0.9%, marking a return to positive growth for the first time in three years. In recent years, the industry has seen a downward trend in daily sales on an existing store basis. At FamilyMart, we responded to this trend by getting back to the basics of retailing and enhancing our unique strengths – what we call the “FamilyMart Feel” – so as to create a stronger business foundation leading to healthy earnings in the future. In this way, we have worked to win customer loyalty, as evidenced by the continuous rising trend since December 2006 in the number of customers per store on an existing store basis (excluding June 2007, when a decline in cigarette sales was seen, in reaction to a one-time surge in anticipation of a tax hike).

Business Performance (non-consolidated)

	07/2	08/2	YoY difference
Growth rate of average daily sales per existing stores (%)	(1.4)	0.9	2.3
Average daily sales (existing stores; thousands of yen)	466	473	7
Number of customers (existing stores)	834	858	24

*The figures above do not reflect the performance results of the TOMONY stores.

Breakdown of Sales by Product Category (non-consolidated)

A breakdown of sales shows an across-the-board rise in all categories.

In fast food categories, sales rose 7.2% as a result of our positioning this category as one of the priority categories. An especially strong performance was recorded in fried chicken, “Fami-chiki” boneless fried chicken, and *oden* (Japanese-style stewed hodgepodge).

In the daily food category, not only did our ready-to-eat “Three-Star Pasta” and other prepared noodle dishes post a strong growth in sales, but rice balls, bread and pastries, chilled beverages, and desserts also showed a substantial year-on-year increase in sales. To respond to the preferences of individual local markets, we have expanded the number of Famima Fresh corners, where we sell fresh vegetables and prepared food kits, to approximately 1,000 of our stores primarily in the three major metropolises of Tokyo, Osaka, and Nagoya. This, in turn, has led to a rise in sales of fresh produce and related items. Amid increasingly severe, industry-wide competition in boxed lunches, we were able to enhance the attractiveness of our offerings, which contributed to a turnaround in sales for these items. As a result, sales of daily food category rose 5.8% year-on-year.

In processed foods, sales rose 4.7% year-on-year, thanks to a strong performance by beverages, liquor, confectionery, and ice cream.

In the non-food category, selected items among our product lineup faced intensified competition from discount stores and other competitors from outside the industry. This decline was offset by an increase in sales of cigarettes, which led to a year-on-year rise of 4.5% in sales in this category. We expect this upward trend to continue in the current fiscal year, given that from July 2008 consumers will be required to use *taspo* IC cards for age verification when purchasing cigarettes from vending machines.

In services, revenue increased 1.7% year-on-year, supported by growth in sales of stamps, post cards, and express delivery services.

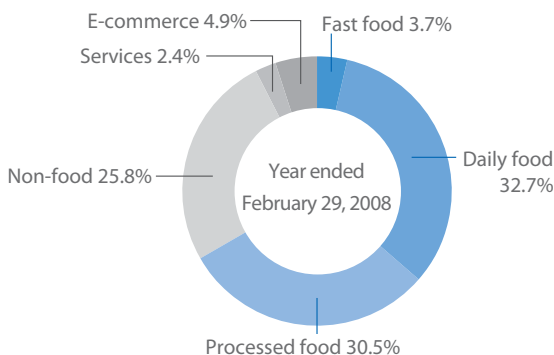
Sales in the e-commerce field also grew, up 2.8% over the previous year, attributable largely to a rise in online ticket sales.

Breakdown of Sales by Product Category (non-consolidated)

(Millions of yen)

	07/2	08/2	YoY change
Fast food	38,502	41,286	7.2%
Daily food	346,725	366,960	5.8%
Processed food	327,043	342,502	4.7%
Non-food	276,656	289,239	4.5%
Services	26,935	27,401	1.7%
E-commerce	52,961	54,450	2.8%
Total	1,068,822	1,121,838	5.0%

Sales by Product Category (non-consolidated)



Gross Profit Ratio (non-consolidated)

There was a rise in the contribution to sales ratio of cigarettes, which have a low profit ratio. Sales also grew for ready-to-eat foods, which have a high profit ratio. In addition, our efforts to improve gross profit ratios, particularly of food products, resulted in a gross profit ratio of 29.18%, up 0.23 of a percentage point from the previous year.

Gross Profit Ratio (non-consolidated)

	07/2	08/2	YoY difference
Gross profit ratio (%)	28.95	29.18	0.23

*The figures above do not reflect the performance results of the TOMONY stores.

Store Development

We are continuing to open stores in new markets, such as expressway service areas and hospitals, with the aim of further

enhancing customer convenience and responding to unmet customer needs. Adopting a new retail format, in July 2007 we commenced joint development of the TOMONY store format for shopping areas inside station buildings operated by Seibu Railway in the Tokyo area. During the reporting term, we opened 515 new stores (excluding five newly opened TOMONY stores), and closed 330 stores (which includes 67 stores under the scrap and build category). As of the term-end, we had a total of 6,691 stores. This marks an increase of 190 stores over the previous fiscal year-end. Amid the implementation of more rigorous standards for new store openings, new store daily sales reached ¥425,000, a year-on-year rise of ¥19,000, primarily attributable to the strategy of concentrating new store openings in Japan's three major metropolises, where the level of daily sales is the highest.

As of the term-end, FamilyMart had a total of 7,187 stores operating in Japan, including stores operated under three domestic area franchisers. Regarding overseas expansion by area franchisers, a new store began operation in Suzhou, in China's Jiangsu Province, in September 2007. As a result, the number of stores operating in the overseas markets of Taiwan, South Korea, Thailand, China, and the United States totaled 6,688, bringing the grand total to 13,875 stores in the FamilyMart chain.

Store Development Performance (non-consolidated)

	07/2	08/2	YoY difference
Store openings	586	515	(71)
Store closures	369	330	(39)
Scrap and build	53	67	14
Average daily sales per store (new stores; thousands of yen)	406	425	19

*The figures above do not reflect the performance results of the TOMONY stores.

Number of Stores (including area franchised stores)

	07/2	08/2	YoY difference
Japan	6,974	7,187	213
Overseas	6,148	6,688	540
Total chain stores	13,122	13,875	753

Operating Results (Analysis of Revenues, Costs and Expenses)

The FamilyMart Group, headed by FamilyMart Co., Ltd. (“the Company”), comprises 28 companies, consisting of 12 subsidiaries (7 consolidated subsidiaries and 4 unconsolidated subsidiaries accounted for by the equity method), and 15 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 been actively diversifying into the operation of e-commerce and other related services.

On a consolidated basis, total operating revenues, consisting of commissions from franchised stores, sales at directly-operated stores and other operating revenues, grew by ¥21,590 million, or 7.2%, to ¥319,439 million (US\$3,042 million). Of this total, operating revenues from convenience store operations rose ¥19,251 million, or 8.0%, to ¥260,576 million, owing to increases in commissions from franchise stores and sales at Company-owned stores. Operating revenues from the e-commerce business rose ¥2,055 million, or 3.7%, to ¥57,770 million, thanks to growth in revenues from the Famiport Multimedia Terminals, among others.

Total operating expenses increased ¥19,985 million, or 7.5%, to ¥288,225 million (US\$2,745 million). This is attributable to an increase in the expenses for the convenience store business, which more than cancelled out a decrease in SG&A expenses for the e-commerce business owing to initiatives to improve the earnings structure including the introduction of

new Famiport Multimedia Terminals. In the convenience store business, SG&A expenses rose, primarily due to expenditures for a store-management system for new stores, in addition to a rise in rents accompanying growth in the number of stores.

As a result, operating income rose ¥1,605 million, or 5.4%, to ¥31,214 million (US\$297 million) year on year. Of this total, operating income from convenience store operations increased ¥1,340 million, or 4.0%, to ¥35,040 million, while operating income from e-commerce grew ¥599 million, or 124.1%, to ¥1,081 million.

A net figure for “other expenses” of ¥2,382 million (US\$23 million) was registered for the reporting period, a year-on-year decrease of ¥477 million, or 16.7%. This was despite increases in interest received and gains on equity-method investments.

Consequently, income before income taxes and minority interests came to ¥28,832 million (US\$275 million), up ¥2,082 million, or 7.8%, from the previous business term. Net income rose ¥1,469 million, or 9.8%, to ¥16,438 million (US\$157 million).

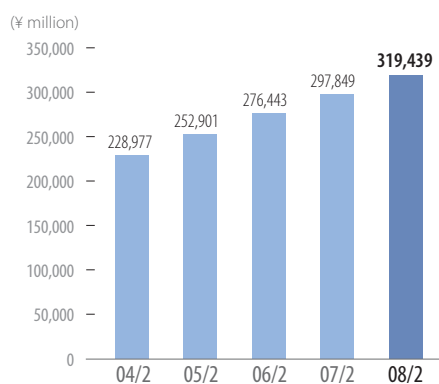
Earnings per share amounted to ¥173.5 (US\$1.65).

Financial Position

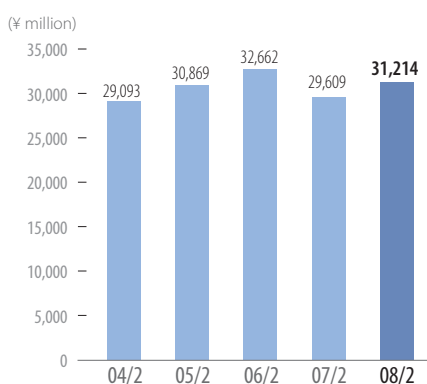
Total assets at the reporting term-end amounted to ¥351,271 million (US\$3,345 million), an increase of ¥36,015 million, or 11.4%, over the previous term-end.

Current assets came to ¥159,575 million (US\$1,520 million), up ¥28,646 million from the previous term-end. This was

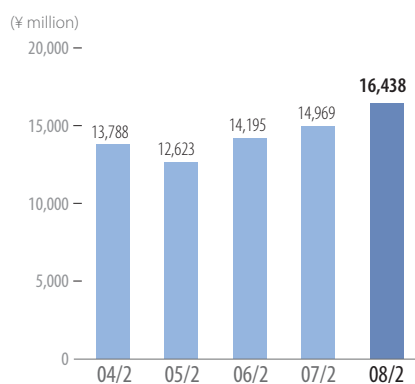
Operating Revenues



Operating Income



Net Income



due largely to an increase in retained earnings, as well as a rise in cash and cash equivalents and marketable and investment securities accompanying the sale of own shares.

The book value of property and store facilities fell ¥2,563 million to ¥52,695 million (US\$502 million). This decline is mainly attributable to the disposal of properties primarily due to store closure and renovation.

Investments and other assets rose ¥9,932 million, to ¥139,001 million (US\$1,324 million), principally owing to the increase in store-related leasehold deposits.

Total liabilities increased ¥15,889 million (11.0%) to ¥159,990 million (US\$1,524 million).

Current liabilities grew ¥15,566 million to ¥141,929 million (US\$1,352 million), due primarily to growth in trade payables and a rise in utility payments received from customers.

Long-term liabilities rose by ¥323 million to ¥18,061 million (US\$172 million). This is attributable primarily to the posting of higher losses on long-term lease assets under impairment accounting.

As a result, total equity came to ¥191,281 million (US\$1,822 million), while the equity ratio rose slightly, from 51.9% to 52.2%. Total equity per share amounted to ¥1,921.6.

Cash Flows

The term-end balance of cash and cash equivalents stood at ¥98,844 million (US\$941 million), up ¥29,293 million, or 42.1% year-on-year.

Net cash provided by operating activities came to ¥49,375 million (US\$470 million), up ¥14,282 million. This is mainly attributable to a ¥2,082 million increase in income before income taxes, a ¥3,850 million rise in trade payables, and a ¥2,508 million increase in deposits received, as well as a ¥1,874 million decrease in income tax payments.

Net cash used in investing activities reached ¥24,593 million (US\$234 million), down ¥8,345 million. This is primarily due to a ¥19,083 million decrease in purchases of marketable and investment securities, and a ¥6,646 million decrease in purchases of property and store facilities, software and other

intangible assets. This more than offset a ¥15,725 million decline in proceeds from sales and redemption at maturity of marketable and investment securities.

Net cash provided by financing activities came to ¥3,956 million (US\$38 million), compared with an outflow of ¥19,155 million for the previous period, mainly owing to a ¥16,447 million decline in expenditures for the purchase of own shares, and a ¥6,976 million increase in proceeds from the sale of shares in treasury.

Dividend Policy

The Company regards the distribution of profits to shareholders, in the form of the payment of dividends, as a matter of highest priority. In accordance with the Company's fundamental policy of implementing a stable distribution of dividends to shareholders in line with the growth of operations, the management has decided to pay an annual per-share dividend (including an interim dividend) of ¥60 (US\$0.57) for the reporting term, up ¥14 over the previous period.

For the current term, ending February 2009, the Company plans to increase its annual per-share dividend to ¥64 (US\$0.61).

Outlook

In the current term, the deceleration of the U.S. economy and the surge in the price of oil and raw materials is expected to have a dampening effect on Japan's economic growth. With a full-scale recovery in consumer spending unlikely, we expect our operating environment to become increasingly harsh.

Against this backdrop, FamilyMart will help all of its franchisees to achieve growth and improve their profitability, through further enhancement of our franchiser function. We are working to increase daily sales by strictly enforcing service, quality and cleanliness (SQ&C) with the aim of maximizing customer satisfaction, improving precision in the ordering of merchandise to prevent product shortages, and strengthening merchandising to raise the value of daily sales

per store. Efforts to improve merchandising include the use of five temperatures zones, ranging from frozen to hot, in the handling of products, enabling the creation of new product categories and the development of new products.

In addition, we will continue working to improve our universal services by expanding the menu of services offered utilizing our current telecommunications infrastructure, which includes an electronic money settlement service and our T-POINT program, so as to further enhance customer convenience.

With regard to store development, we again have many new store openings planned in the current term. Our goal is to maintain our dominance in selected areas of Japan's 47 prefectures, but especially in the three major metropolises, and simultaneously to expand our operations as well as enter new markets and attract corporate franchisees.

As a result, for the current term we estimate a 2.5% rise in daily sales on an existing store basis (with the introduction of *taspo*, accounting for a one percentage point rise in the daily sales total), a 0.08 of a percentage point improvement in the gross profit ratio to 29.26% (with the introduction of *taspo* expected to exert a downward effect of 0.19 of a percentage point on the gross profit ratio). We plan to open 550 new stores, and close 350 stores, and are targeting daily sales of ¥445,000 at new stores. With regard to our overseas operations, we plan to continue actively expanding in various markets in Asia and in the U.S.

In our e-commerce operations, which are being managed by the company famima.com. Co., Ltd., we have developed new contents for Famiport Multimedia Terminals, and have expanded our lineup of original products. The Famima Credit Corporation has formed an alliance with the Culture Convenience Club Group. The collaboration with the Culture Convenience Club Group not only allows for enhanced customer convenience through the mutual sharing of card points, but also will enable Famima Credit Corporation to strengthen its revenue base.

Our target for the current term, on a consolidated basis, is for an 11.4% decline in operating revenues to ¥282,900

million (US\$2,694 million), a 3.8% rise in operating income to ¥32,400 million (US\$309 million), and for net income of ¥16,600 million (US\$158 million), up 1.0% year on year.

With regard to revenue recognition of famima.com. Co., Ltd., commission revenues from consignment agreements which had previously been disclosed on a gross basis (i.e. with the posting of both gross commission revenues and corresponding expenses) are now being reported on a net basis (as net commission revenues) in line with the Accounting Standards Board of Japan statement No. 17 "Practical Solution on Revenue Recognition of Software Transactions" (released March 30, 2006). Our target for operating revenue takes this accounting change into consideration. We expect this change to have no material impact on our earnings results.

Operational Results (non-consolidated)

	08/2	09/2 (Est.)	YoY difference
Average daily sales (total stores; thousands of yen)	471	490	19
Growth rate of average daily sales per existing store (%)	0.9	2.5	1.6
Gross profit ratio (%)	29.18	29.26	0.08
Average daily sales (new stores; thousands of yen)	425	445	20
Store openings	515	550	35
Store closures	330	350	20

*The figures above do not reflect the performance results of the TOMONY stores.

Business Performance Results (consolidated)

(Millions of yen)

	08/2	09/2 (Est.)	YoY change
Operating revenues	319,439	282,900	(11.4)%
Operating income	31,214	32,400	3.8%
Net income	16,438	16,600	1.0%

Operational and Other Risks

The following section outlines some of the main risks relating to the FamilyMart Group's operations that could potentially have a significant impact on investors' decisions.

Statements contained within this section that refer to matters in the future have been determined to the best of our knowledge as of the end of the reporting term.

(1) Impact of Legislation

As part of its operations in Japan and other countries around the world, the FamilyMart Group is subject to laws, regulations and official authorization relating to matters such as food safety, fair trade and environmental protection.

Although the FamilyMart Group will make every effort to comply with such legislation, future developments such as unexpected changes to the relevant legislation or differences of opinion with the authorities could potentially have an impact on the FamilyMart Group's performance of its operations, results and financial position. Similarly, the FamilyMart Group's performance of its operations, results and financial position could also be affected by new, unforeseen costs arising as a result of compliance with the aforementioned legislation.

In overseas countries in particular, any significant deviation from the grounds upon which our business plans are based as a result of developments such as unexpected changes to legislation or political or economic factors could potentially have an impact on the FamilyMart Group's performance of its operations, results and financial position.

(2) Trends in Demand

The FamilyMart Group primarily runs convenience store operations, an area in which demand is affected to a large extent by the climate and economic situation (business climates, consumer spending, etc.) in Japan and other countries in which we operate.

Furthermore, unforeseen natural or manmade disasters in Japan or other countries in which we operate, such as earthquakes, epidemics, fires, acts of terrorism, or war, could potentially delay or prevent product supplies to our stores

or affect our ability to continue operations in the event of physical damage to stores or other such factors.

The above factors could all potentially have an impact on the FamilyMart Group's performance of its operations, results and financial position.

(3) Food Safety

As part of its convenience store operations, The FamilyMart Group provides consumers with items of food. In the unfortunate event of the provision of unqualified foods resulting in problems such as food poisoning, the FamilyMart Group's performance of its operations, results and financial position could potentially be affected due to factors such as a decline in sales due to reduced levels of consumer confidence or generation of costs for compensation of damages.

By setting out rigorous quality standards and establishing a consistent management system in conjunction with our suppliers covering everything from production to sale, the FamilyMart Group makes every possible effort to ensure adequate levels of hygiene.

(4) Handling Personal Data

Over the course of its operations, the FamilyMart Group collects and retains personal data principally on its customers. In the unfortunate event that personal data is leaked or any such similar event, the FamilyMart Group's performance of its operations, results and financial position could potentially be affected due to a loss of confidence from general public, damage to the company's reputation, a decline in sales or generation of costs for compensation of damages.

In order to prevent illegal access to personal data, leakages or any other such problems, the FamilyMart Group implements a range of organizational, human, physical and technical security control measures, all of which are widely recognized as being highly reliable, and adequately supervises all operators handling personal data as necessary. In November 2006, the FamilyMart Group became the first convenience store chain operator to be accredited for the use of Privacy Mark.

Consolidated Balance Sheets

FamilyMart Co., Ltd. and Consolidated Subsidiaries

February 29, 2008 and February 28, 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 98,844	¥ 69,551	\$ 941,371
Time deposits	5	5	48
Marketable securities (Note 5)	3,771	5,980	35,914
Receivables:			
Due from franchised stores (Note 4).....	8,449	8,949	80,467
Other	19,654	19,283	187,181
Allowance for doubtful receivables.....	(289)	(1,274)	(2,752)
Merchandise and supplies.....	8,100	8,446	77,143
Deferred tax assets (Note 11).....	2,551	2,342	24,295
Prepaid expenses and other current assets.....	18,490	17,647	176,095
Total current assets	<u>159,575</u>	<u>130,929</u>	<u>1,519,762</u>
Property and store facilities (Note 6):			
Land	11,850	12,587	112,857
Buildings and structures.....	54,736	54,028	521,295
Machinery and equipment.....	3,486	3,673	33,200
Furniture and fixtures.....	36,660	38,324	349,143
Construction in progress	939	1,084	8,943
Total	<u>107,671</u>	<u>109,696</u>	<u>1,025,438</u>
Accumulated depreciation.....	<u>(54,976)</u>	<u>(54,438)</u>	<u>(523,581)</u>
Net property and store facilities.....	<u>52,695</u>	<u>55,258</u>	<u>501,857</u>
Investments and other assets:			
Investment securities (Note 5)	8,544	10,709	81,371
Investments in and advances to unconsolidated subsidiaries and associated companies (Notes 3 and 17).....	18,633	16,178	177,457
Software	5,168	4,673	49,219
Goodwill (Note 7)	2,602	786	24,781
Leasehold deposits	91,273	86,149	869,267
Deferred tax assets (Note 11).....	3,775	3,292	35,953
Other assets	9,006	7,282	85,771
Total investments and other assets.....	<u>139,001</u>	<u>129,069</u>	<u>1,323,819</u>
Total	<u>¥351,271</u>	<u>¥315,256</u>	<u>\$3,345,438</u>

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
LIABILITIES AND EQUITY			
Current liabilities:			
Short-term bank loans (Note 8)	¥ 309	¥ 617	\$ 2,943
Payables:			
Trade notes	741	784	7,057
Trade accounts for franchised and Company-owned stores	64,763	60,563	616,790
Due to franchised stores (Note 4)	3,013	2,839	28,695
Other	17,281	15,447	164,581
Income taxes payable (Note 11)	7,135	4,627	67,952
Deposit received (Note 4)	42,230	35,601	402,190
Accrued expenses	3,980	3,343	37,905
Allowance for impairment loss on leased property (Notes 6 and 12)	225	188	2,143
Other current liabilities	2,252	2,354	21,448
Total current liabilities	<u>141,929</u>	<u>126,363</u>	<u>1,351,704</u>
Long-term liabilities:			
Liability for retirement benefits (Note 9)	5,734	5,612	54,610
Leasehold deposits from franchised stores	10,420	10,555	99,238
Allowance for impairment loss on leased property (Notes 6 and 12)	952	747	9,067
Other long-term liabilities	955	824	9,095
Total long-term liabilities	<u>18,061</u>	<u>17,738</u>	<u>172,010</u>
Commitments and contingent liabilities (Notes 12, 14 and 17)			
Equity (Notes 10 and 16):			
Common stock—authorized, 250,000,000 shares; issued, 97,683,133 shares ...	16,659	16,659	158,657
Capital surplus	17,388	17,869	165,600
Retained earnings	157,901	146,273	1,503,819
Unrealized gain (loss) on available-for-sale securities (Note 5)	(1,062)	139	(10,114)
Foreign currency translation adjustments	(44)	(200)	(419)
Treasury stock—at cost, 2,358,840 shares in 2008 and 5,284,600 shares in 2007...	(7,605)	(17,038)	(72,429)
Total	<u>183,237</u>	<u>163,702</u>	<u>1,745,114</u>
Minority interests	8,044	7,453	76,610
Total equity	<u>191,281</u>	<u>171,155</u>	<u>1,821,724</u>
Total	<u>¥351,271</u>	<u>¥315,256</u>	<u>\$3,345,438</u>

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

FamilyMart Co., Ltd. and Consolidated Subsidiaries Years Ended February 29, 2008 and February 28, 2007

	Thousands	Millions of yen								
	Outstanding number of shares of common stock	Common stock	Capital surplus	Retained earnings	Unrealized gain (loss) on available-for-sale securities	Foreign currency translation adjustments	Treasury stock	Total	Minority interests	Total equity
Balance, March 1, 2006	96,843	¥16,659	¥17,057	¥135,576	¥ 878	¥(168)	¥ (1,769)	¥168,233		¥168,233
Reclassified balance as of February 28, 2006 (Note 2.j)									¥7,525	7,525
Net income				14,969				14,969		14,969
Cash dividends, ¥44.5 per share				(4,208)				(4,208)		(4,208)
Bonuses to directors and corporate auditors.....				(64)				(64)		(64)
Purchase of treasury stock.....	(5,005)						(16,449)	(16,449)		(16,449)
Sales of treasury stock.....	561		812				1,180	1,992		1,992
Net change in the year					(739)	(32)		(771)	(72)	(843)
Balance, February 28, 2007	92,399	16,659	17,869	146,273	139	(200)	(17,038)	163,702	7,453	171,155
Net income				16,438				16,438		16,438
Cash dividends, ¥51.0 per share				(4,794)				(4,794)		(4,794)
Bonuses to a foreign consolidated subsidiary's directors and corporate auditors.....				(16)				(16)		(16)
Purchase of treasury stock.....	(5)						(16)	(16)		(16)
Sales of treasury stock.....	2,930		(481)				9,449	8,968		8,968
Net change in the year					(1,201)	156		(1,045)	591	(454)
Balance, February 29, 2008	95,324	¥16,659	¥17,388	¥157,901	¥(1,062)	¥ (44)	¥ (7,605)	¥183,237	¥8,044	¥191,281

	Thousands of U.S. dollars (Note 1)									
	Common stock	Capital surplus	Retained earnings	Unrealized gain (loss) on available-for-sale securities	Foreign currency translation adjustments	Treasury stock	Total	Minority interests	Total equity	
Balance, February 28, 2007	\$158,657	\$170,181	\$1,393,076	\$ 1,324	\$(1,905)	\$(162,267)	\$1,559,066	\$70,981	\$1,630,047	
Net income			156,552				156,552		156,552	
Cash dividends, \$0.49 per share			(45,657)				(45,657)		(45,657)	
Bonuses to a foreign consolidated subsidiary's directors and corporate auditors			(152)				(152)		(152)	
Purchase of treasury stock.....						(152)	(152)		(152)	
Sales of treasury stock.....		(4,581)				89,990	85,409		85,409	
Net change in the year				(11,438)	1,486		(9,952)	5,629	(4,323)	
Balance, February 29, 2008	\$158,657	\$165,600	\$1,503,819	\$(10,114)	\$ (419)	\$(72,429)	\$1,745,114	\$76,610	\$1,821,724	

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

FamilyMart Co., Ltd. and Consolidated Subsidiaries Years Ended February 29, 2008 and February 28, 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Operating activities:			
Income before income taxes and minority interests	¥ 28,832	¥ 26,750	\$ 274,590
Adjustments for:			
Income taxes—paid	(9,211)	(11,085)	(87,724)
Depreciation and amortization	10,373	11,622	98,790
Reversal of allowance for doubtful receivables	19	159	181
Equity in earnings of unconsolidated subsidiaries and associated companies....	(767)	(204)	(7,305)
Gain on devaluation/sale of marketable and investment securities—net.....	(77)	(200)	(733)
Loss on disposals/sales of property and store facilities—net.....	2,427	2,441	23,114
Loss on cancellations of lease contracts.....	970	772	9,238
Loss on impairment of long-lived assets	1,966	1,437	18,724
Bonuses to directors and corporate auditors	(16)	(64)	(152)
Changes in assets and liabilities:			
Decrease (increase) in due from/to franchised stores—net	678	(581)	6,457
Decrease (increase) in merchandise and supplies.....	324	(1,275)	3,086
Increase in payables—trade	4,297	447	40,924
Increase in deposit received	6,777	4,269	64,543
Increase in liability for retirement benefits.....	124	250	1,181
Other—net	2,659	355	25,324
Total adjustments	20,543	8,343	195,648
Net cash provided by operating activities.....	49,375	35,093	470,238
Investing activities:			
Increase in time deposits—net	(1,027)	(1,076)	(9,781)
Purchases of marketable and investment securities	(120,574)	(139,657)	(1,148,324)
Purchases of investment in subsidiaries and associated companies.....	(2,864)	(930)	(27,276)
Proceeds from sales and redemption at maturity of marketable and investment securities.....	122,757	138,482	1,169,114
Payments for long-term loans	(1)	(3,984)	(10)
Purchases of property and store facilities, software and other intangible assets...	(11,158)	(17,804)	(106,266)
Proceeds from sales of property and store facilities, software and other intangible assets	1,712	4,653	16,305
Payments of leasehold deposits.....	(15,222)	(15,724)	(144,971)
Refunds of leasehold deposits	2,979	3,033	28,371
Receipts of leasehold deposits from franchised stores	1,760	1,427	16,762
Refunds of leasehold deposits to franchised stores.....	(1,597)	(1,205)	(15,210)
Payments for acquisition of business.....	(1,255)	(299)	(11,952)
Other	(103)	146	(981)
Net cash used in investing activities.....	(24,593)	(32,938)	(234,219)
Financing activities:			
Decrease in short-term bank loans.....	(370)		(3,524)
Purchase of treasury stock.....	(16)	(16,463)	(152)
Proceeds from sales of treasury stock.....	8,968	1,992	85,409
Contribution from minority interest shareholders.....	1,435	99	13,667
Dividends paid	(4,794)	(4,209)	(45,657)
Dividends paid to minority interest shareholders.....	(1,059)	(957)	(10,086)
Other	(208)	383	(1,981)
Net cash provided by (used in) financing activities.....	3,956	(19,155)	37,676
Foreign currency translation adjustments on cash and cash equivalents	555	362	5,286
Net increase (decrease) in cash and cash equivalents	29,293	(16,638)	278,981
Cash and cash equivalents, beginning of year	69,551	86,189	662,390
Cash and cash equivalents, end of year	¥ 98,844	¥ 69,551	\$ 941,371

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

FamilyMart Co., Ltd. and Consolidated Subsidiaries Years Ended February 29, 2008 and February 28, 2007

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 Financial Instruments and Exchange Law (formerly, the Japanese Securities and Exchange Law) and its related accounting regulations, and in conformity with generally accepted accounting principles in Japan (“Japanese GAAP”), 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 2007 consolidated financial statements to conform to the classifications used in 2008.

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 ¥105 to \$1, the approximate rate of exchange at February 29, 2008. 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 include the accounts of the Company and its seven significant subsidiaries (together, the “Group”).

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 4 (3 in 2007) unconsolidated subsidiaries and 15 (12 in 2007) associated companies are accounted for by the equity method, including Suzhou FamilyMart Co., Ltd., which was not included previously as an associated company accounted for by the equity method, because Suzhou FamilyMart Co., Ltd. was established in July 2007.

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 differences between the cost and underlying net equity of investments in consolidated subsidiaries and associated companies at acquisition are included in goodwill and are amortized on a straight-line basis over 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, bond funds and short-term government securities, 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 equity.

However, in a foreign consolidated subsidiary, the available-for-sale securities are reported at the fair value, with unrealized gains and losses charged to income.

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—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. Presentation of equity—On December 9, 2005, the Accounting Standards Board of Japan (“ASBJ”) published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of equity. Such items include stock acquisition rights, minority interests, 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. The balances of such items as of February 28, 2006 were classified as separate components of equity as of March 1, 2006 in the consolidated statement of changes in equity.

k. 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.

l. 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.

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 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 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

Lease accounting—On March 30, 2007, the ASBJ issued ASBJ Statement No.13, “Accounting Standard for Lease Transactions,” which revised the existing accounting standard for lease transactions issued on June 17, 1993. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Lessee

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain “as if capitalized” information is disclosed in the note to the lessee’s financial statements. The revised accounting standard requires that all finance lease transactions should be capitalized recognizing lease assets and lease obligations in the balance sheet.

Unification of accounting policies applied to foreign subsidiaries for consolidated financial statements

—Under Japanese GAAP, a company currently can use the financial statements of foreign subsidiaries which are prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable. On May 17, 2006, the ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 18,

“Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements.” The new task force prescribes: (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material;

- (1) Amortization of goodwill
- (2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
- (3) Capitalization of intangible assets arising from development phases
- (4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets
- (5) Retrospective application when accounting policies are changed
- (6) Accounting for net income attributable to a minority interest

The new task force is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

3. Related parties and organization

The Company’s main shareholder is Family Corporation Inc., which owns 31.46% 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 29, 2008, are as follows:

Name of area franchiser	Area	The Company's ownership in area franchiser
Subsidiaries:		
Taiwan FamilyMart Co., Ltd.	Taiwan	43.37%
Siam FamilyMart Co., Ltd.	Thailand	90.41
FAMIMA CORPORATION.....	The United States of America	63.52
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 Co., Ltd. ("FMCH"), a 75.00% 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. and Suzhou FamilyMart Co., Ltd. Shanghai FamilyMart Co., Ltd., a wholly owned associated company, is an area franchiser in Shanghai, China and Suzhou FamilyMart Co., Ltd., a wholly owned associated company, is an area franchiser in Suzhou, China.

In addition, FMCH is a holding company of Guangzhou FamilyMart Co., Ltd. Guangzhou FamilyMart Co., Ltd., a 49.50% owned associated company, is an area franchiser in Guangzhou, China.

SFM Holding Co., Ltd., a 96.17% 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 30.10% owned associated company, provides financial services, such as credit card settlement and related services for its customers.

famima Retail Service Co., Ltd., a wholly owned subsidiary, provides accounting and stocktaking services 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 included in "Deposit 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 29, 2008 and February 28, 2007, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Current:			
Government and corporate bonds.....		¥1,000	
Trust fund investments.....	¥3,771	4,980	\$35,914
Total	¥3,771	¥5,980	\$35,914

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Non-current:			
Marketable equity securities.....	¥4,243	¥ 6,269	\$40,410
Government and corporate bonds.....	3,994	3,991	38,038
Non-marketable equity securities.....	307	449	2,923
Total	¥8,544	¥10,709	\$81,371

The carrying amounts and aggregate fair values of marketable and investment securities at February 29, 2008 and February 28, 2007, were as follows:

February 29, 2008	Millions of yen			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥6,046	¥419	¥2,222	¥4,243
Debt securities	3,771			3,771
Held-to-maturity	3,994	36		4,030

February 28, 2007	Millions of yen			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	6,079	1,000	810	6,269
Debt securities	4,959	21		4,980
Held-to-maturity	4,991	9	36	4,964

February 29, 2008	Thousands of U.S. dollars			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	\$57,581	\$3,991	\$21,162	\$40,410
Debt securities	35,914			35,914
Held-to-maturity	38,038	343		38,381

The carrying amounts of held-to-maturity debt securities included in cash and cash equivalents in the consolidated balance sheet were ¥13,988 million (\$133,219 thousand) at February 29, 2008.

Available-for-sale securities whose fair value is not readily determinable as of February 29, 2008 and February 28, 2007, were as follows:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Available-for-sale—Equity securities.....	¥307	¥449	\$2,923

The carrying values of debt securities by contractual maturities for securities classified as held-to-maturity at February 29, 2008, are as follows:

	Millions of yen		Thousands of U.S. dollars
Due after one year through five years	¥3,994		\$38,038

6. Long-lived assets

The Group reviewed its long-lived assets for impairment as of the years ended February 29, 2008 and February 28, 2007 and, as a result, recognized an impairment loss of ¥1,966 million (\$18,724

thousand) and ¥1,437 million as other expense for each store due mainly to 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 29, 2008 and February 28, 2007:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Fixed assets and leased property			
Land.....	¥ 196	¥ 407	\$ 1,867
Building	963	479	9,171
Leased property	542	378	5,162
Others	265	173	2,524
Total	¥1,966	¥1,437	\$18,724

The recoverable amount of the stores which the Group plans to sell was measured by its net selling price at disposition. The recoverable amount of other stores was measured at their value in use and the discount rate used for computation of present value of future cash flows was 7.31% and 9.71% for the years ended February 29, 2008 and February 28, 2007, respectively.

In addition, some associated companies accounted for by equity method recognized impairment losses using the same methodology. The Group recognized ¥124 million (\$1,181 thousand) and ¥206 million for the years ended February 29, 2008 and February 28, 2007, 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 29, 2008 and February 28, 2007, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Consolidation goodwill.....	¥ 995	¥109	\$ 9,476
Acquisition goodwill	1,607	677	15,305
Total	¥2,602	¥786	\$24,781

Amortization charged to selling, general and administrative expenses for the years ended February 29, 2008 and February

28, 2007, was ¥516 million (\$4,914 thousand) and ¥473 million, respectively.

8. Short-term bank loans

Short-term bank loans as of February 29, 2008 and February 28, 2007, consisted of bank overdrafts. The annual interest rate appli-

cable to the short-term bank loan was 4.3% and 6.4% at February 29, 2008 and February 28, 2007, respectively.

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 29, 2008 and February 28, 2007 is ¥535 million (\$5,095 thousand) and ¥494 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 29, 2008 and February 28, 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Projected benefit obligation	¥15,493	¥14,871	\$147,552
Fair value of plan assets.....	(7,572)	(7,843)	(72,114)
Unrecognized actuarial loss	(2,707)	(1,900)	(25,781)
Unrecognized transitional obligation	(15)	(10)	(142)
Net liability	¥ 5,199	¥ 5,118	\$ 49,515

The components of net periodic benefit costs for the years ended February 29, 2008 and February 28, 2007, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Service cost.....	¥1,144	¥1,087	\$10,895
Interest cost	262	245	2,495
Expected return on plan assets	(293)	(36)	(2,790)
Recognized actuarial loss	178	188	1,695
Amortization of transitional obligation.....	4	4	38
Net periodic benefit costs	¥1,295	¥1,488	\$12,333

Assumptions used for the years ended February 29, 2008 and February 28, 2007, are set forth as follows:

	2008	2007
Discount rate.....	Primarily 1.7%	Primarily 1.7%
Expected rate of return on plan assets.....	Primarily 2.8%	Primarily 0.9%
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.

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 29, 2008 and February 28, 2007 were ¥115 million (\$1,095 thousand) and ¥122 million, respectively.

10. Equity

Since May 1, 2006, Japanese companies have been subject to the Corporate Law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan with various revisions that are, for the most part, 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 provisions 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) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Corporate Law 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 at no less than ¥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 equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. 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 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 equity or deducted directly from stock acquisition rights.

11. Income taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 41% for the years ended February 29, 2008 and February 28, 2007.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities as of February 29, 2008 and February 28, 2007, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Deferred tax assets:			
Provision for doubtful receivables.....	¥ 619	¥ 467	\$ 5,895
Accrued bonuses	486	440	4,629
Provision for retirement benefits—employees.....	2,071	2,056	19,724
Provision for retirement benefits—directors and corporate auditors.....	218	201	2,076
Depreciation	60	70	571
Loss on disposals of property and store facilities and cancellations of lease contracts	433	432	4,124
Loss on impairment of long-lived assets	1,411	1,674	13,438
Loss on renewal of store management system		463	
Enterprise tax payable	593	362	5,648
Unrealized loss on available for sale securities	734		6,990
Tax loss carryforwards	2,307	2,056	21,971
Other	492	431	4,687
Less valuation allowance	(2,445)	(2,351)	(23,286)
Total	6,979	6,301	66,467
Deferred tax liabilities:			
Special reserve for tax purpose depreciation.....	2	31	19
Undistributed earnings of associated companies.....	651	563	6,200
Unrealized gain on available-for-sale securities.....		73	
Total	653	667	6,219
Net deferred tax assets.....	¥6,326	¥5,634	\$60,248

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended February 29, 2008 and February 28, 2007 is not material.

As of February 29, 2008, certain subsidiaries have tax loss carryforwards aggregating approximately ¥6,939 million (\$66,086 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
2009.....	¥ 624	\$ 5,944
2010.....	1,091	10,390
2011.....	1,414	13,467
2012.....	986	9,390
2013 and thereafter	2,824	26,895
Total	¥6,939	\$66,086

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 29, 2008 and February 28, 2007, were ¥13,096 million (\$124,724 thousand) and ¥11,203 million, respectively.

The Group recorded impairment losses of ¥542 million (\$5,162 thousand) and ¥378 million on certain leased property held under finance leases that do not transfer ownership and an

allowance for impairment loss on leased property for the years ended February 29, 2008 and February 28, 2007, respectively.

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

	Millions of yen					
	2008			2007		
	Furniture and fixtures	Software	Total	Furniture and fixtures	Software	Total
Acquisition cost	¥76,640	¥4,170	¥80,810	¥70,616	¥3,314	¥73,930
Accumulated depreciation	(29,523)	(846)	(30,369)	(25,305)	(180)	(25,485)
Accumulated impairment loss	(1,663)		(1,663)	(1,222)		(1,222)
Net leased property	¥45,454	¥3,324	¥48,778	¥44,089	¥3,134	¥47,223

	Thousands of U.S. dollars		
	2008		
	Furniture and fixtures	Software	Total
Acquisition cost	\$729,905	\$39,714	\$769,619
Accumulated depreciation	(281,172)	(8,057)	(289,229)
Accumulated impairment loss	(15,838)		(15,838)
Net leased property	\$432,895	\$31,657	\$464,552

Obligations under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Due within one year	¥11,028	¥ 9,994	\$105,029
Due after one year	42,182	41,366	401,733
Total	¥53,210	¥51,360	\$506,762

Allowance for impairment loss on leased property of ¥1,177 million (\$11,210 thousand) and ¥935 million as of February 29, 2008 and February 28, 2007 was 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
	2008	2007	2008
Depreciation expense	¥10,990	¥8,899	\$104,667
Interest expense	1,407	909	13,400
Total	¥12,397	¥9,808	\$118,067
Reversal of allowance for impairment loss on leased property	¥ 299	¥ 259	\$ 2,848
Impairment loss	542	378	5,162

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

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Due within one year	¥1,102	¥1,035	\$10,495
Due after one year	5,113	5,619	48,695
Total	¥6,215	¥6,654	\$59,190

As Lessor

The Group subleases certain land and buildings. The subleases are finance leases that do not transfer ownership of leased buildings to the lessee. Receivables under such finance leases as of February 29, 2008 and February 28, 2007, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Due within one year	¥ 203	¥ 238	\$ 1,933
Due after one year	1,520	1,964	14,477
Total	¥1,723	¥2,202	\$16,410

The minimum rental commitments under noncancelable operating subleases as of February 29, 2008 and February 28, 2007, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Due within one year	¥ 250	¥ 303	\$ 2,381
Due after one year	1,875	2,456	17,857
Total	¥2,125	¥2,759	\$20,238

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 29, 2008 and February 28, 2007.

14. Contingent liabilities

As of February 29, 2008, the Group had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
Guarantee of financial institution loan, borrowed by Hokkaido FamilyMart Co., Ltd.	¥ 118	\$ 1,124
Guarantee of financial institution loan, borrowed by Famima Credit Corporation	3,994	38,038
Guarantee of financial institution loan, borrowed by CCH	8	76

15. Net income per share

Basis of computation of basic net income per share ("EPS") for the years ended February 29, 2008 and February 28, 2007 is as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars
	Net income	Weighted-average shares		EPS
Year ended February 29, 2008				
EPS:				
Net income	¥16,438			
Bonuses to a foreign consolidated subsidiary's director and corporate auditors	(58)			
Net income available to common shareholders	¥16,380	94,425	¥173.5	\$1.65
Year ended February 28, 2007				
EPS:				
Net income	¥14,969			
Bonuses to a foreign consolidated subsidiary's director and corporate auditors	(33)			
Net income available to common shareholders	¥14,936	94,037	¥158.8	

16. Subsequent event

On April 18, 2008, the following appropriation of retained earnings at February 29, 2008 was resolved by the Board of Directors:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥32.0 (\$0.30) per share	¥3,050	\$29,048

17. Related party transactions

Transactions of the Company with related parties for the years ended February 29, 2008 and February 28, 2007, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
ITOCHU Corporation—Average short-term deposit balance to ITOCHU Corporation under cash management program		¥12,822	
Tadashi Endo (corporate auditor and attorney)—Attorney's fee	¥ 31	29	\$ 295
Famima Credit Corporation (associated company):			
Receivable—long-term loans (included investments in and advances to unconsolidated subsidiaries and associated companies)	10,000	10,000	95,238
Guarantee of financial institution loan	3,994	4,475	38,038

ITOCHU Corporation guaranteed ¥3,168 million (\$30,171 thousand) and ¥5,188 million of the above long-term loans as of February 29, 2008 and February 28, 2007, respectively.

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

(1) Industry Segments

The industry segments of the Company and its subsidiaries for the years ended February 29, 2008 and February 28, 2007, are summarized as follows:

a. Operating revenues and operating income

	Millions of yen				
	2008				
	Convenience store business	E-commerce business	Other businesses	Eliminations/Corporate	Consolidated
Operating revenues from outside the Group	¥260,576	¥57,770	¥1,093		¥319,439
Intersegment operating revenues.....	183	3,729	1,065	¥(4,977)	
Total operating revenues.....	260,759	61,499	2,158	(4,977)	319,439
Operating expenses	225,719	60,418	1,992	96	288,225
Operating income	¥ 35,040	¥ 1,081	¥ 166	¥(5,073)	¥ 31,214

b. Total assets, depreciation, loss on impairment of long-lived assets and capital expenditures

	Millions of yen				
	2008				
	Convenience store business	E-commerce business	Other businesses	Eliminations/Corporate	Consolidated
Total assets	¥239,790	¥6,119	¥11,573	¥93,789	¥351,271
Depreciation	9,796	7	53		9,856
Loss on impairment of long-lived assets	1,965		1		1,966
Capital expenditures.....	27,390	1	41		27,432

a. Operating revenues and operating income

	Thousands of U.S. dollars				
	2008				
	Convenience store business	E-commerce business	Other businesses	Eliminations/Corporate	Consolidated
Operating revenues from outside the Group	\$2,481,676	\$550,190	\$10,410		\$3,042,276
Intersegment operating revenues.....	1,743	35,515	10,142	\$(47,400)	
Total operating revenues.....	2,483,419	585,705	20,552	(47,400)	3,042,276
Operating expenses	2,149,705	575,410	18,971	914	2,745,000
Operating income.....	\$ 333,714	\$ 10,295	\$ 1,581	\$(48,314)	\$ 297,276

b. Total assets, depreciation, loss on impairment of long-lived assets and capital expenditures

	Thousands of U.S. dollars				
	2008				
	Convenience store business	E-commerce business	Other businesses	Eliminations/Corporate	Consolidated
Total assets	\$2,283,714	\$58,276	\$110,219	\$893,229	\$3,345,438
Depreciation	93,295	67	505		93,867
Loss on impairment of long-lived assets	18,714		10		18,724
Capital expenditures.....	260,857	10	390		261,257

a. Operating revenues and operating income

	Millions of yen				
	2007				
	Convenience store business	E-commerce business	Other businesses	Eliminations/Corporate	Consolidated
Operating revenues from outside the Group	¥241,325	¥55,715	¥ 809		¥297,849
Intersegment operating revenues.....	179	7,061	1,138	¥(8,378)	
Total operating revenues.....	241,504	62,776	1,947	(8,378)	297,849
Operating expenses	207,804	62,294	1,816	(3,674)	268,240
Operating income	¥ 33,700	¥ 482	¥ 131	¥(4,704)	¥ 29,609

b. Total assets, depreciation, loss on impairment of long-lived assets and capital expenditures

	Millions of yen				
	2007				
	Convenience store business	E-commerce business	Other businesses	Eliminations/Corporate	Consolidated
Total assets	¥230,580	¥6,506	¥11,215	¥66,955	¥315,256
Depreciation	11,486	7	72		11,565
Loss on impairment of long-lived assets	1,434		3		1,437
Capital expenditures	32,934	25	51		33,010

(2) Geographical Segments

The geographical segments of the Company and its subsidiaries for the years ended February 29, 2008 and February 28, 2007, are summarized as follows:

	Millions of yen				
	2008				
	Japan	Asia	Other area	Eliminations/Corporate	Consolidated
Operating revenues from outside the Group	¥268,442	¥49,588	¥ 1,409		¥319,439
Interarea transfers.....	609			¥ (609)	
Total operating revenues.....	269,051	49,588	1,409	(609)	319,439
Operating expenses	234,130	47,218	2,413	4,464	288,225
Operating income (loss)	¥ 34,921	¥ 2,370	¥(1,004)	¥ (5,073)	¥ 31,214
Total assets	¥203,150	¥48,226	¥ 1,638	¥98,257	¥351,271

	Thousands of U.S. dollars				
	2008				
	Japan	Asia	Other area	Eliminations/Corporate	Consolidated
Operating revenues from outside the Group	\$2,556,590	\$472,267	\$13,419		\$3,042,276
Interarea transfers.....	5,800			\$ (5,800)	
Total operating revenues.....	2,562,390	472,267	13,419	(5,800)	3,042,276
Operating expenses	2,229,810	449,696	22,981	42,513	2,745,000
Operating income (loss)	\$ 332,580	\$ 22,571	\$ (9,562)	\$ (48,313)	\$ 297,276
Total assets	\$1,934,762	\$459,295	\$15,600	\$935,781	\$3,345,438

	Millions of yen				
	2007				
	Japan	Asia	Other area	Eliminations/Corporate	Consolidated
Operating revenues from outside the Group	¥249,958	¥47,233	¥ 658		¥297,849
Interarea transfers.....	540	47		¥ (587)	
Total operating revenues.....	250,498	47,280	658	(587)	297,849
Operating expenses	217,631	45,148	1,344	4,117	268,240
Operating income (loss)	¥ 32,867	¥ 2,132	¥ (686)	¥ (4,704)	¥ 29,609
Total assets	¥198,593	¥43,260	¥2,089	¥71,314	¥315,256

(3) Operating Revenues from Foreign Customers

Operating revenues from foreign customers for the years ended February 29, 2008 and February 28, 2007, amounted to ¥51,428 million (\$489,790 thousand) and ¥48,404 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 as of February 29, 2008 and February 28, 2007, and the related consolidated statements of income, changes in 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 29, 2008 and February 28, 2007, 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.

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 29, 2008