FamilyMart
ANNUAL REPORT 2000

Profile

Since its incorporation in 1981, FamilyMart Co., Ltd., has continued to develop its operations by expanding its network of stores, including area franchising stores. FamilyMart has based its development on a philosophy of Co-Growing, which espouses cooperation with shareholders, business partners, franchise owners, customers, and local communities to create value and improve lifestyles.

Today, FamilyMart is embracing the information technology (IT) revolution to add a new dimension to convenience store retailing. By creating synergies between advanced on-line systems and its extensive physical distribution network, the Company is setting new industry standards for operating efficiency and customer service quality.

FamilyMart currently operates a network of more than 7,000 stores in Japan as well as in such countries as Taiwan, South Korea, and Thailand, where the Company carries out its operations through joint ventures with local partners.

Contents

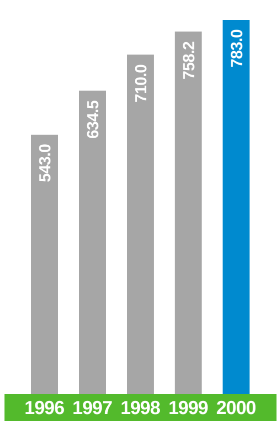
For the years ended February 28, 1999 and February 29, 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000	1999	**2000**
FOR THE YEAR:			
Total FamilyMart stores' net sales (Note 2)	**¥783,091**	¥758,223	**$7,119,008**
Total operating revenues	**135,860**	137,904	**1,235,090**
Operating income	**28,861**	29,185	**262,371**
Net income	**13,066**	15,161	**118,779**
PER SHARE (IN YEN AND U.S. DOLLARS):			
Net income (Note 3)	**¥ 135.7**	¥ 157.6	**$ 1.2**
Cash dividends (Note 3)	**38.0**	34.0	**0.3**
AT YEAR-END:			
Total assets	**¥200,154**	¥220,477	**$1,819,579**
Total shareholders' equity	**124,163**	113,707	**1,128,747**
Total stores	**7,010**	6,531	
Total shareholders	**16,364**	8,976	
Total full-time employees	**1,887**	1,777	

Notes: 1. Conversion into U.S. dollars has been made at the exchange rate of ¥110=U.S.$1, the rate prevailing on February 29, 2000.
2. Combined net sales are those reported by franchised stores and net sales of the Company's own stores.
3. Per share data has been adjusted for free share distributions and stock splits.

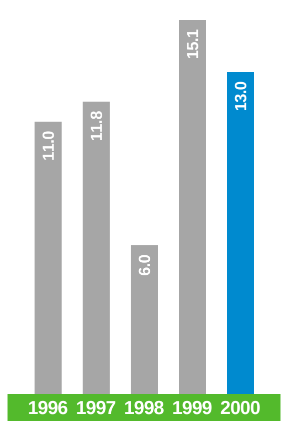
Total FamilyMart Stores' Net Sales

(¥ Billions)



Net Income

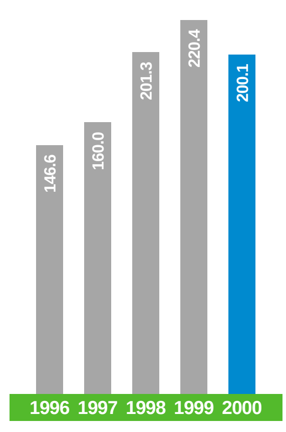
(¥ Billions)



*The decline in net income in fiscal 1998 is due to losses on the revaluation of investment securities.

Total Assets

(¥ Billions)



From left: Chairman, Shigeru Goto; President and Chief Executive Officer, Michio Tanabe; and Executive Vice President and Representative Director, Shunichiro Uchimura

It gives us great pleasure to report to our shareholders and business associates on the performance of FamilyMart Co., Ltd., in fiscal 2000, ended February 29, 2000.

Although the Japanese economy remained weak throughout the fiscal year, there were signs of improvement in several areas. Unfortunately for the retail sector, personal consumption was not one of them, as consumers failed to regain enough confidence to loosen their purse strings. Regardless of the pace of recovery, Japan is undoubtedly moving toward a new economic era, and there are significant changes taking place to which companies must respond flexibly if they are to survive in this highly competitive environment.

Business Activities

During the year under review, the convenience store (CVS) chain industry moved from a phase of intense competition to one in which the market process of selecting winners and losers began in earnest.

With customer satisfaction always a priority, FamilyMart moved forward with various strategies to strengthen its store management and merchandising capabilities. The underlying objectives of this work are to increase daily store sales and to create a 21st century network infrastructure that will support store competitiveness over the long term.

In the area of store management, FamilyMart implemented various measures to improve the skills of store staff and increase their motivation. New uniforms were distributed in January 2000, and in April a new education and training support program, called the Store Staff Total System, was implemented. We continued to enhance our information system infrastructure through the systematic introduction of scalable, flexible technologies that facilitate fast, agile management. In addition, we further fine-tuned our production and distribution network to raise operating efficiency and create a structure capable of servicing our entire store network in a timelier manner.

In merchandising-related activities, the release of products designed to appeal to fashion-minded consumers contributed to an increase in the number of visitors to stores during the year. At the same time, carefully planned product releases in the strategic *bento* (box lunches) category helped secure the patronage of regular customers. We continued to expand the range of services provided at stores with a view to further entrenching them as key lifestyle infrastructure in local communities. Most notably, we began installing a new type of ATM at stores. These are operated jointly with our partner banks.

The rise of e-commerce placed further pressure on CVS chain operators to consider how best to use their network resources to meet new consumer expectations. We moved forward with the implementation of an e-commerce strategy during the fiscal year with the goal of introducing and adapting e-commerce technologies to create new value for customers in an information society.

As of February 29, 2000, our domestic network comprised 5,546 stores, including 991 stores operated by area franchising companies (AFCs), an increase of 157 stores from the previous fiscal year-end. Our overseas network also grew, from 1,245 stores, to 1,464 stores.

Summary of Fiscal 2000 Results

Although the total number of visitors to our stores increased during the year, the continued slump in domestic personal consumption meant that daily sales did not rise in line with the greater patronage.

Nevertheless, FamilyMart recorded non-consolidated net sales of ¥783.0 billion, up 3.3% from the previous fiscal year, although operating income slid 1.1%, to ¥28.8 billion. FamilyMart has now recorded sales growth for 19 consecutive years. Income before income taxes expanded 5.8%, to ¥25.8 billion, while net income slipped 13.8%, to ¥13.0 billion, reflecting a one-time increase in the tax burden in fiscal 2000.

A Super CVS Operator

CVS chain management is basically divided into three areas: network development, store management, and merchandising. An increase in the profitability of existing stores is a good indication that management has mastered both store management and merchandising.

In fiscal 2001, our immediate objective is to devise and implement store management and merchandising strategies that will make our stores the preferred choice for daily purchases. We have launched a new medium-term management plan, FamilyMart Value 2002, to guide us in these endeavors. The main features of the plan are the continued implementation of the regional management system and the establishment of the new Sales Planning and Chain Operations divisions. At the same time, we will continue to improve the flexibility of management systems, differentiate the image of FamilyMart as a CVS chain, improve management support provided to store managers, and respond swiftly to developments in the operating environment.

Looking further ahead, we intend to encourage capital investment to increase our return on assets over the long term. As the name suggests, the ultimate aim of the FamilyMart Value 2002 plan is to raise the value we create for all the Company's stakeholders.

The field of e-commerce is also addressed in FamilyMart Value 2002. We took a significant step toward meeting the needs of customers in the information age when we opened the Internet shopping site famima.com. Our main intention is to use famima.com as a gateway to new business alliances and retailing opportunities that will improve revenues from our stores. In March 2000, we obtained patent approval for an innovative e-commerce franchise business model. Based on this model, we want to create a shopping and service platform that maximizes the synergy of our virtual and physical networks.

In a major restructuring, the AFCs Ai FamilyMart Co., Ltd., and Hokuriku FamilyMart Co., Ltd., were made wholly owned subsidiaries through share-swap transactions. We will integrate the operations of these chains with our own in September 2000, thereby complementing our own management base and creating new network synergy.

The changes taking place in the world today make possible the transformation of lifestyles as we have traditionally known them. Only those businesses that evolve with the times to accommodate new lifestyle needs will survive. We intend to eliminate the barriers that have restricted our expansion in the past and set a new example as a super CVS operator in the 21st century.

Michio Tanabe
President and Chief Executive Officer

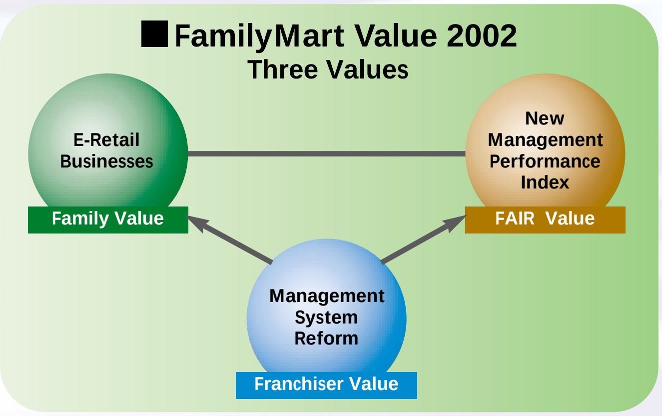
Please tell us about the goals of FamilyMart Value 2002.

This management plan is based on three key concepts—Franchiser Value, Family Value, and FAIR Value.

Franchiser Value is of course the value FamilyMart offers store owners as a CVS chain operator. This is our raison d'être. Without having ensured Franchiser Value, it would be impossible to realize our other value concepts. I regularly visit stores in our network throughout Japan and find that operating environments differ greatly from region to region. In addition to reforming franchise packages to reflect prevailing business conditions, we continually aim to create value for franchise owners by providing support that will help them prosper in the local environment. We must build cooperative relationships throughout a diverse network. It is necessary to have a flexible management system to do this.

The Family Value concept refers to value for customers. A customer who chooses a FamilyMart store over other convenience stores must have various reasons. We want to find what these are and build on them to create a distinctive corporate identity. At the same time, taking on-line retailing as an example, as much as possible we want stores to develop business models and styles that are best suited to their circumstances.

FAIR is an acronym for FamilyMart Administrative Index for Revitalization, a new management index we have adopted to measure performance. We hope the index will lead to greater management transparency and make it easier for shareholders and other parties to determine the real value of our business. The focus of the index is return on investment, but this is set within an economic value-added (EVA) framework to avoid the risk of excessive downsizing to increase returns. In the future, we aim to develop a combined index that incorporates the amounts invested by franchise owners. This will allow us to more accurately gauge the real rates of return of individual stores and thus provide a network performance benchmark. We hope that the use of quantitative performance measures will increase our market capitalization and thereby strengthen our ability to grow well into the future.



What specific measures are planned for management system reform?

If we are to evolve strongly in a fast-paced operating environment, we need a flexible head office structure.

To achieve this, we have established two new head office divisions: the Sales Planning Division, which is responsible for

integrated network expansion and store management under our regional management system as well as merchandising, and the Chain Operations Division, which will cover all administrative aspects of our operations.

We have divided our market into six geographical regions to implement a regional management system. Regional directors will have total authority concerning network expansion, store management, and merchandising decisions. Moving management closer to the point of decision execution effectively increases the speed with which we can respond to local developments. We are committed to a process of management decentralization. For example, in our fiscal 2001 budget, we have increased the amount allocated for store promotion 30%. Regional directors will have free rein to spend the money how they best see fit.

This transfer of authority is accompanied by a responsibility for profit. The Sales Planning and Chain Operations divisions have been established with this in mind. We have reinforced the thrust of this realignment by introducing an executive officer system as well as a company stock option plan. Having clear lines of authority and the motivation to place value creation at the forefront of strategic priorities improve management's ability to act quickly in order to be stronger in the future. We have 20 executive officers, including the 6 regional directors. All executive officers will receive stock options as part of their compensation packages.

Furthermore, we intend to introduce a performance review system this year based on transparent standards for all employees.

● *The stagnation of sales at existing stores must be of concern. What will FamilyMart do to revitalize their performance?*

● The regional management system is intended to strengthen the effectiveness of store management at the front line. In addition to increasing the marketing and promotional expenses of individual stores, we are upgrading our information systems so that store managers will be able to improve the accuracy of order sizes and better control their inventory levels. From the current fiscal year, store supervisors will be able to directly access our data warehouse from handheld terminals and analyze a wide range of useful information. We have also implemented a training system for store supervisors to raise their general business knowledge level.

The thorough implementation of our service, quality, and cleanliness (QSC) concept is the other task on which we will concentrate to revive the profitability of stores. Of particular importance is the quality of customer service. We are standardizing training programs for store staff and improving the guidance we provide in various management areas. This fiscal year, our Chain Operations Division will begin the full-scale implementation of a training program called the Store Staff Total System. We have witnessed an increase in daily sales at the 46 stores where the program was tested in fiscal 2000.

What is your policy regarding network expansion in fiscal 2001?

We increased the pace of growth in fiscal 2000 with the opening of 357 new stores, and I hope that we can continue the momentum in the current fiscal year. We plan to increase the number of staff in network development sections and aggressively expand our information network through FamilyMart Group companies. In planning network development, we are not concerned solely with store numbers but also with the location and suitability of store sizes for given areas. Under the regional management system, we will closely review the characteristics of existing networks and undertake scrap-and-build projects, where appropriate, to improve the quality of our network.

What is the reason for integrating the management of merchandising activities under the Sales Planning Division?

We wanted to combine the management of marketing activities, which at the present managed by a number of sections. Under the centralized management, we could minimize losses caused by stockouts for instance. In fiscal 2000, some managers felt that we lost an opportunity to increase the profile of *Nakashoku* products (delicatessen-style take-out food) among regular customers because of the focus we placed on advertising and promotional expenses for more fashionable items. Reflecting on such problems, we decided that it was best to realign our organization to bring our product development and promotion strategies closer together.

Could you please outline your e-commerce strategy?

We have already taken a number of steps to capitalize on emerging e-commerce technologies, including the introduction of the prepaid QUO card and in-store multifunctional terminals that are linked to our Faminet information network. These are, so to speak, pre-e-commerce services. In fiscal 2001, however, we will make a full launch into a new sphere of convenience store retailing.

In planning an e-commerce strategy, we have had to adopt a different perspective from that normally taken because we are a franchise business. The subject for us is adding value to our existing physical network through on-line services. The ordering of goods and services may take place in a virtual store, but this process must be supported by a real-world delivery system and an account settlement system that meets customers' expectations for convenience. This is where the synergies created by our store network come into play. The real aim of our e-commerce strategy, therefore, is to maximize the potential of our existing resources and create a new level of service quality and convenience for customers. For example, our vision includes home delivery services for elderly people.

I am a people person and would prefer to work with other human beings than with machines. I believe that the advance of e-commerce will make the personal touch provided at

convenience stores more and more important. If we pursue a strategy that results in competition between virtual and real-world stores, both will suffer. Therefore, our e-commerce business model, the FamilyMart EC Franchise System, provides for each store in our network its own Internet site to manage its on-line sales and profit independently. We have already applied for a patent for this model.

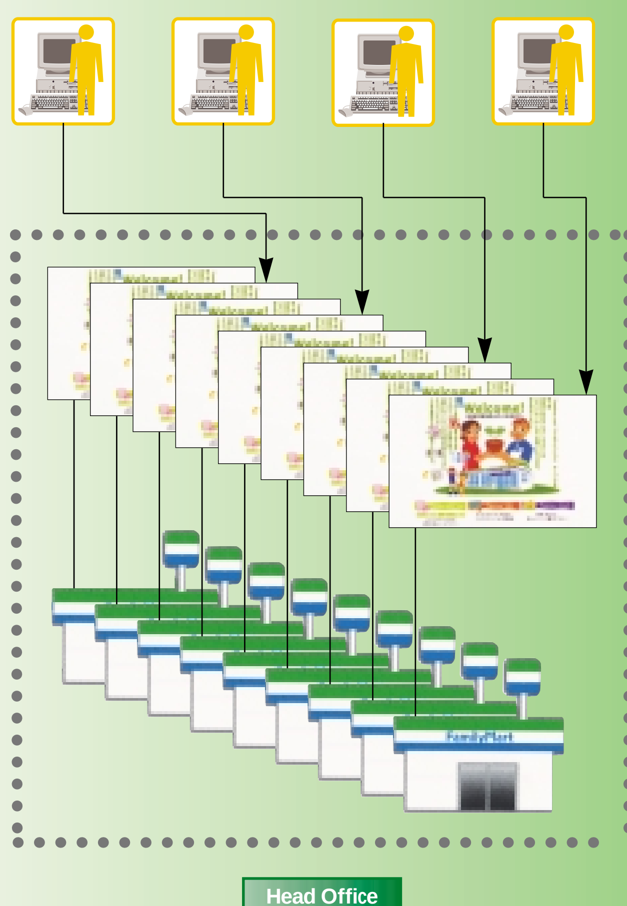
We have joined with TOYOTA MOTOR Corp., NTT Communications Corp., and four other CVS chain operators to form a venture company called e-PLAT JAPAN CO., LTD., which will provide a strong and diverse infrastructure for e-commerce services. A joint-entry strategy was chosen to minimize start-up costs. With a network of 13,000 stores, e-PLAT JAPAN is easily the largest CVS e-commerce venture in Japan, and we hope that the on-line settlement system employed will become a de facto standard for e-commerce settlement in Japan.

We have also set up an e-commerce venture called famima.com Co., Ltd. Some of the companies that have already signed up to offer products and services through our site include ITOCHU Corp., NTT Data Corp., TOYOTA MOTOR, DAI NIPPON PRINTING Co., Ltd., Japan Travel Bureau, Inc. (JTB), and PIA Corporation. We intend to strengthen this lineup and use our e-PLAT JAPAN infrastructure to develop our lifestyle solutions services concept.

■ FamilyMart EC Franchise System

This on-line franchise system is designed to allow easy access to every store in the FamilyMart network through a single on-line site, famima.com.

Customers can visit the virtual store of their choice.



FamilyMart has established famima.com to support on-line operations through marketing, account settlement, and delivery services.

On-line Retailing Planned around an Innovative E-Retail Concept

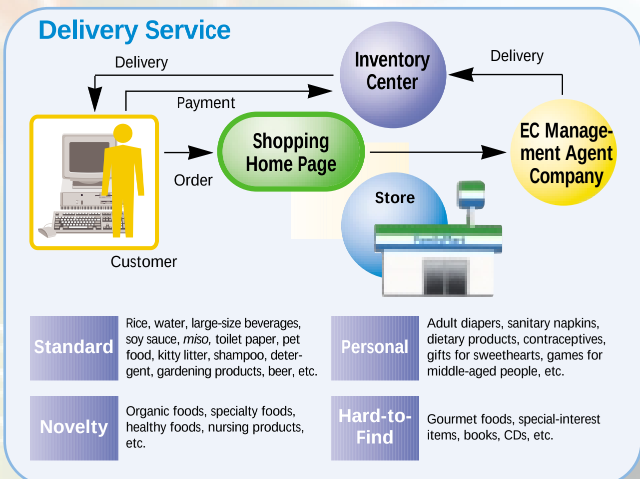
Establishing a strong on-line retailing presence is an integral part of FamilyMart's plans for long-term growth. FamilyMart is now building five on-line businesses based on a "Lifestyle Solutions" concept.

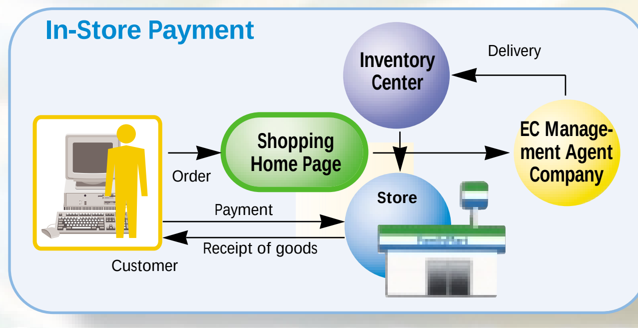
famima.com

The address of FamilyMart's most advanced store is famima.com. Employing an innovative e-commerce business model, FamilyMart has removed product lineup and inventory restraints to create a virtual store that offers products and services that are outside the traditional bounds of CVS retailing. On-line purchasing is supported by an efficient distribution system.

Unlike other CVS Internet shopping sites, famima.com is not based on centralized management from a head office. Rather, franchising stores have their own virtual stores located on the site, from where they record and manage their own retailing activities.

On March 22, 2000, FamilyMart applied for a patent for this innovative e-commerce business model, "the FamilyMart EC Franchise System."



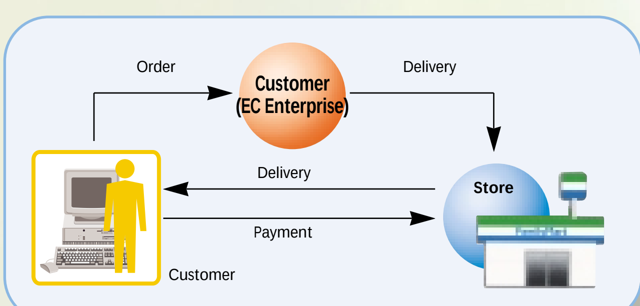


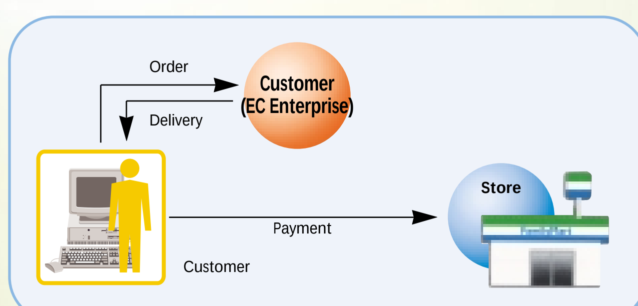
Open Cash on Delivery (OCOD) Service

FamilyMart aims to capitalize on its e-commerce platform by forming strategic tie-ups with a number of reliable business partners. In addition to providing on-line account settlement agency services for goods purchased on their Internet sites, FamilyMart will offer efficient delivery services using its extensive distribution network.

e-Commerce Payment Collection Agency Services

FamilyMart offers payment collection agency services for on-line purchases. These services meet the security needs of customers who are cautious of making a payment by sending their credit card numbers over the Internet.





● ATM Services

In partnership with The Suruga Bank, in October 1999 FamilyMart began installing ATMs at its franchising stores. In April 2000, FamilyMart started offering a 24-hour service through its ATMs, and the number of banks is to increase to approximately 40. By the end of fiscal 2000, FamilyMart aims to have ATMs installed at 1,800 stores, and insurance and securities services are planned for introduction in the near future.

● Multimedia Kiosks

FamilyMart is opening the door to a new world of service possibilities by installing multimedia kiosks (MMKs) in its stores. MMKs feature multifunctional terminals that allow customers to order and arrange for the delivery of products ranging from travel coupons to software packages. Customers can also search for information on topics ranging from securities products to local government bodies, road maps, and used cars. In addition, MMKs are configured to facilitate such other services as the downloading of music contents onto minidiscs (MDs). FamilyMart will begin installing MMKs in September 2000 and aims to complete the installation work throughout its entire network by the end of June 2001.

■ On-line Retailing: "E-Retail"

FamilyMart has established three e-commerce ventures with the goal of developing a broad range of products and services delivered using state-of-the-art technologies.

● E-net Co., Ltd.

E-net was established in September 1999 as a financial services venture. The joint-venture partners include FamilyMart and four other convenience store operators—Circle K Japan Co., Ltd., Sunkus & Associates Inc., Ministop Co., Ltd., and Three F Co., Ltd.—as well as a number of leading Japanese companies, including ITOCHU; The Bank of Tokyo-Mitsubishi, The Daiichi Kangyo Bank, and 34 other banks; IBM Japan; and Sony Corp. Banking and other financial services are available via ATMs installed at stores operated by the joint-venture member' CVS's.

● e-PLAT JAPAN CO., LTD.

FamilyMart, Circle K Japan, Sunkus & Associates, Ministop, and Three F combined their resources to establish e-PLAT JAPAN in April 2000. FamilyMart has a 35% stake in the joint venture, whose other major partners are TOYOTA MOTOR and NTT Communications. The joint venture will develop network infrastructure and on-line service content.

TOYOTA MOTOR will develop new MMKs, which will be installed at partner CVS stores, based on the Gazoo terminals used by its car dealers, and their operation will be supported by TOYOTA MOTOR's control center. NTT Communications' interactive telecommunications technology will be used in the terminals to handle such data-heavy transmissions as music contents. In addition, the partners will cooperate to develop an e-commerce account settlement system that they aim to make the de facto standard for the convenience store industry in Japan.

● famima.com Co., Ltd.

In May 2000, famima.com was established by a group of seven venture partners: FamilyMart, ITOCHU, NTT Data, TOYOTA MOTOR, DAI NIPPON PRINTING, JTB, and PIA. In addition to managing the famima.com site, the venture will act as the agent for FamilyMart in developing technologies and content for net site and MMKs as well as supporting sales of goods and services on the famima.com site and FamilyMart's services information network.

Network Expansion

As of February 29, 2000, FamilyMart's global store network comprised 7,010 stores—5,546 stores in Japan, including those operated by AFCs, and 1,464 stores overseas. In fiscal 2000, domestically we opened our first stores in Iwate and Hiroshima prefectures, bringing the number of prefectures in which we have a presence to 35. Overseas, we surpassed the 800-store mark in Taiwan and the 500-store mark in Korea, while our network in Thailand reached 97 stores. In addition, with a view to improving the quality of store management, in April 1999 we introduced handheld terminals for all store staff. This measure will facilitate efforts to strengthen their abilities to make merchandise proposals, standardize workflow, and raise operating efficiency.

In a major restructuring, Ai FamilyMart (4 prefectures in Kyushu) and Hokuriku FamilyMart Co., Ltd. (3 prefectures in Hokuriku), were made wholly owned subsidiaries during the fiscal year through share-swap transactions. We plan to integrate their operations with our own in September 2000, thereby complementing our own management base and creating new network synergy.

Self-Service Gasoline Stations

FamilyMart embarked on an innovative network expansion strategy in December 1999 when it opened a store attached to a self-service gasoline station (GS) in Saitama Prefecture. The GS owner is a member of the National Federation of Agricultural Cooperative Associations (*ZEN-NOH*), whose members operate more than 5,000 GS's nationwide. We anticipate a rapid expansion of such tie-ups.

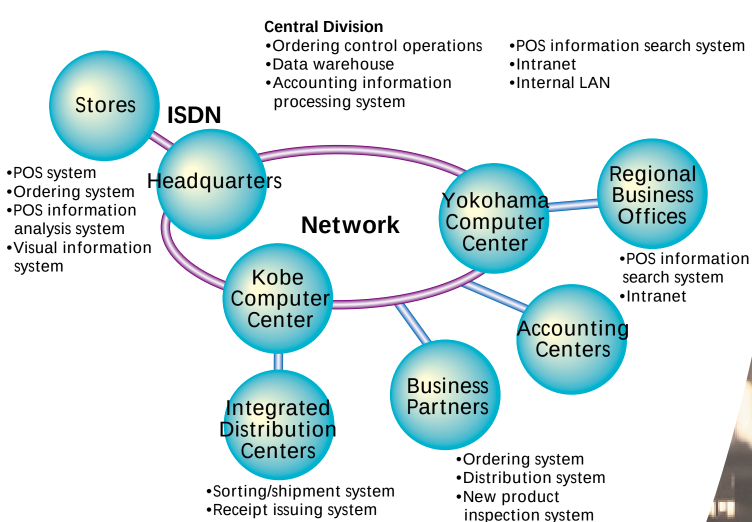
In addition, we added an upmarket retailing dimension to the FamilyMart brand in April 2000, when we opened a store in the Washington Hotel at the Kansai International Airport. We will continue to take a broad perspective in planning store establishment to capitalize on business opportunities, regardless of location.

Utilizing Information Systems to Strengthen Store Management

FamilyMart is constantly upgrading its information management systems to enable franchise stores to assemble an optimal range of products in optimal quantities.

Precise product information is essential to eliminate losses caused by having either excess or insufficient stock. To improve our support in this regard, in May 2000 we introduced a store sales analysis system called Face-Trend Analysis, which tracks and analyzes information for approximately 400 products by category, delivery number, and other criteria. This system improves integrated inventory management by providing such information as products for which the inventory to sales ratio is declining and sales records for different products compared with other FamilyMart stores. In addition, to help store owners plan order quantities for rice-based meals, the system shows a graph comparing inventory levels and products that have passed their use-by dates. At the same time, a new handheld store administration terminal (SAT) will be introduced in fiscal 2000 to improve work efficiency. A SAT allows staff to call up inventory levels, product sales history records, and other useful information while moving about the store.

Also, in fiscal 2000 FamilyMart began full-scale operations of its data warehouse, which houses product information for all franchising stores. In conjunction with the introduction of the SAT, this will help store supervisors to make fast, informed ordering decisions based on real-time data.



Store Staff Training

The quality of service received at the sales counter forms an important part of a customer's impression of overall CVS quality. As the number of areas in which CVS's are able to distinguish themselves is limited, FamilyMart has made service, quality, and cleanliness (QSC) at all stores a key feature of its strategy to create a distinctive corporate identity. In line with this strategy, at the beginning of fiscal 2000, we distributed a customer service manual and launched a program to improve the quality of in-store service. Raising staff motivation is a key theme of our plans. To this end, we ran a "Number One Store Staff" contest in June and July 1999 and continued to review our pay and promotion system to create a more transparent system based on performance standards.

Building on these measures, in April 2000 FamilyMart introduced the Store Staff Total System, a uniform training system that is designed to raise and standardize the quality of service throughout the entire store network. The system encompasses not only in-store service but also all operating procedures. Our aim is to lessen the daily management burden of store managers, reduce operating costs, and create more time for planning value-added services.

New store staff uniforms (jackets) were introduced in January 2000 as part of efforts to build team spirit and further define the FamilyMart image. Approximately 65% of the jacket material is polyester made from recycled PET bottles. The old apron uniforms that were no longer needed were recycled to make felt products.

Developing Prepared Foods for Exacting Tastes

FamilyMart uses a well-planned process to develop its line of *Nakashoku* items (delicatessen-style take-out food)—one the major contributors to revenue. Among items in this product category, regular customers are particularly selective about *bentos* (box lunches). At the beginning of each year, a product development team decides on a *bento* concept and plans a 52-week menu. An array of information is used to plan the menu, including seasonal demands, ingredient availability and prices, past sales (based on data gathered from point of sale (POS) terminals), consumption trends, and competitors' offerings (based on extensive market research). FamilyMart also enlists chefs, food coordinators, food researchers, and other specialists to create its *Nakashoku* items. The result is products that are considered more as first-choice lunches rather than as items of last resort.

The outstanding success of the *Tobikiri Bento* series, which was introduced during fiscal 2000, illustrates the benefits of expert planning. In developing this series, product development staff visited stores to conduct taste surveys, sales vendors were surveyed, and taste experts were employed to offer their opinions.

The *Taberunara* series of sweet bread rolls, released in April 2000, is another success story. We succeeded in improving the texture of roll fillings by using an industry-first roll-filling injection method that minimizes the effect of bread temperature. Other *Nakashoku* items that performed well in fiscal 2000 included side dishes, pasta dishes, and patisserie-quality desserts, all of which were developed with the help of chefs.

FamilyMart will continue to follow a Plan-Do-Action-Check cycle in an effort to improve the taste and food quality of its *Nakashoku* lineup.

New Private Brands

In May 1999, ALL DAYS POSi brand products made their debut in FamilyMart stores. Including items ranging from underwear and stockings to handkerchiefs and umbrellas, the brand is characterized by functional yet fashionable designs with a quality not normally found in CVS's. FamilyMart expects the ALL DAYS POSi brand to meet growing demand for simple elegance at affordable prices.

Also, in September 1999 FamilyMart took another step toward improving environmental conservation by introducing the We Love Green brand. Currently, there are a total of 11 products sold under this brand—six items made from recycled paper (including chopsticks, toilet paper, and paper plates) and five items made from materials that contain more than 70% recycled plastic (including ballpoint pens). We aim to expand the number of We Love Green products to 23 in May 2000.

New Services Bring New Meaning to Convenience

In October 1999, in response to strong customer requests, FamilyMart began catalogue sales of original year-end gift products, known as *seibo*, developed by Japan's largest department store, Mitsukoshi, Ltd. As a result of this alliance, the volume of gift merchandise handled by FamilyMart rose more than 140% from the previous fiscal year, and gift sales jumped more than 150%. FamilyMart plans to expand its presence in the lucrative gift sales market through alliances and other measures that utilize the broad market coverage of its network.

In November 1999, we completed the installation of color copiers in all stores, offering competitive prices for both businesses and individual customers. Also, in October 1999 we began installing ATMs in our network and in April 2000 started 24-hour ATM services. We plan to have ATMs installed at 1,800 stores by March 2001.

New Logistics Infrastructure

FamilyMart began operating four new delivery centers for chilled products throughout its distribution network during fiscal 2000. These centers vastly improve distribution efficiency by allowing mixed-lot deliveries of products with different temperature requirements. In addition, we started operations at four new integrated distribution centers that combine production facilities for rice-based products, *bentos*, and other food products, with delivery centers for chilled products.

Achieving the fastest possible delivery to ensure product freshness is a high priority in our distribution planning. We are continually fine-tuning our just-in-time delivery system, which aims to have deliveries made within 15 minutes of the scheduled time. In fiscal 2000, we further improved our success rate in achieving this target.

Moreover, in fiscal 2001 we will shorten lead time requirements for chilled products and other daily items by delivering Saturday orders on Sunday, as opposed to Monday.

MBE Japan, Inc., Starts Operations

The rapid growth of the SOHO (small office/home office) market, in conjunction with general business restructuring, has resulted in demand for business-outsourcing services spiraling upward in recent years. FamilyMart has acted promptly to meet this new demand through its business services franchising agreement with Mail Boxes Etc. USA Inc. (MBE). In August 1998, FamilyMart established a wholly owned subsidiary, MBE Japan, Inc., to manage MBE franchise operations in Japan.

MBE Japan opened two stores in Tokyo in fiscal 2000 and began taking applications for area and individual franchises in February 2000. MBE Japan's goal is to open 1,000 stores nationwide by fiscal 2010.

ISO 14001 Certification Acquired

Since obtaining ISO 14001 certification for its environmental management systems in March 1999, FamilyMart has continued to move forward with measures aimed at increasing its contribution to global environment preservation.

These measures include a recycling system whereby compost produced from incinerated waste is supplied to contract growers, who in turn supply FamilyMart with organic grains. The system was first introduced in Mie Prefecture in April 1999 and is now being set up in Tokyo, Kanagawa, and Saitama prefectures.

Energy conservation is another major goal of environmental management. During fiscal 1999, FamilyMart began using refrigerated delivery vehicles with hybrid engines to improve the fuel efficiency of its delivery fleet. The auxiliary motor of the hybrid engine solves the problem, encountered by vehicles with conventional engines, of refrigeration shutdown when the engine is turned off. This problem means that the engine has to remain idling while drivers are unloading to ensure that the required temperature is maintained.

In addition, in December 1999 FamilyMart began operating a recycling system for frying oil in Fukuoka Prefecture. Previously, solidified oil was disposed of as combustible waste, but at a recently completed recycling facility the new system is employed to convert the solidified oil into either chicken feed or a substance for use in paint.

FamilyMart opened its first environment-friendly Eco-Shop in 1997 and now has nine such shops in its network. Eco-Shops employ a variety of techniques, including energy conservation and recycling systems, to minimize their impact on the environment.

We Love Green

Community Activities

As part of its cooperative activities with Save the Children Japan (SCJ), FamilyMart has placed donation boxes in all its stores. SCJ is a nongovernmental organization that was set up to improve the lives of children, primarily in Asia, through educational and other support activities. Since July 1993, FamilyMart has donated a total of ¥237 million to SCJ.

In 1999, FamilyMart completed placing donor cards in all network stores. FamilyMart hopes this measure will help raise awareness of the importance of organ transplants in Japan.

FamilyMart also raised ¥1.5 million for the victims of a major earthquake that struck Taiwan in September 1999.

Non-consolidated Five-Year Summary

FamilyMart Co., Ltd.
Years ended the last day of February

	Millions of Yen (except per share data and other data)					Thousands of U.S. Dollars (Note 1)
	2000	1999	1998	1997	1996	**2000**
NET SALES:						
Company's own stores	**¥ 30,267**	¥ 28,736	¥ 24,748	¥ 20,997	¥ 17,088	**$ 275,153**
Franchised stores	**752,824**	729,487	685,347	613,549	525,931	**6,843,855**
Total FamilyMart stores' net sales	**783,091**	758,223	710,095	634,546	543,019	**7,119,008**
OPERATING REVENUES:						
Total operating revenues	**¥135,860**	¥137,904	¥126,514	¥112,386	¥ 96,209	**$1,235,090**
Operating income	**28,861**	29,185	28,494	24,667	21,615	**262,371**
Net income	**13,066**	15,161	6,004	11,851	11,020	**118,779**
Net income per share (in yen and U.S. dollars)	**¥ 135.7**	¥ 157.6	¥ 62.4	¥ 123.2	¥ 115.2	**$ 1.2**
Cash dividends per share (in yen and U.S. dollars)	**38.0**	34.0	30.0	25.5	21.5	**0.3**
FINANCIAL POSITION:						
Total shareholders' equity	**¥124,163**	¥113,707	¥101,764	¥ 98,568	¥ 89,115	**$1,128,747**
Total assets	**200,154**	220,477	201,356	160,043	146,620	**1,819,579**
OTHER DATA:						
Franchised stores and Company's own stores	**4,555**	4,398	4,242	3,816	3,402	
Area franchised stores (including overseas area franchised stores)	**2,455**	2,133	1,843	1,460	1,177	
Total stores	**7,010**	6,531	6,085	5,276	4,579	
Total shareholders	**16,364**	8,976	11,590	8,480	8,517	
Total full-time employees	**1,887**	1,777	1,646	1,520	1,387	
Weighted average number of shares (thousands)	**96,314**	96,220	96,220	96,220	95,639	

Notes: 1. Conversion into U.S. dollars has been made at the exchange rate of ¥110=U.S.$1, the rate prevailing on February 29, 2000.
2. Per share data has been adjusted for free share distributions and stock splits.

Management's Discussion and Analysis

Overview and Total Net Sales of FamilyMart Stores

In fiscal 2000, ended February 29, 2000, although there were signs of recovery in some sectors, the Japanese economy failed to achieve a self-sustaining recovery because of a decline in private capital investment and continued high levels of unemployment. On the other hand, in the convenience store industry, aggressive efforts were under way to introduce e-commerce systems, and companies were proactive in entering into business alliances and in setting up new ventures with enterprises in the same industry as well as other industries.

Amid this environment, FamilyMart Co., Ltd. (the Company), focused its attention on two principal issues, namely increasing average daily net sales of each store and creating an infrastructure appropriate for the 21st century. From a merchandise perspective, the Company also concentrated on making "high quality" a key word and introduced upgraded versions of various product lines. In addition, it began sales of health-related and other tonic products that do not require a pharmacist's license. As a consequence, the Company recorded an increase in total net sales, but operating income showed a slight decline owing to changes in the composition of merchandise—which led to a decline in the Company's overall profit margin—and an increase in depreciation resulting from strategic investments.

Net income declined slightly due to the two factors affecting operating income previously mentioned and an increase in income taxes owing to differences in taxable income between the previous term and the term under review. Regarding dividends to shareholders, the Company increased cash dividends applicable to fiscal 2000 (including dividends paid for the interim period ended August 31, 1999) to ¥38.0 per share, or ¥4.0 higher than for the previous fiscal year.

Total net sales, including those of the Company's own stores, rose ¥24,868 million, or 3.3%, to ¥783,091 million. Net sales of franchised stores were up ¥23,337 million, or 3.2%, to ¥752,824 million, and those of the Company's own stores increased by ¥1,531 million, or 5.3%, to ¥30,267 million. Factors accounting for these increases included the contribution of franchised stores established during the prior fiscal year in their first full year of sales. The rate of growth in total net sales of existing stores, however, continued to decline as during the previous fiscal year. The principal cause of the overall rise was the contribution of 157 new stores to total net sales. The Company's stores faced a common operating environment characterized by stagnant personal consumption, and both average daily net sales of each store and the average purchase by customer declined compared with the previous fiscal year. Amid these trends, however, the rise in the average number of customers visiting the Company's stores is good evidence of the effectiveness of its marketing and merchandising strategies.

Trends in net sales by type of merchandise were as follows. Food products, including ready-to-eat items, rose ¥15,100 million, or 2.8%, to ¥546,840 million. Factors accounting for this increase were the commencement of sales of nonpharmaceutical drinks and the favorable response of customers to the revamping and reintroduction of two popular types of box lunches. The increase in net sales of food products accounted for 60.7% of the total gain in net sales, but the percentage of total net sales accounted for by food products fell 0.3 percentage point, to 69.8%. On the other hand, net sales of nonfood products, including cigarettes, magazines, and software for computer game equipment, increased by ¥3,849 million, or 2.1%, to ¥188,024 million, but their share of net sales declined 0.3 percentage point, to 24.0%. In contrast, net sales of services, including theater and other tickets, document copying, parcel delivery services, prepaid highway toll cards, and other services, rose steadily to ¥48,226 million, a gain of ¥5,920 million, or 14.0%, from the previous fiscal year. The share of services to total net sales rose 0.6 percentage point, to 6.2%.

In implementing the expansion of its store network, the Company has adopted "the development of upscale outlets" as its key concept and is creating new-style stores and expanding its network in a broader range of neighborhoods. A total of 157 new stores were opened during the fiscal year, and, after accounting for closures and consolidation of certain existing stores, the Company had 4,555 stores at fiscal year-end.

Operating Revenues

Total operating revenues declined ¥2,044 million, or 1.5%, to ¥135,860 million. However, up to the end of the previous fiscal year, the Company received freight and distribution fees from suppliers for transportation services on their behalf. Effective from the fiscal year under review, all such distribution services have been transferred to a subsidiary with the aim of improving the efficiency of these operations. If this change is taken into account and operating income is stated to exclude these fees for both fiscal 1999 and fiscal 2000, the increase in operating revenues would have been 5.0%.

Franchise commission from franchised stores rose slightly by ¥2,485 million, or 2.6%, to ¥96,628 million, compared with a rise of 8.8% during the previous fiscal year. This lower rate of increase resulted from a decline in the overall margin on net sales accompanying changes in the composition of net sales. For the fiscal year under review, the margin on net sales was 28.92%, a 0.35 percentage point decline from the previous fiscal year. This lower margin resulted from the previously mentioned decline in the share of food products, which have a relatively high margin, by 0.3 percentage point, to 69.8%, and an increase in the share of lower-margin cigarette and service sales. By component of operating revenues, revenues accounted for by franchise commission from franchised stores accounted for 71.1% of total operating revenues. Net sales of the Company's own stores accounted for 22.3% of total operating revenues. Other operating revenues increased ¥2,268 million, or 52.5%, to ¥6,586 million. This gain in other operating revenues was accounted for by increases in rents and contract fees received from franchised stores, which accounted for 6.6% of total operating revenues, including royalty fees from area franchised companies.

Operating Costs, Expenses, and Operating Income

The cost of sales of the Company's own stores increased ¥1,147 million, or 5.6%, to ¥21,500 million, in line with the rise in net sales. The ratio of cost of sales to net sales for the Company's own stores rose a slight 0.2 percentage point, to 71.0%. This was due to the same event as previously mentioned, the change in the composition of net sales of franchised stores.

Selling, general and administrative (SG&A) expenses of convenience store operations declined ¥2,867 million, or 3.2%, to ¥85,499 million. This was principally due to the previously mentioned shift of transportation and distribution operations to a subsidiary, which led also to the transfer of both freight and distribution fees from suppliers as well as related SG&A expenses to this subsidiary (which amounted to ¥8,135 million in fiscal 1999) in fiscal 2000. If this change is taken into account, SG&A expenses, in substance through 1999 to 2000, would have risen ¥5,268 million, or 6.6% from the previous fiscal year. This increase was mainly due to a rise in depreciation of ¥2,128 million—owing to an investment in store controllers of ¥11,102 million in the prior fiscal year—and increases in other SG&A expenses, principally employee compensation.

As a result, operating income showed a slight decline of ¥324 million, or 1.1%, to ¥28,861 million, but the ratio of operating income to total operating revenues was 21.2%, and thus declined 1.3 percentage points from the previous fiscal year.

Other Income (Expenses) and Net Income

Other expenses, net, declined a substantial ¥1,736 million, to ¥3,035 million. Positive factors contributing to this decrease were as follows: a ¥646 million decrease in write-downs of marketable and investment securities, a ¥1,428 million decrease in loss on sales of marketable and investment securities (owing to a gain of ¥701 million in fiscal 2000 versus a loss of ¥727 million in fiscal 1999), a ¥500 million decrease in loss on disposals/sales of property and store facilities, and a ¥554 million decrease in provision for directors' and corporate auditors' retirement benefits for prior years. Negative factors were a ¥1,054 million decrease in non-operating income owing the absence of a gain on liquidation of investment in partnership and a ¥495 million increase in loss on cancellations of lease contracts and losses on liquidation of leasehold deposits. The decrease in other factors, net, was ¥157 million.

As a result of the above, income before income taxes increased by ¥1,412 million, or 5.8%, to ¥25,826 million. Net income amounted to ¥13,066 million, a decline of ¥2,095 million, or 13.8%, from the previous year. This drop in net income in fiscal 2000 was due to a reduction in income taxes of about ¥3,000 million in fiscal 1999 related to the recognition for tax purposes of a reserve for valuation losses on securities incurred in fiscal 1998. If this is taken into account and net income is stated on a comparable basis in both fiscal 1999 and 2000, net income would have shown an increase for the fiscal year under review.

As a consequence of the foregoing and in the absence of any adjustments, net income per share declined ¥21.9, from ¥157.6 in fiscal 1999 to ¥135.7 in fiscal 2000. In view of the Company's policy of paying cash dividends from earnings that reflect the stable and continuing growth in its operations, as mentioned previously, the Company increased its cash dividend (including the dividends paid for the interim term) applicable to the period by ¥4.0 per share to ¥38.0.

Financial Position

In view of the challenging conditions confronting the convenience store industry, the Company is working to enhance the efficiency of total capital employed and substantially improve its financial position, principally through improving the quality and soundness of its assets. In specific terms, the Company is actively endeavoring to dispose of unprofitable investments in securities and other assets as well as to acquire assets of superior quality.

In line with these objectives, the Company reduced its assets ¥20,323 million, or 9.2%, to ¥200,154 million. By asset category, current assets decreased by ¥21,051 million, to ¥78,887 million. Although some components of current assets fell and others rose, the principal factor resulting in the overall decline in such assets was a reduction of ¥32,478 million in the balance of cash and time deposits through the settlement of accounts payable, mainly consisting of invoices payable to purchases on behalf of franchised stores prior to the last day of the fiscal year, which was a bank holiday. On the other hand, surplus funds were invested in money management trusts. As a result of this cash management, cash and cash equivalents declined to ¥55,719 million, or ¥7,397 million less than the previous year. Notes receivable in proceeds for investment securities sold in the previous fiscal year were settled, resulting in a decline of ¥9,693 million in total notes receivable. Because of acquisitions and dispositions in other items, other assets declined ¥3,961 million.

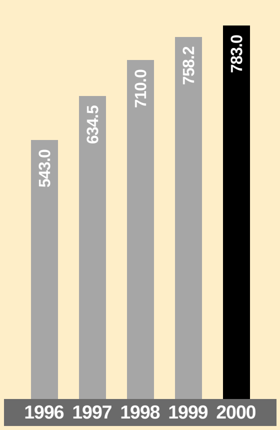
Total investment and other assets increased by ¥3,567 million, to ¥71,831 million. The principal factor accounting for this rise was an increase of ¥3,633 million, to ¥9,133 million, in investments in and advances to subsidiaries and affiliates, which were intended to strengthen relationships with these companies and improve their financial positions. Leasehold deposits rose a marginal ¥1,635 million, to ¥52,568 million. This increase was due to additions to such deposits of ¥5,447 million, but this amount was reduced on a net basis by ¥3,812 million due to the return of certain rental deposits and amortization. On the other hand, as a result of the previously mentioned policy of improving the efficiency of assets, the Company sold certain investment securities which did not meet the criteria for return on investment, resulting in a decline of ¥3,413 million, to ¥3,334 million, in investment securities. Other investments showed a net increase of ¥1,712 million due mainly to a ¥1,013 million increase in investments in computer software.

The Company made total investments of ¥15,539 million during the fiscal year under review, principally in property and store facilities for the Company's own use and for rental to franchised stores as well as in computer systems. Net property and store facilities, after deduction of accumulated depreciation, declined ¥2,839 million, to ¥49,436 million, owing to progress in depreciation of facilities and disposal and sale of certain facilities. Of this total, ¥20,652 million was in use by the Company's own stores and offices, and ¥28,784 million was in use by franchised stores and others.

On the opposite side of the balance sheet, liabilities fell ¥30,779 million, to ¥75,991 million, as current liabilities were down ¥31,395 million, to ¥67,375 million. This decline in current liabilities was mainly due to the fact that the final day of the previous fiscal year was a bank holiday, and accounts payable, amounting to ¥32,478 million, which consisted principally of purchases for franchised stores, were settled at the beginning of the period under review resulting in the decline. On the other hand, income taxes payable increased by ¥5,609 million, to ¥8,451 million. This was principally due to the decrease in income taxes in fiscal 1999, owing mainly to the reduction for tax purposes of losses on write-downs of investment securities in fiscal 1998. Other current liabilities showed a net decrease of ¥4,426 million, primarily because of a decrease in accrued expenses.

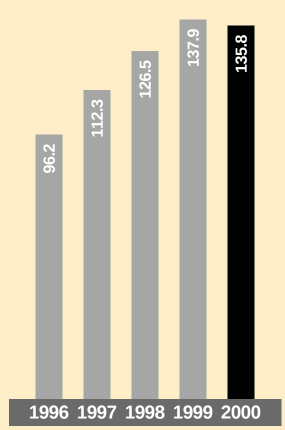
Total FamilyMart Stores' Net Sales

(¥ Billions)



Total Operating Revenues

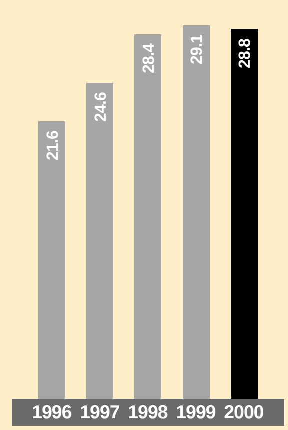
(¥ Billions)



*Reasons for the decline in operating revenues in fiscal 2000 are explained in the management's discussion and analysis.

Operating Income

(¥ Billions)



Long-term liabilities increased ¥616 million, ¥8,616 million. This was because leasehold deposits received from franchised stores rose ¥834 million, owing to new stores, to ¥7,988 million.

Shareholders' equity increased ¥10,456 million, to ¥124,163 million, and the ratio of shareholders' equity to total assets increased by 10.4 percentage points, from 51.6%, to 62.0% at fiscal year-end, reflecting continued improvement in the Company's financial position. The rise in shareholders' equity was primarily due to an increase in retained earnings owing to the appropriation of unappropriated retained earnings brought forward from the previous period.

Cash Flows

Cash and cash equivalents amounted to ¥55,719 million at the end of the fiscal year, a decrease of ¥7,397 million from the previous fiscal year-end. This represented approximately 0.85 month of the Company's average monthly total net sales of ¥65,257 million. Management believes that, excluding any special project investments, this level of funds on hand is adequate for funding the Company's business activities. Trends in principal cash flow items are described below.

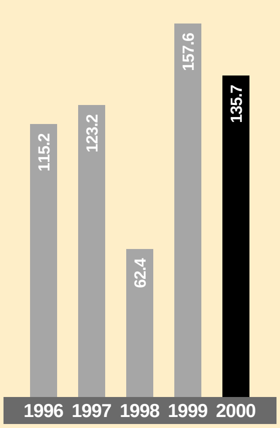
Unlike payment practices in certain other industries, the Company settles the full amount of its operating liabilities on a predetermined date. On the other hand, proceeds from the net sales of franchised stores are transferred to the bank accounts of the Company on a daily basis, and these funds are used to settle operating liabilities. For this reason, it is unnecessary for the Company to keep large amounts of cash on hand, and this aspect of the Company's cash flow is advantageous from the perspective of efficient cash management.

Cash outflows relating to operating activities rose ¥36,340 million, from ¥35,018 million inflow in the previous fiscal year, to ¥1,322 million outflow. Of this total, cash inflows, after making adjustments to net income of depreciation and amortization and other noncash items, were ¥26,099 million, ¥2,645 million below the previous year. On the other hand, changes in operating assets and liabilities led to a net outflow of ¥27,421 million compared with a net inflow of ¥6,274 million for the previous fiscal year. This was mainly because the last day of the prior fiscal year was a bank holiday, and unsettled operating payables of ¥32,478 million were settled at the beginning of the fiscal year under review.

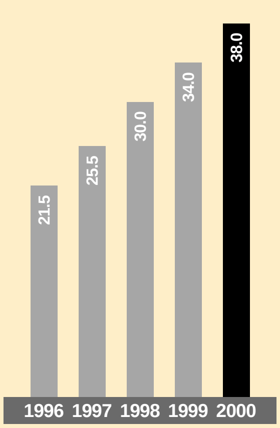
Net cash used in investing activities declined ¥7,547 million, to ¥2,611 million. Of this total, on the outflow side, capital investment, principally for computer systems, amounted to ¥10,489 million, which was ¥8,727 million below the prior year. On the inflow side, the recovery from liquidation of certain operations in the prior year was not recorded for the year under review, leading to a decline of ¥12,873 million. However, an inflow of ¥9,693 million was reported accompanying the settlement of notes in payment for the sale of investment securities, thus leading to a rise in income from investment securities. This and other acquisitions and disposition of assets led to a decrease in net cash flow from investing activities of ¥1,815 million.

Net cash used in financing activities rose by ¥386 million from the previous year, to ¥3,464 million, and was accounted for by an increase in payments of cash dividends.

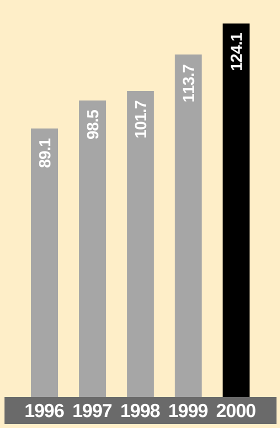
Net Income per Share
(¥)



Cash Dividends per Share
(¥)



Total Shareholders' Equity
(¥ Billions)



Non-consolidated Balance Sheets

FamilyMart Co., Ltd.
February 29, 2000 and February 28, 1999

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000	1999	**2000**
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	**¥ 55,719**	¥ 63,116	**$ 506,540**
Marketable securities (Note 5)	**866**	2,724	**7,869**
Receivables:			
Notes—non-trade	**—**	9,693	**—**
Due from franchised stores (Note 4)	**5,281**	8,570	**48,014**
Subsidiaries and associated companies	**7,583**	5,770	**68,931**
Short-term loans	**148**	862	**1,343**
Other	**3,486**	4,854	**31,695**
Allowance for doubtful accounts	**(638)**	(851)	**(5,800)**
Merchandise and supplies	**2,141**	1,960	**19,461**
Prepaid expenses and other current assets	**4,301**	3,240	**39,105**
Total current assets	**78,887**	99,938	**717,158**
PROPERTY AND STORE FACILITIES (Note 6):			
Land	**13,014**	12,938	**118,305**
Buildings and structures	**36,069**	34,913	**327,900**
Machinery and equipment	**2,380**	2,029	**21,640**
Furniture and fixtures	**29,439**	27,300	**267,631**
Construction in progress	**143**	207	**1,298**
Total	**81,045**	77,387	**736,774**
Accumulated depreciation	**(31,609)**	(25,112)	**(287,359)**
Net property and store facilities	**49,436**	52,275	**449,415**
INVESTMENT AND OTHER ASSETS:			
Investment securities (Note 5)	**3,334**	6,747	**30,309**
Investments in and advances to subsidiaries and associated companies (Note 3)	**9,133**	5,500	**83,026**
Leasehold deposits	**52,568**	50,933	**477,890**
Software	**4,459**	3,446	**40,536**
Goodwill and other intangible assets	**974**	1,088	**8,854**
Other	**1,363**	550	**12,391**
Total investment and other assets	**71,831**	68,264	**653,006**
TOTAL	**¥200,154**	¥220,477	**$1,819,579**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000	1999	2000
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Payables:			
Trade for franchised and own stores	**¥ 33,570**	¥ 70,710	**$ 305,179**
Due to franchised stores (Note 4)	**2,625**	897	**23,866**
Income taxes payable (Note 9)	**8,451**	2,842	**76,825**
Utility payments received (Note 4)	**12,365**	9,531	**112,412**
Accrued expenses	**5,184**	9,190	**47,129**
Other current liabilities	**5,180**	5,600	**47,093**
Total current liabilities	**67,375**	98,770	**612,504**
LONG-TERM LIABLITIES:			
Retirement benefits—employees (Note 7)	**45**	56	**410**
Retirement benefits—directors and corporate auditors (Note 7)	**583**	790	**5,299**
Leasehold deposits received from franchised stores	**7,988**	7,154	**72,619**
Total long-term liabilities	**8,616**	8,000	**78,328**
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 10 and 11)			
SHAREHOLDERS' EQUITY (Notes 8 and 13):			
Common stock, ¥50 par value— authorized, 250,000,000 shares; issued and outstanding, 97,683,133 shares in 2000 and 96,219,633 shares in 1999	**16,659**	16,586	**151,444**
Additional paid-in capital	**17,057**	16,136	**155,060**
Legal reserve	**2,084**	1,723	**18,944**
Retained earnings	**88,363**	79,262	**803,299**
Total shareholders' equity	**124,163**	113,707	**1,128,747**
TOTAL	**¥200,154**	¥220,477	**$1,819,579**

See notes to non-consolidated financial statements.

Non-consolidated Statements of Income

FamilyMart Co., Ltd.
Years Ended February 29, 2000 and February 28, 1999

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000	1999	**2000**
NET SALES REPORTED BY FRANCHISED STORES	**¥752,824**	¥729,487	**$6,843,855**
OPERATING REVENUES:			
Franchise commission from franchised stores (Note 3)	**¥ 96,628**	¥ 94,143	**$ 878,435**
Net sales of Company's own stores	**30,267**	28,736	**275,153**
Freight and distribution fees from suppliers (Note 12)	**—**	8,521	**—**
Royalty fees from area franchised companies (Note 3)	**2,379**	2,186	**21,627**
Other operating revenues (Note 4)	**6,586**	4,318	**59,875**
Total operating revenues	**135,860**	137,904	**1,235,090**
OPERATING EXPENSES:			
Cost of sales of Company's own stores	**21,500**	20,353	**195,456**
Selling, general and administrative expenses (Notes 7, 10 and 12)	**85,499**	88,366	**777,263**
Total operating expenses	**106,999**	108,719	**972,719**
Operating income	**28,861**	29,185	**262,371**
OTHER INCOME (EXPENSES):			
Interest and dividends	**370**	535	**3,366**
Gain (loss) on sales of marketable and investment securities	**701**	(727)	**6,374**
Loss on devaluation of marketable and investment securities	**(573)**	(1,219)	**(5,206)**
Loss on disposals/sales of property and store facilities	**(1,919)**	(2,419)	**(17,447)**
Loss on cancellations of lease contracts	**(1,304)**	(809)	**(11,856)**
Gain on sales of investment in partnership	**—**	1,054	**—**
Provision for directors' and corporate auditors' retirement benefits for prior years (Note 7)	**—**	(554)	**—**
Other—net	**(310)**	(632)	**(2,823)**
Other expenses—net	**(3,035)**	(4,771)	**(27,592)**
INCOME BEFORE INCOME TAXES	**25,826**	24,414	**234,779**
INCOME TAXES (Note 9)	**12,760**	9,253	**116,000**
NET INCOME	**¥ 13,066**	¥ 15,161	**$ 118,779**

	Yen		U.S. Dollars (Note 1)
PER SHARE OF COMMON STOCK:			
Net income	**¥ 135.7**	¥ 157.6	**$ 1.2**
Cash dividends applicable to the year	**38.0**	34.0	**0.3**

See notes to non-consolidated financial statements.

Non-consolidated Shareholders' Equity

FamilyMart Co., Ltd.
Years Ended February 29, 2000 and February 28, 1999

	Outstanding Number of Shares of Common Stock	Millions of Yen			
		Common Stock	Additional Paid-in Capital	Legal Reserve	Retained Earnings
BALANCE, MARCH 1, 1998	96,219,633	¥16,586	¥16,136	¥1,401	¥67,641
Net income					15,161
Cash dividends, ¥32 per share					(3,078)
Transfer to legal reserve				322	(322)
Bonuses to directors and corporate auditors					(140)
BALANCE, FEBRUARY 28, 1999	96,219,633	16,586	16,136	1,723	79,262
Net income					**13,066**
Cash dividends, ¥36 per share					**(3,464)**
Transfer to legal reserve				**361**	**(361)**
Bonuses to directors and corporate auditors					**(140)**
Issuances of new shares on the share for share exchanges (Note 8)	**1,463,500**	**73**	**921**		
BALANCE, FEBRUARY 29, 2000	**97,683,133**	**¥16,659**	**¥17,057**	**¥2,084**	**¥88,363**

	Thousands of U.S. Dollars (Note 1)			
	Common Stock	Additional Paid-in Capital	Legal Reserve	Retained Earnings
BALANCE, FEBRUARY 28, 1999	$150,779	$146,693	$15,668	$720,558
Net income				**118,779**
Cash dividends, $0.33 per share				**(31,489)**
Transfer to legal reserve			**3,276**	**(3,276)**
Bonuses to directors and corporate auditors				**(1,273)**
Issuances of new shares on the share for share exchanges (Note 8)	**665**	**8,367**		
BALANCE, FEBRUARY 29, 2000	**$151,444**	**$155,060**	**$18,944**	**$803,299**

See notes to non-consolidated financial statements.

Non-consolidated Statements of Cash Flows

FamilyMart Co., Ltd.
Years Ended February 29, 2000 and February 28, 1999

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000	1999	**2000**
OPERATING ACTIVITIES:			
Net income	**¥13,066**	¥15,161	**$118,779**
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Depreciation and amortization	**10,509**	8,345	**95,540**
(Reversal of) provision for doubtful accounts	**(213)**	470	**(1,937)**
Loss on disposal of property and store facilities	**1,919**	2,419	**17,442**
Loss on cancellation of lease contracts	**1,304**	809	**11,856**
(Loss) gain on sales of marketable and investment securities	**(701)**	727	**(6,374)**
Loss on devaluation of marketable and investment securities	**573**	1,219	**5,206**
Gain on sale of investment in partnership	**—**	(1,054)	**—**
(Reversal of) provision for retirement benefits	**(218)**	788	**(1,982)**
Bonuses to directors and corporate auditors	**(140)**	(140)	**(1,273)**
Changes in assets and liabilities:			
Decrease (increase) in due from franchised stores	**3,289**	(1,821)	**29,896**
(Increase) decrease in receivables from subsidiaries and associated companies	**(1,813)**	115	**(16,477)**
Decrease in other receivables	**1,367**	53	**12,428**
Increase in merchandise and supplies	**(181)**	(142)	**(1,643)**
Increase in prepaid expenses and other current assets	**(1,062)**	(595)	**(9,650)**
(Decrease) increase in payables	**(35,412)**	3,274	**(321,932)**
Increase (decrease) in income taxes payable	**5,609**	(4,144)	**50,992**
Increase in utility payments received	**2,835**	2,095	**25,769**
(Decrease) increase in accrued expenses	**(4,006)**	1,461	**(36,419)**
Increase in other current liabilities	**1,953**	5,978	**17,762**
Total adjustments	**(14,388)**	19,857	**(130,796)**
Net cash (used in) provided by operating activities—(Forward)	**(1,322)**	35,018	**(12,017)**
INVESTING ACTIVITIES:			
Purchases of property and store facilities	**(10,489)**	(19,216)	**(95,355)**
Decrease in marketable and investment securities	**5,401**	5,849	**49,098**
Decrease in investment in partnership	**—**	12,873	**—**
Increase in investments in and advances to subsidiaries and associated companies	**(2,639)**	(3,314)	**(23,991)**
Decrease in notes receivable—non-trade	**9,693**	—	**88,118**
Increase in short-term loans	**714**	569	**6,495**
Increase in leasehold deposits	**(2,939)**	(4,317)	**(26,720)**
Increase in leasehold deposits received from franchised stores	**835**	347	**7,586**
Increase in software	**(2,233)**	(1,527)	**(20,304)**
Increase in goodwill and other intangible assets	**(140)**	(1,129)	**(1,269)**
Increase in other assets	**(814)**	(293)	**(7,396)**
Net cash used in investing activities	**(2,611)**	(10,158)	**(23,738)**
FINANCING ACTIVITIES—Dividends paid	**(3,464)**	(3,078)	**(31,489)**
Net cash used in financing activities	**(3,464)**	(3,078)	**(31,489)**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(7,397)**	21,782	**(67,244)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**63,116**	41,334	**573,784**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥55,719**	¥63,116	**$506,540**
ADDITIONAL CASH FLOW INFORMATION:			
Income taxes paid	**¥ 7,151**	¥13,397	**$ 65,009**
NONCASH FINANCING ACTIVITIES:			
Issuances of new shares on the share for share exchange (Note 8)	**994**	—	**9,032**

See notes to non-consolidated financial statements.

Notes to Non-consolidated Financial Statements

FamilyMart Co., Ltd.
Years Ended February 29, 2000 and February 28, 1999

1. BASIS OF PRESENTING NON-CONSOLIDATED FINANCIAL STATEMENTS

The accompanying non-consolidated financial statements have been prepared from the accounts maintained by FamilyMart Co., Ltd. (the "Company") in accordance with the provisions set forth in the Japanese Commercial Code (the "Code") and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards. The non-consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan. The non-consolidated financial statements of cash flows are not required as part of the basic financial statements in Japan but are presented herein as additional information.

In preparing these non-consolidated financial statements, certain reclassifications and rearrangements have been made to the Company's financial statements issued domestically in order to present these statements in a form which is more familiar to readers outside Japan. In addition, the notes to the non-consolidated financial statements include information, which is not required under accounting principles generally accepted in Japan but is presented herein as additional information. Certain reclassifications have been made in the 1999 non-consolidated financial statements to conform to the classifications used in 2000.

The non-consolidated financial statements are stated in Japanese yen, the currency of the country in which 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 ¥110 to $1, the approximate rate of exchange at February 29, 2000. 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) Non-consolidation

The non-consolidated financial statements do not include the accounts of subsidiaries. Investments in subsidiaries and associated companies (20%–50% ownership) are stated at cost.

(b) Cash and Cash Equivalents

For purposes of the statements of cash flows, cash equivalents are short-term investments that are readily convertible into cash and that are not exposed to significant risk of changes in value. Cash equivalents include time deposits, certificates of deposit, mutual funds investing in bonds and securities purchased under resale agreements that represent short-term investments, all of which mature or become due within three months of the date of acquisition. In prior periods, cash and cash equivalents had included marketable securities but excluded securities purchased under resale agreements. Effective March 1, 1999, the Company excluded marketable equity securities, which had been presented in marketable securities and had a risk of changes in value due to market price fluctuations, from cash and cash equivalents and included securities purchased under resale agreements in cash and cash equivalents. The statements of cash flows of prior periods have been retroactively restated to conform to the presentation of cash and cash equivalents used in 2000. This change had no effect on the financial position or results of operations in prior periods.

(c) Merchandise and Supplies

Merchandise other than fast food is valued at cost determined by the retail method. Fast food and supplies are stated at cost determined by the last purchase price method.

(d) Marketable and Investment Securities

Current and non-current marketable securities are stated at the lower of cost or market. Other investments are stated at cost. Cost is determined by the average method.

(e) Property and Store Facilities

Property and store facilities are stated at cost. Depreciation is computed by the declining-balance method over the estimated useful lives of the assets. In terms of the buildings acquired on or after April 1, 1998, a straight-line method is applied pursuant to the amendments to corporate income tax laws in Japan. The ranges of useful lives are principally from 2 to 50 years (2 to 60 years in 1999) for buildings and structures, from 5 to 18 years for machinery and equipment and from 2 to 20 years for furniture and fixtures, respectively. The effect of the change in useful lives of buildings was to increase depreciation expense and to decrease income before income taxes by ¥35 million.

(f) Software

Capitalized software costs are carried at cost less accumulated amortization, which is calculated by the straight-line method over 5 years.

(g) Goodwill and Other Intangible Assets

Goodwill and other intangible assets are carried at cost less accumulated amortization, which is calculated by the straight-line method principally over 5 years.

(h) Retirement Benefits and Pension Plans

Prior to April 1, 1999, employees with less than 5 years of service were covered by an unfunded retirement plan. Benefits under this retirement plan were based on average basic salaries during the period and length of service. The annual provisions for employees' retirement benefit were stated at 40% of the amount that would have be required if all employees voluntarily terminated their services at each balance sheet date. In addition, employees with 5 years or more of service were covered by a funded contributory pension plan which was established by the Saison Group, of which the Company used to be a member. The plan provides for a lump-sum payment to retiring employees with less than 20 years of participation in the plan. Those employees with 20 years or more of participation are entitled to choose either a lump-sum payment or pension annuity payments for life.

Effective April 1, 1999, all severance payments of employees with less than 5 years of service and some portion of severance payments of employees with 5 years or more of service are covered by a non-contributory pension plan. The excess amount of the liabilities for severance payments resulting from these transfers has been reversed to income over the period when the contributions for past service costs are paid in the non-contributory pension plan according to these changes. The contributions for the past service costs are charged to income (selling, general and administrative expenses) when paid.

The annual provisions for retirement benefits to directors and corporate auditors are stated at the amount in accordance with the bylaws of the Company that would be required if all directors and corporate auditors retired at each balance sheet date.

(i) Leases

All leases are accounted for as operating leases. Under Japanese accounting standards 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.

(j) Income Taxes

Income taxes are provided for at the amount currently payable for each year. The tax effect of temporary differences between tax and financial reporting purposes is not recorded.

(k) Appropriations of Retained Earnings

Appropriations of retained earnings are reflected in the financial statements upon shareholders' approval.

(l) Per Share Information

The computation of net income per common share is based on the weighted average number of shares outstanding. The average number of common shares used in the computation was 96,314,445 thousand and 96,219,633 thousand for the years ended February 29, 2000 and February 28, 1999, respectively.

Cash dividends per common share shown in the statements of income are the amounts applicable to the respective years including dividends to be paid after the end of the year.

3. RELATED PARTIES AND ORGANIZATION

The Company's head shareholder is Family Corporation Inc., which owns 30.19% of the total shares of the Company outstanding at February 29, 2000. Family Corporation Inc. is 30% owned by Nishino Trading Co., Ltd. and 70% owned by ITOCHU Corporation, and both Family Corporation Inc. and Nishino Trading Co., Ltd. distribute merchandise and/or supplies for "FamilyMart" stores.

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. Area franchised companies as of February 29, 2000, are as follows:

Name of Franchisee	Area	The Company’s Shares in Franchisee
Subsidiaries:		
Siam FamilyMart Co., Ltd.	Thailand	60.00%
Ai FamilyMart Co., Ltd.	Fukuoka, Kumamoto, Oita and major part of Saga, Japan	100.00
Hokuriku FamilyMart Co., Ltd.	Fukui, Ishikawa and Toyama, Japan	100.00
Associated companies:		
Taiwan FamilyMart Co., Ltd.	Taiwan	45.82
Bokwang FamilyMart Co., Ltd.	Korea	21.24
Minami Kyushu FamilyMart Co., Ltd.	Kagoshima and Miyazaki, Japan	49.00
Okinawa FamilyMart Co., Ltd.	Okinawa, Japan	48.98
Matsuhaya FamilyMart Co., Ltd.	Nagasaki and minor part of Saga, Japan	40.00

SFM HOLDING CO., LTD., 80.95% owned by the Company, is a holding company of Siam FamilyMart Co., Ltd. and MBE Japan, Inc. is a wholly owned subsidiary, operating “MAIL BOXES ETC.” franchised stores.

Kouyou Co., Ltd., a wholly owned subsidiary, has managed the logistics of distribution centers for “FamilyMart” stores since March 1, 1999, while Kouyou Trading Co., Ltd., also a wholly owned (including indirect shareholding) subsidiary of the Company, leases various computer equipment to “FamilyMart” stores.

Family Chef Co., Ltd., 30.00% owned by the Company, produces and distributes delicatessen to the Company.

4. TRANSACTION WITH FRANCHISED STORES

As aforementioned in 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 10 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 ¥3,000,000 and ¥1,500,000 which is credited to income of the Company as “Other operating revenues” for services with respect to research, training and preparations of store opening. The remaining amount is used as working capital for the stores and, accordingly, is credited to “Payables: Due to franchised stores.”

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 accounts receivable due from franchised stores in respect of such purchases.

Each franchised store shall make a remittance of cash from sales to the Company on a daily basis. Furthermore, the franchised store collects money from customers of utility charges on behalf of utility service suppliers such as electric power companies and telecommunication companies which is remitted to the Company on a daily basis. The receipts of such charges are credited as a liability due to utility service suppliers and presented “Utility payments received” on the balance sheets.

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

The balances of “Receivables: Due from franchised stores” and “Payables: Due to franchised stores” in the accompanying non-consolidated balance sheets represent such net balances between the Company and each franchised store at the balance sheet date.

5. MARKETABLE AND INVESTMENT SECURITIES

The carrying values and aggregated market values of marketable equity securities included in marketable securities and investment securities at February 29, 2000 and February 28, 1999, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	**2000**
Current:			
Carrying value	**¥ 866**	¥2,717	**$ 7,869**
Aggregated market value	**9,512**	6,510	**86,473**
Unrealized gain	**¥8,646**	¥3,793	**$78,604**
Non-current:			
Carrying value	**¥3,044**	¥5,236	**$27,674**
Aggregated market value	**3,345**	5,683	**30,412**
Unrealized gain	**¥ 301**	¥ 447	**$ 2,738**
Total unrealized gain	**¥8,947**	¥4,240	**$81,342**

The difference between the above carrying value and the amounts shown in the accompanying non-consolidated balance sheets principally consists of non-marketable securities for which there is no readily-available market from which to obtain or calculate the market value thereof.

6. PROPERTY AND STORE FACILITIES

Property and store facilities at February 29, 2000 and February 28, 1999, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	**2000**
Used by the Company and its own stores:			
Land	**¥ 9,722**	¥ 9,539	**$ 88,380**
Buildings and structures	**10,684**	10,634	**97,130**
Machinery and equipment	**819**	737	**7,446**
Furniture and fixtures	**7,373**	7,306	**67,028**
Construction in progress	**143**	207	**1,298**
Subtotal	**28,741**	28,423	**261,282**
Accumulated depreciation	**(8,089)**	(7,079)	**(73,535)**
Net	**20,652**	21,344	**187,747**
Used by franchised stores and others:			
Land	**3,292**	3,399	**29,925**
Buildings and structures	**25,385**	24,279	**230,770**
Machinery and equipment	**1,561**	1,292	**14,194**
Furniture and fixtures	**22,066**	19,994	**200,603**
Subtotal	**52,304**	48,964	**475,492**
Accumulated depreciation	**(23,520)**	(18,033)	**(213,824)**
Net	**28,784**	30,931	**261,668**
Total	**¥49,436**	¥52,275	**$449,415**

7. RETIREMENT BENEFITS AND PENSION PLANS

Total charges to income for the retirement benefits were ¥740 million ($6,730 thousand) and ¥1,320 million for the years ended February 29, 2000 and February 28, 1999, respectively.

The total planned assets and total past service liabilities of the Saison Group Kosei Nenkin Kikin, a contributory pension plan which covers retirement benefits for employees with length of service five years or more, as of March 31, 1999 were ¥298,125 million ($2,710,227 thousand) and ¥6,281 million ($57,100 thousand), respectively.

The Company's share in the number of participating members of this plan is approximately 3.06%.

The planned assets and past service liabilities of a non-contributory pension plan which covers all retirement benefits for employees with length of service less than five years and part of retirement benefits for employees with length of service five years or more, as of August 31, 1999 were ¥157 million ($1,427 thousand) and ¥603 million ($5,482 thousand), respectively.

8. SHAREHOLDERS' EQUITY

The Code requires at least 50% of the issue price of new shares, with a minimum of the par value thereof, to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital are credited to additional paid-in capital.

The Code also requires companies to appropriate from retained earnings to a legal reserve an amount equal to at least 10% of all cash payments which are made as appropriations of retained earnings until such reserve equals 25% of stated capital. This reserve is not available for dividends but may be used to reduce a deficit by resolution of the shareholders.

The Company may transfer portions of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Company may also transfer portions of unappropriated retained earnings, available for dividends, to stated capital by resolution of the shareholders.

Under the Code, the Company may issue new common shares to existing shareholders without consideration pursuant to resolution of the Board of Directors as a stock split. The Company may make such a stock split to the extent that the aggregate par value of the shares outstanding after the stock split does not exceed the stated capital. However, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the stock split cannot be less than ¥50.

On January 27, 2000, the Company made an exchange of shares with Ai FamilyMart Co., Ltd. issuing 1,007,200 shares and acquiring of 60% shares in Ai FamilyMart Co., Ltd. As a result of this exchange, Ai FamilyMart became a wholly owned subsidiary of the Company, and the Company's capital and additional paid-in capital increased by ¥50 million and ¥303 million, respectively.

On February 29, 2000, the Company made an exchange of shares with Hokuriku FamilyMart Co., Ltd. issuing 456,300 shares and acquiring of 55% shares in Hokuriku FamilyMart Co., Ltd. As a result of this exchange, Hokuriku FamilyMart became a wholly owned subsidiary of the Company, and the Company's capital and additional paid-in capital increased by ¥23 million and ¥618 million, respectively.

Dividends are approved by the shareholders at a meeting held subsequent to 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.

9. INCOME TAXES

The Company is subject to several taxes based on income. The aggregate normal tax rate, after taking effect of the enterprise tax deductible for income tax purposes when paid, for the year ended February 29, 2000 was approximately 47%, and for the year ended February 28, 1999 was approximately 51% reflecting the amendment of corporate income tax rate. The actual effective tax rates in the accompanying non-consolidated statements of income differed from the normal effective statutory rates due principally to non-recognition of the tax effects of temporary differences between tax and financial reporting and certain expenses that are permanently non-deductible for tax purposes.

10. LEASES

The Company leases certain furniture, software and other assets.

Total rental expenses under finance leases for the years ended February 29, 2000 and February 28, 1999, were ¥6,312 million ($57,381 thousand) and ¥6,242 million, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense of finance leases that do not transfer ownership of the leased property to the Company on an "as if capitalized" basis for the years ended February 29, 2000 and February 28, 1999, was as follows:

Year Ended February 29, 2000

	Millions of Yen			Thousands of U.S. Dollars		
	Furniture and Fixtures	Software	Total	Furniture and Fixtures	Software	Total
Acquisition cost	**¥33,565**	**¥514**	**¥34,079**	**$305,136**	**$4,673**	**$309,809**
Accumulated depreciation	**(15,969)**	**(315)**	**(16,284)**	**(145,172)**	**(2,864)**	**(148,036)**
Net leased property	**¥17,596**	**¥199**	**¥17,795**	**$159,964**	**$1,809**	**$161,773**

Year Ended February 28, 1999

	Millions of Yen
	Furniture and Fixtures
Acquisition cost	¥33,314
Accumulated depreciation	(15,292)
Net leased property	¥18,022

Obligation under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	**2000**
Due within one year	**¥ 4,417**	¥ 4,027	**$ 40,154**
Due after one year	**14,284**	14,803	**129,855**
Total	**¥18,701**	¥18,830	**$170,009**

Depreciation expense and interest expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	**2000**
Depreciation expense	**¥4,582**	¥4,349	**$41,655**
Interest expense	**863**	814	**7,845**
Total	**¥5,445**	¥5,163	**$49,500**

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

The minimum rental commitments under noncancelable operating leases at February 29, 2000 and February 28, 1999, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	**2000**
Due within one year	**¥ 7**	¥ 6	**$ 62**
Due after one year	**5**	5	**47**
Total	**¥12**	¥11	**$109**

11. CONTINGENT LIABILITIES

At February 29, 2000, the Company had the following contingent liabilities:

	Millions of Yen	Thousands of U.S. Dollars
Guarantees of bank loans, borrowed by:		
Subsidiaries:		
Siam FamilyMart Co., Ltd.	¥418	$3,800
Kouyou Trading Co., Ltd.	130	1,182
Associated company:		
Matsuhaya FamilyMart Co., Ltd.	12	109
Total	¥560	$5,091

12. FREIGHT AND DISTRIBUTION

Prior to March 1, 1999, the Company had delivered merchandise and supplies to each FamilyMart store and received freight and distribution fees from suppliers in return. Effective March 1, 1999, as the Company transferred the business to its subsidiary, Kouyou Trading Co., Ltd., and, as a result no such "freight and distribution fees from supplier" and "freight and distribution costs" (included in "Selling, general and administrative expenses") were incurred for the year ended February 29, 2000. However, for the year ended February 28, 1999, "freight and distribution fees from supplier" and "freight and distribution costs" were ¥8,521 million and ¥8,135 million, respectively.

13. SUBSEQUENT EVENTS

(a) Mergers with subsidiaries

On April 14, 2000, the Board of Directors approved mergers with two subsidiaries, Ai FamilyMart Co., Ltd. and Hokuriku FamilyMart Co., Ltd., and the merger agreements were signed.

The Company will merge these companies on September 1, 2000, and take over all assets and liabilities as well as legal rights and obligations of them and those companies will be dissolved. As of February 29, 2000, assets and liabilities of both companies are summarized below:

	Millions of Yen		Thousands of U.S. Dollars	
	Ai FamilyMart Co., Ltd.	Hokuriku FamilyMart Co., Ltd.	Ai FamilyMart Co., Ltd.	Hokuriku FamilyMart Co., Ltd.
Assets	¥4,742	¥3,580	$43,109	$32,545
Liabilities	4,167	2,415	37,881	21,954
Shareholders' equity	574	1,165	5,218	10,591

There will be no new shares issued nor will capital increase as a result of these mergers.

(b) Appropriations of retained earnings

The following appropriations of retained earnings at February 29, 2000, were approved at the shareholders' meeting held on May 29, 2000:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥19 ($0.17) per share	¥1,856	$16,872
Transfer to legal reserve	195	1,769
Bonuses to directors and corporate auditors	90	818

Deloitte Touche Tohmatsu

Tohmatsu & Co.
MS Shibaura Building
13-23, Shibaura 4-chome
Minato-ku, Tokyo 108-8530
Telephone : (03)3457-7321
Facsimile : (03)3769-8508

INDEPENDENT AUDITORS' REPORT

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

We have examined the non-consolidated balance sheet of FamilyMart Co., Ltd. as of February 29, 2000, and the related non-consolidated statements of income, shareholders' equity, and cash flows for the year then ended, all expressed in Japanese yen. Our examination was made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The non-consolidated financial statements of FamilyMart Co., Ltd. for the year ended February 28, 1999 were examined by other auditors whose report, dated May 28, 1999, expressed an unqualified opinion on those statements.

In our opinion, such 2000 non-consolidated financial statements present fairly the financial position of FamilyMart Co., Ltd. as of February 29, 2000, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles and practices generally accepted in Japan applied on a basis consistent with that of the preceding year.

Our examination 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 to the non-consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

May 29, 2000

Consolidated Statements of Income

FamilyMart Co., Ltd. and Consolidated Subsidiaries
Years Ended February 29, 2000 and February 28, 1999

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000	1999	**2000**
OPERATING REVENUES:			
Franchise commission from franchised stores	**¥ 96,570**	¥ 94,143	**$ 877,910**
Net sales of Company's own stores	**34,016**	39,124	**309,233**
Freight and distribution fees from suppliers	**8,175**	8,521	**74,315**
Royalty fees from area franchised companies	**2,349**	2,186	**21,353**
Other operating revenues	**6,185**	4,287	**56,232**
Total operating revenues	**147,295**	148,261	**1,339,043**
OPERATING EXPENSES:			
Cost of sales of Company's own stores	**23,871**	28,437	**217,005**
Selling, general and administrative expenses (Notes 5 and 8)	**95,326**	90,643	**866,606**
Total operating expenses	**119,197**	119,080	**1,083,611**
Operating income	**28,098**	29,181	**255,432**
OTHER INCOME (EXPENSES):			
Interest and dividends	**402**	509	**3,657**
Equity in earnings of unconsolidated subsidiaries and associated companies	**444**	554	**4,039**
Gain (loss) on sales of marketable and investment securities	**701**	(727)	**6,374**
Loss on devaluation of marketable and investment securities	**(573)**	(1,219)	**(5,206)**
Loss on disposals/sales of property and store facilities	**(1,939)**	(2,423)	**(17,629)**
Loss on cancellations of lease contracts	**(1,304)**	(810)	**(11,856)**
Gain on sales of investment in partnership	**—**	1,054	**—**
Provision for directors' and corporate auditors' retirement benefits for prior years (Note 5)	**—**	(554)	**—**
Other—net	**(264)**	(807)	**(2,399)**
Other expenses—net	**(2,533)**	(4,423)	**(23,020)**
INCOME BEFORE INCOME TAXES	**25,565**	24,758	**232,412**
INCOME TAXES (Note 7)	**12,762**	9,261	**116,016**
MINORITY INTEREST IN NET LOSS	**157**	17	**1,419**
NET INCOME	**¥ 12,960**	¥ 15,514	**$ 117,815**
	Yen		U.S. Dollars (Note 1)
PER SHARE OF COMMON STOCK:			
Net income	**¥ 134.6**	¥ 161.2	**$ 1.2**
Cash dividends applicable to the year	**38.0**	34.0	**0.3**

See notes to consolidated financial statements.

Consolidated Balance Sheets

FamilyMart Co., Ltd. and Consolidated Subsidiaries
February 29, 2000 and February 28, 1999

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000	1999	**2000**
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	**¥ 57,682**	¥ 64,558	**$ 524,378**
Marketable securities (Note 3)	**851**	2,792	**7,736**
Receivables:			
Notes receivable—non-trade	**—**	9,693	**—**
Due from franchised stores	**5,919**	8,570	**53,806**
Short-term loans	**552**	1,185	**5,017**
Other	**7,304**	9,279	**66,401**
Allowance for doubtful accounts	**(716)**	(851)	**(6,510)**
Merchandise and supplies	**2,362**	2,092	**21,475**
Prepaid expenses and other current assets	**5,004**	3,535	**45,495**
Total current assets	**78,958**	100,853	**717,798**
PROPERTY AND STORE FACILITIES:			
Land	**13,340**	13,144	**121,276**
Buildings and structures	**40,433**	35,626	**367,575**
Machinery and equipment	**2,522**	2,181	**22,926**
Furniture and fixtures	**32,559**	29,243	**295,989**
Construction in progress	**163**	208	**1,484**
Total	**89,017**	80,402	**809,250**
Accumulated depreciation	**(34,270)**	(25,780)	**(311,547)**
Net property and store facilities	**54,747**	54,622	**497,703**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	**3,334**	6,747	**30,309**
Investments in and advances to unconsolidated subsidiaries and associated companies	**5,708**	3,642	**51,888**
Leasehold deposits	**55,087**	50,989	**500,788**
Software	**4,522**	3,479	**41,113**
Goodwill and other intangible assets	**1,293**	1,468	**11,758**
Foreign currency translation adjustments	**874**	583	**7,949**
Other	**1,969**	556	**17,894**
Total investments and other assets	**72,787**	67,464	**661,699**
TOTAL	**¥206,492**	¥222,939	**$1,877,200**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000	1999	2000
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term bank loans (Note 4)	¥ 240	¥ 2,567	$ 2,178
Payables:			
Trade for franchised and own stores	37,020	70,778	336,546
Due to franchised stores	2,882	897	26,197
Income taxes payable (Note 7)	8,659	2,848	78,716
Utility payments received	12,365	9,531	112,412
Accrued expenses	8,518	9,687	77,432
Other current liabilities	4,400	5,773	40,008
Total current liabilities	74,084	102,081	673,489
LONG-TERM LIABILITIES:			
Long-term bank loans (Note 4)	214	—	1,947
Retirement benefits—employees (Note 5)	115	56	1,045
Retirement benefits—directors and corporate auditors (Note 5)	583	790	5,299
Leasehold deposits received from franchised stores	8,449	7,177	76,811
Total long-term liabilities	9,361	8,023	85,102
MINORITY INTERESTS	492	648	4,469
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 8 and 9)			
SHAREHOLDERS' EQUITY (Notes 6 and 10):			
Common stock, ¥50 par value— authorized, 250,000,000 shares; issued and outstanding, 97,683,133 shares in 2000 and 96,219,633 shares in 1999	16,659	16,586	151,444
Additional paid-in capital	17,057	16,136	155,060
Retained earnings	88,854	79,498	807,770
Total	122,570	112,220	1,114,274
Treasury stock—at cost	(15)	(33)	(134)
Total shareholders' equity	122,555	112,187	1,114,140
TOTAL	¥206,492	¥222,939	$1,877,200

See notes to consolidated financial statements.

Consolidated Shareholders' Equity

FamilyMart Co., Ltd. and Consolidated Subsidiaries
Years Ended February 29, 2000 and February 28, 1999

	Outstanding Number of Shares of Common Stock	Millions of Yen		
		Common Stock	Additional Paid-in Capital	Retained Earnings
BALANCE, MARCH 1, 1998	96,219,633	¥16,586	¥16,136	¥67,202
Net income				15,514
Cash dividends, ¥32 per share				(3,078)
Bonuses to directors and corporate auditors				(140)
BALANCE, FEBRUARY 28, 1999	96,219,633	16,586	16,136	79,498
Net income				**12,960**
Cash dividends, ¥36 per share				**(3,464)**
Bonuses to directors and corporate auditors				**(140)**
Issuances of new shares on the share for share exchanges (Note 6)	**1,463,500**	**73**	**921**	
BALANCE, FEBRUARY 29, 2000	**97,683,133**	**¥16,659**	**¥17,057**	**¥88,854**

	Thousands of U.S. Dollars (Note 1)		
	Common Stock	Additional Paid-in Capital	Retained Earnings
BALANCE, FEBRUARY 28, 1999	$150,779	$146,693	$722,717
Net income			**117,815**
Cash dividends, $0.33 per share			**(31,489)**
Bonuses to directors and corporate auditors			**(1,273)**
Issuances of new shares on the share for share exchanges (Note 6)	**665**	**8,367**	
BALANCE, FEBRUARY 29, 2000	**$151,444**	**$155,060**	**$807,770**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements
FamilyMart Co., Ltd. and Consolidated Subsidiaries
Years Ended February 29, 2000 and February 28, 1999

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 and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards. The consolidated financial statements are not intended to present the financial position and results of operations in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan. The consolidated statements of cash flows are not required as part of the basic financial statements in Japan, accordingly, are not presented herein.

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, the notes to the consolidated financial statements include information which is not required under accounting policies generally accepted in Japan but is presented herein as additional information. Certain reclassifications have been made in the 1999 consolidated financial statements to conform to the classifications used in 2000.

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 ¥110 to $1, the approximate rate of exchange at February 29, 2000. 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 significant 7 (5 in 1999) majority-owned subsidiaries (together, the "Group"). Consolidation of the remaining 10 subsidiaries (1 in 1999) would not have a material effect on the accompanying consolidated financial statements.

Ai FamilyMart Co., Ltd. and Hokuriku FamilyMart Co., Ltd., which were previously associated companies, and accounted for by the equity method became wholly owned subsidiaries in December 1999 and in February 2000, respectively. These two companies are to be consolidated effective February 29, 2000, and accordingly their assets and liabilities were included in the consolidated financial statements.

Investments in 6 (8 in 1999) associated companies are accounted for by the equity method. Investments in the remaining 10 (1 in 1999) unconsolidated subsidiaries 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 their equity in the net assets at the respective dates of acquisition, is being amortized over a period of 5 years.

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

(b) Cash and Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are not exposed to significant risk of changes in value. Cash equivalents include time deposits, certificates of deposit, mutual funds investing in bonds and securities purchased under resale agreements that represent short-term investments, all of which mature or become due within three months of the date of acquisition. In prior periods, cash and cash equivalents had included marketable securities but excluded securities purchased under resale agreements. Effective March 1, 1999, the Company excluded marketable equity securities, which had been presented in marketable securities and had a risk of changes in value due to market price fluctuations, from cash equivalents and included securities purchased under resale agreements in cash and cash equivalents.

(c) Merchandise and Supplies

Merchandise other than fast food is valued at cost determined by the retail method. Fast food and supplies are stated at cost determined by the last purchase price method.

(d) Marketable and Investment Securities

Current and non-current marketable securities are stated at the lower of cost or market. Other investments are stated at cost. Cost is determined by the average method.

(e) Property and Store Facilities

Property and store facilities are stated at cost. Depreciation is computed by the declining-balance method over the estimated useful lives of the assets. In terms of the buildings acquired on or after April 1, 1998, a straight-line method is applied pursuant to the amendments to corporate income tax laws in Japan. The ranges of useful lives is principally from 2 to 50 years (2 to 60 years in 1999) for buildings and structures, from 5 to 18 years for machinery and equipment and from 2 to 20 years for furniture and fixtures, respectively. The effect of the change in useful lives of buildings was to increase depreciation expense and to decrease income before income taxes by ¥35 million.

(f) Software

Capitalized software cost are carried at cost less accumulated amortization, which is calculated by the straight-line method over 5 years.

(g) Goodwill and Other Intangible Assets

Goodwill and other intangible assets are carried at cost less accumulated amortization, which is calculated by the straight-line method principally over 5 years.

(h) Retirement Benefits and Pension Plans

Prior to April 1, 1999, employees of the Company with less than 5 years of service were covered by an unfunded retirement plan. Benefits under this retirement plan were based on average basic salaries during the period and length of service. The annual provisions for employees' retirement benefit were stated at 40% of the amount that would have be required if all employees voluntarily terminated their services with the Company at each balance sheet date. In addition, the Company's employees with 5 years or more of service were covered by a funded contributory pension plan which was established by the Saison Group, of which the Company used to be a member. The plan provides for a lump-sum payment to retiring employees with less than 20 years of participation in the plan. Those employees with 20 years or more of participation are entitled to choose either a lump-sum payment or pension annuity payments for life.

Effective April 1, 1999, all severance payments of employees with less than 5 years of service and some portion of severance payments of employees with 5 years or more of service are covered by a non-contributory pension plan. The excess amount of the liabilities for severance payments resulting from these transfers has been reversed to income over the period when the contributions for past service costs are paid in the non-contributory pension plan according to these changes. The contributions for the past service costs are charged to income (selling, general and administrative expenses) when paid.

The annual provisions for retirement benefits to directors and corporate auditors are stated at the amount in accordance with the bylaws of the Company that would be required if all directors and corporate auditors retired at each balance sheet date.

(i) Leases

All leases are accounted for as operating leases. Under Japanese accounting standards 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.

(j) Income Taxes

Income taxes are provided for amounts currently payable for each year. The tax effect of temporary differences between tax and financial reporting purposes is not recorded.

(k) Appropriations of Retained Earnings

Appropriations of retained earnings are reflected in the financial statements upon shareholders' approval.

(l) Foreign Currency Financial Statements

The balance sheet accounts of the consolidated overseas subsidiaries are translated into yen at the current exchange rates as of each balance sheet date except for shareholders' equity, which is translated at the historical exchange rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" in the accompanying consolidated balance sheets. Revenue and expense accounts of the consolidated overseas subsidiaries are also translated into yen at the current exchange rates as of each balance sheet date.

(m) Per Share Information

The computation of net income per share is based on the weighted average number of shares of common stock outstanding during each year. The average number of common shares used in the computation was 96,311,752 shares for 2000 and 96,214,321 shares for 1999.

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.

3. MARKETABLE AND INVESTMENT SECURITIES

Carrying amounts and aggregate market values of current and non-current marketable equity securities included in marketable securities and investment securities at February 29, 2000 and February 28, 1999, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	**2000**
Current:			
Carrying amount	**¥ 851**	¥2,685	**$ 7,736**
Aggregate market value	**9,498**	6,477	**86,341**
Unrealized gain	**¥8,647**	¥3,792	**$78,605**
Non-current:			
Carrying amount	**¥3,044**	¥5,236	**$27,674**
Aggregate market value	**3,345**	5,683	**30,412**
Unrealized gain	**¥ 301**	¥ 447	**$ 2,738**
Total unrealized gain	**¥8,948**	¥4,239	**$81,343**

The difference between the above carrying value and the amounts shown in the accompanying consolidated balance sheets principally consists of money management funds and non-marketable securities for which there is no readily-available market from which to obtain or calculate the market value thereof.

4. SHORT-TERM AND LONG-TERM BANK LOANS

Short-term bank loans at February 29, 2000 and February 28, 1999, consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 1.375% to 7.375% and 1.375% to 21.75% at February 29, 2000 and February 28, 1999, respectively.

Long-term bank loans at February 29, 2000, consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Loans from banks due 2002 with interest rates of 4.5%	¥214	$1,947
Less current portion	—	—
Long-term bank loans, less current portion	¥214	$1,947

5. RETIREMENT BENEFITS AND PENSION PLANS

Total charges to income for the retirement benefits were ¥740 million ($6,730 thousand) and ¥1,320 million for the years ended February 29, 2000 and February 28, 1999, respectively.

The total planned assets and total past service liabilities of the Saison Group Kosei Nenkin Kikin, a contributory pension plan which covers retirement benefits of employees with length of service five years or more, as of March 31, 1999 were ¥298,125 million ($2,710,227 thousand) and ¥6,281 million ($57,100 thousand), respectively.

The Company's share in the number of participating members of this plan is approximately 3.06%.

The planned assets and past service liabilities of a non-contributory pension plan of the Company which covers all retirement benefits for employees with length of service less than five years and part of retirement benefits for employees with length of service five years or more, as of August 31, 1999 were ¥157 million ($1,427 thousand) and ¥603 million ($5,482 thousand), respectively.

6. SHAREHOLDERS' EQUITY

The Japanese Commercial Code (the "Code") requires at least 50% of the issue price of new shares, with a minimum of the par value thereof, to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital are credited to additional paid-in capital.

The Code also requires companies to appropriate from retained earnings to a legal reserve an amount equal to at least 10% of all cash payments which are made as an appropriation of retained earnings until such reserve equals 25% of stated capital. Such reserve was included in retained earnings, on the consolidated balance sheets ¥2,090 million ($19,002 thousand) and ¥1,723 million as of February 29, 2000 and February 28, 1999, respectively, and is not available for dividends but may be used to reduce a deficit by resolution of the shareholders.

The Company may transfer portions of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Company may also transfer portions of unappropriated retained earnings, available for dividends, to stated capital by resolution of the shareholders.

Under the Code, the Company may issue new common shares to existing shareholders without consideration as a stock split pursuant to resolution of the Board of Directors. The Company may make such a stock split to the extent that the aggregate par value of the shares outstanding after the stock split does not exceed the stated capital. However, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the stock split cannot be less than ¥50.

On January 27, 2000, the Company made an exchange of shares with Ai FamilyMart Co., Ltd. issuing 1,007,200 shares and acquiring of 60% shares in Ai FamilyMart Co., Ltd. As the result of this exchange, Ai FamilyMart became a wholly owned subsidiary of the Company, and the Company's capital and additional paid-in capital increased by ¥50 million and ¥303 million, respectively.

On February 29, 2000, the Company made an exchange of shares with Hokuriku FamilyMart Co., Ltd. issuing 456,300 shares and acquiring of 55% shares in Hokuriku FamilyMart Co., Ltd. As a result of this exchange, Hokuriku FamilyMart became a wholly owned subsidiary of the Company, and the Company's capital and additional paid-in capital increased by ¥23 million and ¥618 million, respectively.

Dividends are approved by the shareholders at a meeting held subsequent to 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.

7. INCOME TAXES

The Company and its domestic subsidiaries are subject to several taxes based on income. The aggregate normal tax rate, after taking effect of the enterprise tax which is deductible for income tax purposes when paid, for the year ended February 29, 2000 was approximately 47%, and for the year ended February 28, 1999 is approximately 51% reflecting the amendment of corporate income tax rate. The actual effective tax rates in the accompanying consolidated statements of income differed from the normal effective statutory rates due principally to non-recognition of the tax effects of temporary differences between tax and financial reporting and certain expenses that are permanently non-deductible for tax purposes.

8. LEASES

The Company and consolidated companies lease certain furniture, software and other assets.

Total rental expenses for the years ended February 29, 2000 and February 28, 1999, were ¥5,335 million ($48,504 thousand) and ¥5,667 million, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance lease, depreciation expense, interest expense 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, 2000 and February 28, 1999, was as follows:

Year Ended February 29, 2000

	Millions of Yen				Thousands of U.S. Dollars			
	Machinery and Equipment	Furniture and Fixtures	Software	Total	Machinery and Equipment	Furniture and Fixtures	Software	Total
Acquisition cost	**¥10**	**¥37,401**	**¥517**	**¥37,928**	**$96**	**$340,006**	**$4,697**	**$344,799**
Accumulated depreciation	**(1)**	**(17,613)**	**(316)**	**(17,930)**	**(13)**	**(160,115)**	**(2,874)**	**(163,002)**
Net leased property	**¥ 9**	**¥19,788**	**¥201**	**¥19,998**	**$83**	**$179,891**	**$1,823**	**$181,797**

Year Ended February 28, 1999

	Millions of Yen
	Furniture and Fixtures
Acquisition cost	¥33,001
Accumulated depreciation	(15,260)
Net leased property	¥17,741

Obligation under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	**2000**
Due within one year	**¥ 4,997**	¥ 4,006	**$ 45,425**
Due after one year	**15,931**	14,526	**144,832**
Total	**¥20,928**	¥18,532	**$190,257**

Depreciation expense and interest expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	**2000**
Depreciation expense	**¥4,526**	¥4,319	**$41,142**
Interest expense	**757**	764	**6,885**
Total	**¥5,283**	¥5,083	**$48,027**

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, respectively. As Ai FamilyMart Co., Ltd. and Hokuriku FamilyMart Co., Ltd. were deemed to become consolidated subsidiaries as of February 29, 2000, the above expenses do not include these consolidated subsidiaries.

The minimum rental commitments under noncancelable operating leases at February 29, 2000, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	**2000**
Due within one year	**¥ 7**	¥ 5	**$ 62**
Due after one year	**5**	6	**47**
Total	**¥12**	¥11	**$109**

9. CONTINGENT LIABILITIES

At February 29, 2000, the Company had the following contingent liabilities:

	Millions of Yen	Thousands of U.S. Dollars
Guarantees of bank loans, borrowed by Matsuhaya FamilyMart Co., Ltd.	¥12	$109

10. SUBSEQUENT EVENT

The following appropriations of retained earnings at February 29, 2000, were approved at the Company's shareholders' meeting held on May 29, 2000:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥19 ($0.17) per share	¥1,856	$16,872
Bonuses to directors and corporate auditors	94	850

11. SEGMENT INFORMATION

Information about industry segments, geographic segments and sales to foreign customers of the Company and consolidated subsidiaries for the years ended February 29, 2000 and February 28, 1999, is as follows:

(1) Industry Segments

The Group operates entirely in the convenience store related businesses.

(2) Geographical Segments

The Group operates mainly in Japan and total sales in overseas countries are less than 10% of consolidated sales.

(3) Sales to Foreign Customers

Sales to foreign customers for the years ended February 29, 2000 and February 28, 1999, were less than 10% of consolidated sales of the respective years.

12. RELATED PARTY TRANSACTIONS (UNAUDITED)

The Company purchases merchandise and supplies for franchised stores and own stores from Family Corporation Inc. and Nishino Trading Co., Ltd., who are significant shareholders.

Total purchase figures from Family Corporation Inc. for the years ended February 29, 2000 and February 28, 1999, were ¥63,724 million ($579,312 thousand) and ¥36,311 million, respectively.

Total purchase figures from Nishino Trading Co., Ltd. for the years ended February 29, 2000 and February 28, 1999, were ¥67,671 million ($615,193 thousand) and ¥47,707 million, respectively.

Independent Auditors' Report

Deloitte Touche Tohmatsu

Tohmatsu & Co.
MS Shibaura Building
13-23, Shibaura 4-chome
Minato-ku, Tokyo 108-8530
Telephone : (03)3457-7321
Facsimile : (03)3769-8508

INDEPENDENT AUDITORS' REPORT

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

We have examined the consolidated balance sheet of FamilyMart Co., Ltd. and consolidated subsidiaries as of February 29, 2000, and the related consolidated statements of income and shareholders' equity for the year then ended, all expressed in Japanese yen. Our examination was made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The consolidated financial statements of FamilyMart Co., Ltd. and consolidated subsidiaries for the year ended February 28, 1999 were examined by other auditors whose report, dated May 28, 1999, expressed an unqualified opinion on those statements.

In our opinion, such 2000 consolidated financial statements present fairly the financial position of FamilyMart Co., Ltd. and consolidated subsidiaries as of February 29, 2000, and the results of their operations for the year then ended in conformity with accounting principles and practices generally accepted in Japan applied on a basis consistent with that of the preceding year.

Our examination 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 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

May 29, 2000

Chairman
Shigeru Goto

President and Representative Director, Chief Executive Officer
Michio Tanabe

Executive Vice President and Representative Director, Senior Executive Officer
Shunichiro Uchimura

Senior Managing Director and Senior Executive Officer
Takeshi Kuraishi

Managing Directors and Senior Executive Officers
Osamu Inoue
Hiroyoshi Yada
Kenzo Fujii

Executive Officers
Kunihiro Fujimoto
Takaaki Takahashi
Chikahisa Wakatsuki
Naoji Ishizu
Shisaburo Ueda
Fumio Horiuchi
Nakaba Yokota
Jusetsu Saigo
Gonjiro Minamimoto
Hiroshi Iinuma
Kagao Okada
Hidenori Hirose
Takayuki Yokota
Masahiro Ikeda
Shiro Inoue
Yasuhiko Uramoto
Noboru Kanazawa
Masatsuna Seki
Shinichiro Harima
Masaaki Matsumaru

Standing Corporate Auditors
Naoki Mitsuhashi
Takehiro Hioki
Yukinobu Maeda

Corporate Auditor
Takashi Endou

(As of May 26, 2000)

Head Office
26-10, Higashi-Ikebukuro 4-chome,
Toshima-ku, Tokyo 170-8404, Japan
Telephone: (81) 3-3989-6600

Incorporated
September 1, 1981

Full-Time Employees
1,887

Domestic Affiliates
Okinawa FamilyMart Co., Ltd.
Matsuhaya FamilyMart Co., Ltd.
Ai FamilyMart Co., Ltd.
Hokuriku FamilyMart Co., Ltd.
Minami Kyushu FamilyMart Co., Ltd.

Overseas Affiliates
Taiwan FamilyMart Co., Ltd. (Taiwan)
Bokwang FamilyMart Co., Ltd. (South Korea)
Siam FamilyMart Co., Ltd. (Thailand)

(As of February 29, 2000)