FamilyMart

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FamilyMart

Annual Report 2001

Profile

Marking the 20th anniversary of its establishment along with the arrival of the 21st century, FamilyMart Co., Ltd., is developing its convenience store operations by expanding its network of stores mainly through its area franchising system. Through the implementation of this system, FamilyMart has been expanding its network to other countries in Asia. Net sales by the entire chain of FamilyMart stores, including domestic and overseas franchised stores, amounted to ¥1,042 billion, marking the first time FamilyMart's sales have exceeded ¥1 trillion. FamilyMart's corporate philosophy is Co-Growing, which emphasizes cooperation with franchise owners, business partners, and employees to continually create new value, thereby earning the loyalty of its customers and contributing to the betterment of society. The Company's business philosophy is HUMAN CONVINNOVATION, the latter portmanteau word being derived from convenience and innovation. This business philosophy emphasizes the operation of convenience stores that facilitate harmonious interaction among customers, franchise owners, business partners, and employees. Under this philosophy, FamilyMart also strives to be an innovator that leads the industry and eases the urban lifestyles of its customers. Guided by HUMAN CONVINNOVATION and Co-Growing, FamilyMart's aim in the 21st century is to become a Super Convenience Store that transcends its traditional domain to add expediency and enjoyment to the lifestyles of its customers.

Cautionary Statement with Respect to Forward-Looking Statements

This annual report contains statements about FamilyMart's future business plans and strategies as well as projections of the Company's business results. These statements are not based on historical facts. Rather, they represent assumptions and beliefs based on currently available information. These forward-looking statements involve known and unknown risks and uncertainties that, without limitation, relate to such areas as economic trends, consumer preferences, and abrupt changes in the market environment. Therefore, readers of this annual report are cautioned not to place undue reliance on these forward-looking statements. Readers should also be aware that actual results may differ from expectations.

Contents

Consolidated Financial Highlights 1 · An Interview with the President 2 · Review of Operations 6
Board of Directors, Executive Officers, and Corporate Auditors 16 · Financial Section 17 · Corporate Data 38

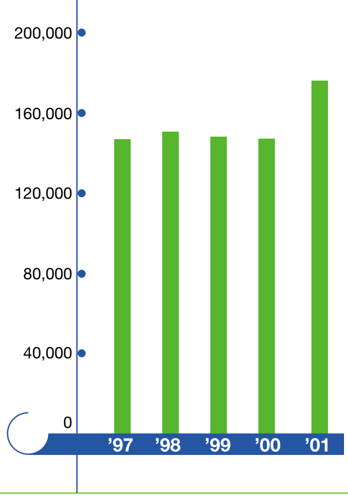
Consolidated Financial Highlights

FamilyMart Co., Ltd. and consolidated subsidiaries
Years ended February 28, 2001 and February 29, 2000

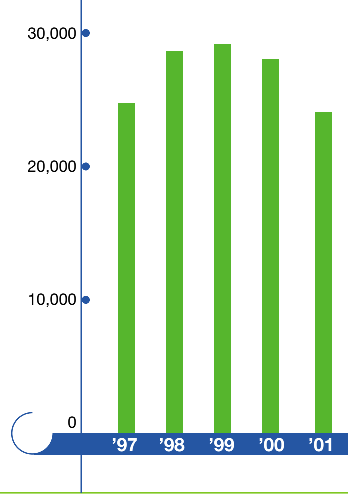
	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2000	**2001**
RESULTS OF OPERATIONS:			
Total operating revenues	**¥176,099**	¥147,295	**$1,518,095**
Operating income	**24,123**	28,098	**207,957**
Net income	**8,112**	12,960	**69,931**
Net income per share (in yen and U.S. dollars) (Note 2)	**83.5**	134.6	**0.7**
Cash dividends per share (in yen and U.S. dollars) (Note 2)	**38.0**	38.0	**0.3**
FINANCIAL POSITION:			
Total assets	**¥230,883**	¥206,492	**$1,990,371**
Total shareholders' equity	**126,190**	122,555	**1,087,845**
OTHER DATA:			
Total stores	**7,616**	7,010	
Total shareholders	**31,429**	16,364	
Total full-time employees	**3,917**	—	

Notes: 1. Conversion into U.S. dollars has been made at the exchange rate of ¥116=U.S.$1, the rate prevailing on February 28, 2001.
2. Per share data has been adjusted for free share distributions and stock splits.
3. From fiscal 2001, total full-time employees is shown on a consolidated basis. Data for past years is not shown.

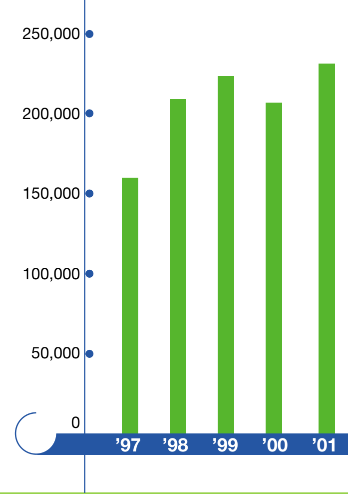
Total Operating Revenues
(¥ Millions)



Operating Income
(¥ Millions)



Total Assets
(¥ Millions)



An Interview with the President

Michio Tanabe
President and Representative Director, Chief Executive Officer

Despite persistently harsh economic conditions, FamilyMart Co., Ltd., continued to expand its store network during fiscal 2001, ended February 28, 2001. During the year, FamilyMart added a net 606 new outlets, including domestic and overseas franchised outlets, bringing the total number of stores in its network to 7,616 at fiscal year-end. This extensive store network, together with its comprehensive system that includes outstanding merchandising, store management, and logistics capabilities as well as abundant knowledge, forms a solid foundation that allows FamilyMart to maintain a superior competitive position in Japan's retail industry. While maximizing these strengths, FamilyMart has launched its full-scale entry into the field of e-commerce and is meeting new challenges in this field as it aims for an optimal fusion of its cyberspace virtual business with its physical operations. Regarding its brick-and-mortar stores, FamilyMart is focusing on raising the levels of its service, quality, and cleanliness (QSC) and providing education and training for store staff. In food products, we are working to further enhance the appeal of our highly popular line of *Nakashoku* items (delicatessen-type take-out foods), which have become a core product in driving the overall sales of FamilyMart. In e-commerce, we started an Internet shopping service, which is based on a FamilyMart original business model, that will function as a pillar of our E-Retail business. As with other e-commerce-related services, we will pursue the boundless potential of our E-Retail business and strive to secure a growing number of customers. As it builds a solid foundation as a Super Convenience Store (CVS), FamilyMart will aim for continued growth in fiscal 2002.

Q Could you describe your business results for fiscal 2001?

A FamilyMart operated within an exceedingly challenging business environment during the fiscal year under review. Although the Japanese economy briefly showed signs of a mild improvement, personal consumption in particular remained sluggish throughout the year, reflecting record-high unemployment rates.

Amid this environment, FamilyMart recorded a 19.6% rise in consolidated total operating revenues, to ¥176.1 billion. However, recurring income declined 11.2%, to ¥26.2 billion, and net income was down 37.4%, to ¥8.1 billion. These declines can be attributed primarily to two factors, namely slower growth in sales at existing stores and thinner profit margins. Examining these factors more closely, decelerating sales growth at existing stores reflected lackluster consumer spending and a shift in the composition of household spending marked by a greater proportion of expenditures in such IT-related areas as mobile telephones and the Internet. Also, intensifying competition in the CVS industry has been aggravated by external competitive pressures from companies in other industries, including the extension of operating hours by supermarkets and an expanded product lineup at drugstores. Such outlets as supermarkets and drugstores are emerging as potent adversaries. Despite intense competition in fiscal 2001, the number of customers using FamilyMart stores increased, and the rate of decline in the average value of items purchased per customer has improved from the previous fiscal year.

FamilyMart's margin on net sales has been improving after bottoming out in May 2000. However, surging sales of such low-profit items as alcoholic beverages, cigarettes, and game software are largely offsetting increased profit margins on other types of products, such as food products.

Q What are some of the main policies FamilyMart will implement in fiscal 2002?

A We have designated fiscal 2002 as the "Year for Reforming the Structure of Our Operations," as we strive for an upgrading of our chain operations and an extensive revamping of our corporate structure. The main pillar of these efforts, through which we aim to bolster our corporate foundation, is our "Five Internal Reforms," which focus on reforming areas related to employee awareness, corporate organization, management systems, costs, and business processes. The following is a more detailed description of the five target areas of our reform initiatives.

Awareness Reforms

Any efforts devoted to revamping our operations are doomed to failure unless they are also accompanied by a complete transformation of employee awareness. All employees will reaffirm their awareness of FamilyMart's social mission toward its customers and its mission as a franchiser toward its franchised stores. At the same time, FamilyMart will create a corporate culture in which employees who have a sense of self-improvement and carry out forward-looking activities are highly valued. To achieve this objective, we are strengthening our training system to allow each individual employee to carry out self reform.

Organizational Reforms

A primary objective of our organizational reforms is to clarify responsibilities for increasing revenues. As a first step in these reforms, we are further clarifying authority and responsibility for revenues under our regional business system.* We also completed a number of reforms at headquarters during fiscal 2001. These measures included building our headquarters into a highly functional and efficient organization and establishing a structure conducive to the rapid implementation of further reforms.

System Reforms

We plan to establish a new personnel system that facilitates the development of self-motivated employees who maintain a healthy perspective on crises, can tackle new challenges head on, and devote their entire energy to the workplace. Reforms to our personnel and other systems are ultimately aimed at raising revenues at franchised stores and headquarters. We will strive to fairly evaluate employees' actual work performance and their job-related knowledge.

*The regional business system involves strategically dividing the entire country into wide commercial regions, with the persons (executive directors) responsible for overseeing the respective regions being delegated a wide range of authority.

Cost Reforms

FamilyMart remains committed to supporting its franchised stores. However, to ensure that FamilyMart can successfully fulfill its mission as a CVS chain operator within the current harsh operating environment, we plan to thoroughly review costs at headquarters and implement bold cost reduction measures to build a lean and robust cost structure.

Business Process Reforms

To reform our business processes, we have set up cross-sectional task forces, including the Structural Reform Committee and the Ordering Precision Improvement Committee, and have strengthened horizontal links between departments and functions throughout the Company. By allocating authority to these task forces and operating them in a functional manner, we also seek to develop policies and strategies that incorporate the needs and ideas of FamilyMart operations in each region, of staff in charge of store development, and of supervisors of franchised stores.

The collective aim of the previously mentioned five individual reforms is to build FamilyMart into an enterprise that maximizes franchisees' capabilities and serves its customers and franchisees properly and flexibly. Through these measures, FamilyMart is focusing especially on achieving such tangible results as growth in profits within a fixed period of time, which is a goal shared by all franchised stores.

Q Could you explain some of your specific strategies for strengthening your store management capabilities?

A FamilyMart is making tremendous strides toward becoming what it calls a Super CVS. Since the Company's establishment 20 years ago, QSC has served as the foundation of store operations and will continue to do so in the future.

From January 2001, we proceeded with the introduction of the New Store System. This system is an effective tool for monitoring individual products and will allow us to significantly raise the precision of our ordering, which is a key determinant of success in the retail industry. By being able to more accurately monitor products, we are able to ensure that our stores are always stocked with the individual products demanded by our customers. This system will also help reduce losses caused by stockouts, supporting increases in daily sales at each franchise and enabling stores to secure a stable base of customers.

We are also introducing the Store Staff Total System (SST) at all stores. SST is a highly efficient system for educating, motivating, and instilling a greater sense of responsibility in all employees. This system also includes a program designed to distribute the burden of product ordering among all staff at stores rather than assigning sole responsibility for this often cumbersome task to the store manager. By alleviating the burden of having sole responsibility for monitoring over 3,800 types of individual products at each store, store managers are now able to devote a greater portion of their time to the overall management of their respective stores. Testimony to the effectiveness of this system, sales at franchised stores introducing this system have been rising.

Q What is your merchandising strategy?

A *Nakashoku* items, which are delicatessen-style take-out foods, represent one of our core products. FamilyMart has formed a project team to develop new *Nakashoku* products, focusing these efforts largely on *bentos*, or box lunches. In fiscal 2001, this project team continued to develop a number of hit *Nakashoku* products, most notably *Tobikiri Gohan* and *Shiki no Gohan*. In developing such products, the project

team emphasizes authentic flavors and nutritional balance as well as seasonal foods. Other noteworthy products introduced during the fiscal year included Kitchen-Fresh Beef Burgers and Bon Curry Bread, both of which achieved particularly strong sales.

FamilyMart is also overhauling its sales strategies, which play a key role in supporting its merchandising. By revising sales strategies, we aim to become the CVS of choice among all consumers regardless of gender and age. In past years, FamilyMart increased the number of customers to its stores by appealing to specific consumer segments, mainly young female consumers seeking a sense of refinement in their lives. Today, FamilyMart is striving to enhance the impact of advertising targeted at its core customers—young consumers and middle-aged men.

In fiscal 2002, FamilyMart will focus on fortifying *Nakashoku* items as the pillar of its distinctive lineup of food products. Specifically, we plan to introduce over 400 new *Nakashoku* products, centering on rice products, as well as side dishes, prepared breads, and desserts. In everyday-use products, FamilyMart will increase and strengthen its existing lineup of private-brand (PB) goods.

Q How would you describe your store development strategies?

A Our top priority in store development is creating high-quality stores in prime locations within operating environments conducive to growth. We avoid the creation of stores with low daily sales volumes by all means possible. As a first step in our quest to develop high-quality stores, we have increased our staff in charge of store development by 30, to 150. At the same time, we introduced the FamilyMart Geographic Information System (FM-GIS), an information evaluation system for assessing potential locations for future FamilyMart stores. The introduction of this system will assist FamilyMart in making highly precise and accurate decisions in selecting locations for new stores. It should be noted that the implementation of this system will in no way diminish the importance of store development supervisors, and we will still count heavily on the capabilities of these supervisors to determine appropriate store locations.

As an effective means of developing stores, we are also considering multistore management through existing franchised stores, which possess an abundance of accumulated know-how among their staff. We are proceeding with preparations, including the establishment of incentives, necessary for carrying out this business.

As an integral component of its store development strategy, FamilyMart is also implementing the Build-and-Scrap policy. Initially, we will close unprofitable directly owned stores. Also, upon consultation and agreement with store owners, FamilyMart encourages moving the location of underperforming franchised stores, particularly those in competitively disadvantageous locations or in markets with dim growth prospects. FamilyMart's Build-and-Scrap policy is based on the Company's Co-Growing corporate philosophy.

During fiscal 2002, we plan to close 500 stores, including 30% of our directly owned stores. At the same time, we will add 450 high-quality stores to strengthen our chain operations.

Q What is your vision for the future?

A With severe business conditions expected to persist, we will focus on effectively allocating our management resources to create value for franchised stores and our customers, which we believe will ultimately benefit our shareholders.

We foresee our E-Retail business as having boundless potential and expect operations in this field to become a pillar of our efforts to build FamilyMart into a Super CVS. Even with additional investment, we expect that fiscal 2002 will be an incubation period for our E-Retail business. However, we anticipate related operations will begin to achieve significant growth from fiscal 2003.

Looking at FamilyMart's operations as a whole, we expect to generate non-consolidated net sales of ¥1 trillion in fiscal 2004. As an important means of attaining this target, we will focus on creating unsurpassed corporate value in fiscal 2002.

In closing, we thank our shareholders for their past support and ask for their backing in the year ahead.

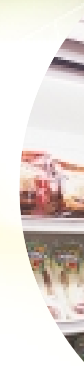
Review of Operations

With the dawn of the 21st century, FamilyMart is dedicated to becoming a "Contending Group" filled with energy and vigor and acting as a wellspring of creativity. In pursuing this goal, FamilyMart headquarters and franchisees will redouble their efforts to work as a single team. Although we have entered a new century, the most essential element of our CVS operations has remained unchanged and that is an unwavering commitment to fine-tuning the precision of our ordering capabilities to maintain a fresh and appealing product mix that satisfies the evolving preferences of each individual customer. At the same time, we are placing high priority on improving our QSC, which underpins our entire CVS operations. To maximize the effectiveness of its store management tools, FamilyMart headquarters will also continue to provide comprehensive support for franchised stores.

Raising the Precision of Our Product-Ordering Capabilities

The overriding aim of our efforts to pursue greater precision in ordering is to completely eliminate losses caused by inadequate stocks and thus create more opportunities for selling products. Improving the precision of our ordering will also play a key role in allowing us to earn the trust of our customers, record higher sales, and secure a base of loyal customers.

- As a first step toward enhancing the precision of ordering, in May 2000 we introduced Face-Trend Analysis—which tracks and analyzes information for approximately 400 products by category, delivery number, and other criteria—at each franchised store. Face-Trend Analysis facilitates FamilyMart's efforts to quickly ascertain fast- and slow-selling products, thereby allowing the Company to order appropriate supplies of products in demand by its customers while eliminating those for which demand is weak.
- As another vital tool for enhancing precise ordering capabilities, FamilyMart has been implementing its New Store System, which supports product monitoring, since January 2001. This system allows FamilyMart to order products based on actual sales of individual items instead of in response to overall demand in a general category. By introducing the New Store System, we also aim to create an image in the minds of consumers that FamilyMart stores stock abundant supplies of those products actually desired by customers. Amid evolving and diversifying consumer preferences, FamilyMart is also raising ordering precision by analyzing customer demand for individual products based on a wide assortment of information, including purchasing trends by the day of the week and the time of day as well as weather conditions. This information is collected and sent from FamilyMart headquarters to franchised stores via satellite.



Introducing SATs and Sharing Ordering Responsibilities

FamilyMart has introduced new handheld store activation terminals (SATs) that provide solid support for monitoring individual products within more than 3,800 product categories. SATs help sales staff to ascertain the state of inventories and supplies of individual products both

Strengthening Our Store Management

Hiroyoshi Yada
Senior Managing Representative Director and Senior Managing Executive Officer

on display shelves and based on actual product sales results. SATs thus serve as a beneficial tool for determining what products should be stocked or eliminated and the appropriate volume of products to be ordered.

There are various limits on the abilities of store managers to carry out product monitoring and ordering single-handedly. With this in mind, FamilyMart is working to promote a sharing of the ordering burden among store personnel by building a structure that permits all store staff to place product orders.

Maximizing the Capabilities of Store Staff

A key to realizing our goal of dividing the responsibilities for product ordering is to raise the skill levels of our store personnel, who are ultimately responsible for the frontline implementation of QSC. Therefore, staff training is a top management issue at FamilyMart. To facilitate its staff-training activities, in April 2000 FamilyMart began the full-scale implementation of a training program called the Store Staff Total System (SST). SST is a systematic program that emphasizes attracting, educating, motivating, and remunerating staff. Under this program, training is implemented in stages—beginner, intermediate, and advanced stages—to ensure that staff continually raise their skill levels. SST will permit store staff to acquire vital know-how on product ordering among other skills.

The implementation of SST has already yielded such significant results as allowing a large number of franchised stores to achieve steady improvements in QSC. As mentioned, SST also promotes a sharing of ordering responsibilities at individual stores, facilitates the collection of various types of information, and helps FamilyMart respond rapidly and accurately to customer needs. In addition, the introduction of SST has generated other benefits, including encouraging staff to take a proactive approach to their jobs as well as promoting a heightened sense of responsibility. In quantitative terms, SST has yielded sales increases that range from 3% to 20% for all product categories at franchised stores.

FamilyMart is not resting on these achievements and believes that ongoing efforts to attain higher levels of QSC are crucial. Store supervisors, who are vital to the operations of franchised stores, provide support by using their personal experience and utilizing mobile terminals to access data gathered from point-of-sale (POS) terminals and order-related information from data warehouses. Through the previously mentioned measures, FamilyMart intends to build optimal store management strategies as it works hand in hand with franchised stores.

Expanding Our Store Network

Confronted once again with harsh business conditions in fiscal 2001, FamilyMart focused its store network development activities on opening high-quality new stores. Through such efforts, FamilyMart expanded its network of stores by 606 stores, to 7,616 stores at fiscal year-end, comprising 5,812 stores, including those operated by area franchising companies, in Japan and 1,804 stores overseas.

Fiscal 2001 saw FamilyMart make significant strides in expanding its presence in Japan. Following the opening of our first store in Yamaguchi Prefecture—a store in Shimanoseki City—in December 2000, we established a presence in the Shikoku region by opening three stores in Kagawa Prefecture in March 2001. With these new store openings, FamilyMart expanded its presence in Japan to 37 prefectures. Also in March 2001, in Hiroshima, we expanded the areas in which we open new stores. FamilyMart is also vigorously implementing its strategy of achieving dominance in Chugoku, a commercial region that offers ample room for opening additional stores.

Opening New-Style Stores

As part of its innovative store-opening strategy, in cooperation with the National Federation of Agricultural Cooperative Association (*ZEN-NOH*), FamilyMart has been opening new stores attached to self-service gasoline stations. In fiscal 2001, FamilyMart continued to emphasize the opening of new types of stores. As a prime example, FamilyMart opened a new store inside the Mitsui Urban Hotel, situated in the upscale Ginza district of Tokyo. We also opened stores inside the Kansai Airport Washington Hotel (Rinko Town, Osaka) and the Sakuragicho Washington Hotel (Yokohama). In addition, FamilyMart opened a new store in Sunshine City, a mammoth shopping complex in the Ikebukuro section of Tokyo, and this store has continued to report robust results. Other noteworthy store openings during the year included a store inside the Tama City Monorail's Chuo Daigaku/Meisei Daigaku Station. This store has proven to be highly popular among university students.

By making vigorous efforts to open high-quality, innovative stores, we are expanding our customer base for FamilyMart stores while elevating FamilyMart's name recognition level and brand image.

Strategies for Store Development in the 21st Century

Store development is the lifeblood of a CVS chain. Accordingly, increasing and strengthening store development capabilities will be paramount for propelling FamilyMart's ongoing development in the 21st century. As it progresses with its store development activities, in fiscal 2001 FamilyMart will devote its energies toward realizing the objective of such policies as "becoming the number-one store in each region" and "working to become the dominant store."

To support its store development initiatives, FamilyMart has introduced the new FM-GIS. Under this system, each commercial region in Japan is divided into detailed subregions, and FamilyMart will carefully analyze and evaluate the possibilities for opening new stores within each of these subregions. FamilyMart plans to skillfully combine data from this system with the knowledge and experience of staff in charge

Store Development

of store development to achieve synergies that will serve as a basis for making highly precise and accurate judgments for determining the locations of new stores.

In fiscal 2001, we adopted a strategy for opening stores in Awajishima that emphasized opening stores with such upgraded features as parking lots. By taking such measures, we are also able to implement our dominant store strategy in advance of competing stores.

Implementing Our Build-and-Scrap Policy and Operating Multistore Complexes

As an essential element of its store development activities, in fiscal 2002 FamilyMart intends to continue implementing its Build-and-Scrap strategy. In keeping with this strategy, FamilyMart plans to discuss measures to improve store performance with the owners of underperforming franchised stores that are facing adverse operating conditions. Measures to be considered include moving store locations. In seeking more advantageous locations, we will emphasize the selection of sites that offer sufficient space for parking lots, which have a significant impact on drawing customers to stores. There are already numerous instances of franchised FamilyMart stores that have surmounted various obstacles and achieved sharp gains in performance merely by moving a short distance to a new location.

On another front, to aggrandize the benefits of management know-how gained from operating existing stores, we also engaged in the operation of multistore complexes. Our involvement in multistore complex operations has several advantages, chief among these being the dispersal of risk management for store operations. Also, as we aim for area dominance, multistore operations will serve as a potent weapon for restraining store openings by rival stores. In June 2001, we plan to launch preferential measures for franchised store owners and move to establish a system for more effectively managing multistore complexes.

FamilyMart's Overseas Store Development Strategy

FamilyMart established its first overseas store in 1988 with the opening of a store in Taiwan. In December 2000, FamilyMart reached an important milestone by opening its 1,000th outlet in Taiwan. Amid intensifying competition, FamilyMart has rapidly expanded its store network in Taiwan since the opening of its 500th store there in 1997. In the future as well, FamilyMart will make efforts to establish market dominance, upgrade and strengthen its infrastructure, and aggressively expand its store network. In fiscal 2002, Taiwan FamilyMart Co., Ltd., plans to make an over-the-counter share listing.

In South Korea, FamilyMart has expanded its network to 659 stores since commencing operations in that country 10 years ago. Despite sluggish personal consumption, FamilyMart expects to record favorable results based on local projections that total sales in South Korea's CVS industry will grow.

FamilyMart opened its first store in Thailand in 1993 and now operates 112 stores in that country. We plan to steadily increase the size of this network and achieve robust sales in the early days of the new century.

In any era, it goes without saying that "selling products is the crux of FamilyMart's operations." Accordingly, our most vital tasks are to strengthen our merchandising capabilities along with improving store management capabilities. Based on the catchphrase "products that continually stand out," we remain committed to offering only products that ensure high levels of customer satisfaction.

Upgrading Our Lineup of *Nakashoku* Products

Our lineup of *Nakashoku* items accounts for one-third of sales and thus plays a vital role in determining overall sales. In fiscal 2001, we continued to take a highly meticulous and discriminating approach to developing *Nakashoku* items. At the beginning of each year, a *Nakashoku* product development team proposes and plans a 52-week menu for *bentos* (box lunches), *onigiri* (rice balls), sushi, prepared noodles, bread, and side dishes. To create *Nakashoku* items, FamilyMart's product development teams draws on the collective talents of representatives from related manufacturers, chefs, and food coordinators. The team also plans the *Nakashoku* lineup taking into consideration such factors as seasonal availability of foods, ingredient prices, and marketing factors. As underlying objectives, the team aims for the creation of price competitive and flavorful products with distinctive and appealing features. Through such efforts, FamilyMart has created a steady stream of year-round hit products in such categories as *bentos*, *onigiri*, and spaghetti.

Our Kitchen-Fresh Beef Burgers offer a distinctively flavorful taste comparable to those prepared by restaurants specializing in hamburgers. The immensely popular Kitchen-Fresh Beef Burgers do not use additives and use bread that does not get soggy when microwaved. To promote sales of Kitchen-Fresh Beef Burgers, in February 2001 FamilyMart held weekend half-price sales. Testimony to the success of these promotional efforts, FamilyMart sold an average of approximately 500,000 Kitchen-Fresh Beef Burgers a day, a figure considered high even in the hamburger industry. Over a six-week period, FamilyMart also held a limited-supply sale of Bon Curry Bread. During this campaign, FamilyMart sold out its entire supply of approximately five million loaves of Bon Curry Bread.

In the second half of fiscal 2001, FamilyMart posted a 20% increase in sales of prepared noodles from the same period of the previous fiscal year. We achieved this increase by offering special noodles with a wide selection of sauces matched to the tastes of consumers in specific geographic regions.

Vigorously Targeting the Growing Market for *Nakashoku* Items

Young consumers and middle-aged men account for the lion's share of *Nakashoku* item sales. However, a recent survey* revealed that amounts spent per month on *Nakashoku* items in all consumer segments were growing rapidly. Particularly noteworthy was an approximately 80% increase in spending on *Nakashoku* items over the past several years by homemakers and senior citizens. To respond to the expected growth of this market, in fiscal 2002 FamilyMart will focus even more closely on the development of its *Nakashoku* lineup and intends to introduce 400 new *Nakashoku* items, including 100 types of *bentos*.

* Food Service Industry Research Center

Strengthening Our Merchandising Capabilities

Masaaki Matsumaru
Director and Executive Officer

Our *Nakashoku* product development team, which has compiled an extensive record of achievement, plans to revamp its organizational structure to further bolster its product creation capabilities. Also, in close collaboration with various manufacturers, this team plans to create new value by jointly developing original items, including sauces, seasonings, and side dishes.

Introducing Appealing New *Nakashoku* Items

For our favorably acclaimed *Tobikiri Gohan* series, we have reviewed the frequency with which we introduce new menus as well as the number of products offered in this series. Specifically, during the year we created more than double the number of variations offered in fiscal 2000. We also devised new concepts in our *Shiki no Gohan* series of seasonal *bentos*. As two new pillars of our offerings in prepared noodles, we introduced Double Sauce Items, including *Tororo* and *Daikon Oroshi* sauces.

FamilyMart is also going to great lengths to enhance the flavor of its sandwiches, which account for more than 70% of sales of prepared bread products. These efforts are focused on upgrading the quality and flavor of our bread and ingredients as well as enhancing the quality of our popular Kitchen-Fresh Beef Burger.

In cup-packaged noodles, which make up approximately 50% of processed food sales, FamilyMart will continue to develop distinctive PB cup-packaged noodles. In confectioneries and candies, FamilyMart is offering *Muji Ryohin* confectioneries in various sizes according to the needs of customers. In spring 2001, FamilyMart launched sales of a new type of ice cream containing melted cheese as an ingredient. The first such ice cream in the industry to be developed through a tie-up with a prominent ice cream manufacturer, this product has already become a mainstay in our lineup of original desserts.

Bolstering Our Lineup of Everyday Merchandise

We plan to fortify and increase our lineup of everyday merchandise in fiscal 2002, in line with our goal of raising the percentage of sales of such merchandise to 30% of total PB sales, up from 15% in fiscal 2001. To achieve this objective, we will make a full-scale launch of our original makeup series for women in their 20s and 30s. We will also review all sizes, colors, and patterns in our ALL DAYS POSi line of popular, high-quality apparel and miscellaneous merchandise that project a sense of simple elegance. FamilyMart also intends to expand its lineup of ALL DAYS POSi merchandise. In cooperation with Sanrio Co., Ltd., FamilyMart is also selling Hello Kitty goods, mainly special-sale items, on a four-to-six-week cycle.

FamilyMart does not intend to stand pat on its achievements in merchandising and will continue to tackle new challenges to ensure it remains on a growth path.

The World's First EC Franchise System

Fiscal 2001 witnessed FamilyMart's full-fledged foray into e-commerce with the launch of its E-Retail business. Specifically, in October 2000 we inaugurated famima.com Co., Ltd., an Internet shopping site with approximately 30,000 items. In contrast to other CVS shopping sites, famima.com is not based on centralized management from headquarters. Instead, franchised stores have their own on-site virtual stores, where they record and manage their own retailing activities. The foundation of the famima.com site is our proprietary e-commerce business model, "The FamilyMart EC Franchise System," under which each franchised store handles and accepts famima club membership registrations from customers. When a customer subsequently purchases an item on the famima.com site, the franchised store that handled the registration is credited with the sale. By combining virtual shopping with physical stores, franchised stores can significantly upgrade their store management capabilities. FamilyMart has submitted a patent application for this innovative business model.

A New Development from famima.com

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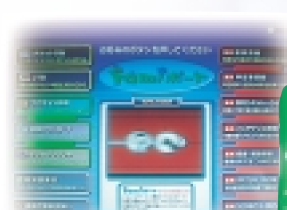

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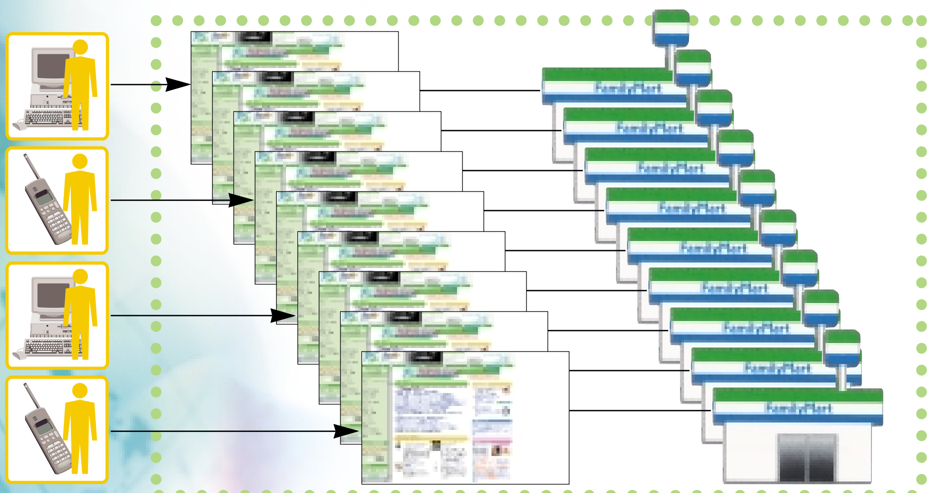

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Toward Optimal Logistics

Since fiscal 1997, FamilyMart has made steady strides in implementing its Logistics Infrastructure Plan. This plan was devised based on the concepts “product shipments by temperature range,” “independent deliveries in each region,” and “mixed-lot deliveries.” The Logistics Infrastructure Plan is aimed at ensuring that strong-selling merchandise arrives at stores prior to peak demand periods. Strenuous efforts to guarantee timely deliveries to our stores are yielding significant results and represent a key strategy for further enhancing our outstanding merchandising capabilities and raising the level of precision ordering at franchised stores.

Shipping products by temperature range involves preserving products at their respective optimal temperatures between the production plant and store to ensure products reach customers at the pinnacle of freshness. Carrying out independent deliveries within each region requires the establishment of logistics bases that can autonomously supply each geographic region to ensure stable just-in-time (JIT) deliveries of products demanded by customers. Mixed-lot deliveries entail the handling of products with different temperature requirements at the same distribution centers and using trucks partitioned according to temperature while working to raise the efficiency and preciseness of deliveries. By combining these three concepts, we have upgraded our distribution capabilities in a number of key areas.

Reform of Our Logistics Network Yields Significant Results

In fiscal 1997, FamilyMart operated 204 delivery centers for handling products according to their respective temperature requirements. In its unending quest to enhance efficiency, FamilyMart had streamlined these facilities into 89 centers as of fiscal 2001. FamilyMart has also made important headway in constructing integrated distribution centers that combine delivery centers with production facilities for *bentos* and desserts. By fiscal 2001 year-end, we had 14 of these centers and plan to open two more in fiscal 2002. Our Toda, Fukushima, and Tohoku centers use delivery vehicles equipped with global positioning system (GPS) units that allow these centers to promptly dispatch alternate delivery vehicles when a primary vehicle is caught in traffic or in the unlikely event of a mechanical breakdown. By utilizing GPS, we have achieved a 99.9% JIT delivery rate, defined as deliveries within 15 minutes of scheduled arrival.

In fiscal 2001, we focused on rationalizing our delivery system for frozen foods and also introduced “stock-and-through” delivery to promote smoother deliveries. Supporting this “stock-and-through” delivery are the western Kanto, eastern Kanto, and Chubu stock centers, which commenced operation during fiscal 2001.

The reform of its logistics infrastructure has improved several areas of FamilyMart’s distribution, including reduced delivery times, decreased number of delivery runs to each store, and significantly shorter lead times from ordering to delivery.

FamilyMart is also improving delivery vehicle load ratios. In fiscal 2001, an average of 10 trucks were required to make deliveries to each store daily, down from 22 trucks in fiscal 1991. Besides reducing delivery costs and workloads at each store, fewer truck deliveries contribute to environmental protection by lowering the volume of exhaust emissions and cutting energy usage.

CVS-Style Environmental Protection

Aiming to Become an Environment-Friendly CVS

FamilyMart has obtained ISO 14001 certification for all its business offices and stores. We are now implementing specific measures based on the slogan "Let each person love nature and protect the environment." Examples of measures taken include using containers and wrapping that do not emit toxic gases when incinerated, introducing environment-friendly staff uniforms and such sales promotion materials as flags, and utilizing delivery vehicles that place minimal burden on the environment.

FamilyMart once again demonstrated its commitment to protecting the environment in fiscal 2001 when it commenced operation of a waste material recycling system in the 23 wards of Tokyo as well as in Kyoto. FamilyMart also opened a new outlet in Nagoya that uses the CVS industry's first integrated heat storage system.

Also in fiscal 2001, FamilyMart opened a new Eco-Shop in Sendai that integrates a solar power system and energy conservation system. This store became FamilyMart's 10th Eco-Shop, following the opening of the first in 1997. Also in fiscal 2001, we added 14 new items to our We Love Green lineup of environment-friendly PB daily-use merchandise and now offer 30 such items.

Details about the previously mentioned activities are explained in the *FamilyMart Environmental Activity Report*. This publication is distributed to consumers, various types of organizations, and companies. The 2000 version of this report included, for the first time, a section on environmental auditing, which made public FamilyMart's expenditures and results in its environment protection efforts.

To publicize its environmental activities, FamilyMart holds We Love Green concerts. At these concerts, FamilyMart solicits donations for protecting the natural environment of Oze and distributes the funds to the Oze Protection Committee Organization. To show its gratitude for these funds, this organization sent a letter of appreciation to FamilyMart. In addition, FamilyMart was presented with the Clean Consumer Award from Green Consumer Tokyo Net and the Tokyo Chamber of Commerce. FamilyMart was presented with this in recognition of its promotion of an environment-friendly CVS chain and its development of We Love Green products.

In the future, FamilyMart intends to carry out its operations in the 21st century in a manner consistent with maintaining the natural beauty of the Earth.

Cooperating with Save the Children and Helping Promote the Spread of Donor Cards

In cooperating with Save the Children Japan (SCJ), FamilyMart has placed donation boxes in each of its stores since July 1993. SCJ is an independent self-supporting nongovernmental organization that provides assistance for improving the education and lifestyles of children, mainly in Asian countries. As of February 2001, thanks to the goodwill of its patrons, FamilyMart stores had collected a cumulative total of ¥283 million in donations since 1993.

In April 1999, FamilyMart placed organ donor cards in all its stores. By doing so, FamilyMart is providing people willing to become organ donors with the opportunity to obtain a donor card.

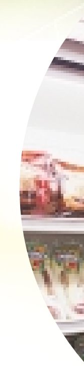
Review of Operations

With the dawn of the 21st century, FamilyMart is dedicated to becoming a “Contending Group” filled with energy and vigor and acting as a wellspring of creativity. In pursuing this goal, FamilyMart headquarters and franchisees will redouble their efforts to work as a single team. Although we have entered a new century, the most essential element of our CVS operations has remained unchanged and that is an unwavering commitment to fine-tuning the precision of our ordering capabilities to maintain a fresh and appealing product mix that satisfies the evolving preferences of each individual customer. At the same time, we are placing high priority on improving our QSC, which underpins our entire CVS operations. To maximize the effectiveness of its store management tools, FamilyMart headquarters will also continue to provide comprehensive support for franchised stores.

Raising the Precision of Our Product-Ordering Capabilities

The overriding aim of our efforts to pursue greater precision in ordering is to completely eliminate losses caused by inadequate stocks and thus create more opportunities for selling products. Improving the precision of our ordering will also play a key role in allowing us to earn the trust of our customers, record higher sales, and secure a base of loyal customers.

- As a first step toward enhancing the precision of ordering, in May 2000 we introduced Face-Trend Analysis—which tracks and analyzes information for approximately 400 products by category, delivery number, and other criteria—at each franchised store. Face-Trend Analysis facilitates FamilyMart’s efforts to quickly ascertain fast- and slow-selling products, thereby allowing the Company to order appropriate supplies of products in demand by its customers while eliminating those for which demand is weak.
- As another vital tool for enhancing precise ordering capabilities, FamilyMart has been implementing its New Store System, which supports product monitoring, since January 2001. This system allows FamilyMart to order products based on actual sales of individual items instead of in response to overall demand in a general category. By introducing the New Store System, we also aim to create an image in the minds of consumers that FamilyMart stores stock abundant supplies of those products actually desired by customers. Amid evolving and diversifying consumer preferences, FamilyMart is also raising ordering precision by analyzing customer demand for individual products based on a wide assortment of information, including purchasing trends by the day of the week and the time of day as well as weather conditions. This information is collected and sent from FamilyMart headquarters to franchised stores via satellite.



Introducing SATs and Sharing Ordering Responsibilities

FamilyMart has introduced new handheld store activation terminals (SATs) that provide solid support for monitoring individual products within more than 3,800 product categories. SATs help sales staff to ascertain the state of inventories and supplies of individual products both

Strengthening Our Store Management

Hiroyoshi Yada
Senior Managing Representative Director and
Senior Managing Executive Officer

on display shelves and based on actual product sales results. SATs thus serve as a beneficial tool for determining what products should be stocked or eliminated and the appropriate volume of products to be ordered.

There are various limits on the abilities of store managers to carry out product monitoring and ordering single-handedly. With this in mind, FamilyMart is working to promote a sharing of the ordering burden among store personnel by building a structure that permits all store staff to place product orders.

Maximizing the Capabilities of Store Staff

A key to realizing our goal of dividing the responsibilities for product ordering is to raise the skill levels of our store personnel, who are ultimately responsible for the frontline implementation of QSC. Therefore, staff training is a top management issue at FamilyMart. To facilitate its staff-training activities, in April 2000 FamilyMart began the full-scale implementation of a training program called the Store Staff Total System (SST). SST is a systematic program that emphasizes attracting, educating, motivating, and remunerating staff. Under this program, training is implemented in stages—beginner, intermediate, and advanced stages—to ensure that staff continually raise their skill levels. SST will permit store staff to acquire vital know-how on product ordering among other skills.

The implementation of SST has already yielded such significant results as allowing a large number of franchised stores to achieve steady improvements in QSC. As mentioned, SST also promotes a sharing of ordering responsibilities at individual stores, facilitates the collection of various types of information, and helps FamilyMart respond rapidly and accurately to customer needs. In addition, the introduction of SST has generated other benefits, including encouraging staff to take a pro-active approach to their jobs as well as promoting a heightened sense of responsibility. In quantitative terms, SST has yielded sales increases that range from 3% to 20% for all product categories at franchised stores.

FamilyMart is not resting on these achievements and believes that ongoing efforts to attain higher levels of QSC are crucial. Store supervisors, who are vital to the operations of franchised stores, provide support by using their personal experience and utilizing mobile terminals to access data gathered from point-of-sale (POS) terminals and order-related information from data warehouses. Through the previously mentioned measures, FamilyMart intends to build optimal store management strategies as it works hand in hand with franchised stores.

Expanding Our Store Network

Confronted once again with harsh business conditions in fiscal 2001, FamilyMart focused its store network development activities on opening high-quality new stores. Through such efforts, FamilyMart expanded its network of stores by 606 stores, to 7,616 stores at fiscal year-end, comprising 5,812 stores, including those operated by area franchising companies, in Japan and 1,804 stores overseas.

Fiscal 2001 saw FamilyMart make significant strides in expanding its presence in Japan. Following the opening of our first store in Yamaguchi Prefecture—a store in Shimanoseki City—in December 2000, we established a presence in the Shikoku region by opening three stores in Kagawa Prefecture in March 2001. With these new store openings, FamilyMart expanded its presence in Japan to 37 prefectures. Also in March 2001, in Hiroshima, we expanded the areas in which we open new stores. FamilyMart is also vigorously implementing its strategy of achieving dominance in Chugoku, a commercial region that offers ample room for opening additional stores.

Opening New-Style Stores

As part of its innovative store-opening strategy, in cooperation with the National Federation of Agricultural Cooperative Association (*ZEN-NOH*), FamilyMart has been opening new stores attached to self-service gasoline stations. In fiscal 2001, FamilyMart continued to emphasize the opening of new types of stores. As a prime example, FamilyMart opened a new store inside the Mitsui Urban Hotel, situated in the upscale Ginza district of Tokyo. We also opened stores inside the Kansai Airport Washington Hotel (Rinko Town, Osaka) and the Sakuragicho Washington Hotel (Yokohama). In addition, FamilyMart opened a new store in Sunshine City, a mammoth shopping complex in the Ikebukuro section of Tokyo, and this store has continued to report robust results. Other noteworthy store openings during the year included a store inside the Tama City Monorail's Chuo Daigaku/Meisei Daigaku Station. This store has proven to be highly popular among university students.

By making vigorous efforts to open high-quality, innovative stores, we are expanding our customer base for FamilyMart stores while elevating FamilyMart's name recognition level and brand image.

Strategies for Store Development in the 21st Century

Store development is the lifeblood of a CVS chain. Accordingly, increasing and strengthening store development capabilities will be paramount for propelling FamilyMart's ongoing development in the 21st century. As it progresses with its store development activities, in fiscal 2001 FamilyMart will devote its energies toward realizing the objective of such policies as "becoming the number-one store in each region" and "working to become the dominant store."

To support its store development initiatives, FamilyMart has introduced the new FM-GIS. Under this system, each commercial region in Japan is divided into detailed subregions, and FamilyMart will carefully analyze and evaluate the possibilities for opening new stores within each of these subregions. FamilyMart plans to skillfully combine data from this system with the knowledge and experience of staff in charge

Store Development

of store development to achieve synergies that will serve as a basis for making highly precise and accurate judgments for determining the locations of new stores.

In fiscal 2001, we adopted a strategy for opening stores in Awajishima that emphasized opening stores with such upgraded features as parking lots. By taking such measures, we are also able to implement our dominant store strategy in advance of competing stores.

Implementing Our Build-and-Scrap Policy and Operating Multistore Complexes

As an essential element of its store development activities, in fiscal 2002 FamilyMart intends to continue implementing its Build-and-Scrap strategy. In keeping with this strategy, FamilyMart plans to discuss measures to improve store performance with the owners of underperforming franchised stores that are facing adverse operating conditions. Measures to be considered include moving store locations. In seeking more advantageous locations, we will emphasize the selection of sites that offer sufficient space for parking lots, which have a significant impact on drawing customers to stores. There are already numerous instances of franchised FamilyMart stores that have surmounted various obstacles and achieved sharp gains in performance merely by moving a short distance to a new location.

On another front, to aggrandize the benefits of management know-how gained from operating existing stores, we also engaged in the operation of multistore complexes. Our involvement in multistore complex operations has several advantages, chief among these being the dispersal of risk management for store operations. Also, as we aim for area dominance, multistore operations will serve as a potent weapon for restraining store openings by rival stores. In June 2001, we plan to launch preferential measures for franchised store owners and move to establish a system for more effectively managing multistore complexes.

FamilyMart's Overseas Store Development Strategy

FamilyMart established its first overseas store in 1988 with the opening of a store in Taiwan. In December 2000, FamilyMart reached an important milestone by opening its 1,000th outlet in Taiwan. Amid intensifying competition, FamilyMart has rapidly expanded its store network in Taiwan since the opening of its 500th store there in 1997. In the future as well, FamilyMart will make efforts to establish market dominance, upgrade and strengthen its infrastructure, and aggressively expand its store network. In fiscal 2002, Taiwan FamilyMart Co., Ltd., plans to make an over-the-counter share listing.

In South Korea, FamilyMart has expanded its network to 659 stores since commencing operations in that country 10 years ago. Despite sluggish personal consumption, FamilyMart expects to record favorable results based on local projections that total sales in South Korea's CVS industry will grow.

FamilyMart opened its first store in Thailand in 1993 and now operates 112 stores in that country. We plan to steadily increase the size of this network and achieve robust sales in the early days of the new century.

In any era, it goes without saying that "selling products is the crux of FamilyMart's operations." Accordingly, our most vital tasks are to strengthen our merchandising capabilities along with improving store management capabilities. Based on the catchphrase "products that continually stand out," we remain committed to offering only products that ensure high levels of customer satisfaction.

Upgrading Our Lineup of *Nakashoku* Products

Our lineup of *Nakashoku* items accounts for one-third of sales and thus plays a vital role in determining overall sales. In fiscal 2001, we continued to take a highly meticulous and discriminating approach to developing *Nakashoku* items. At the beginning of each year, a *Nakashoku* product development team proposes and plans a 52-week menu for *bentos* (box lunches), *onigiri* (rice balls), sushi, prepared noodles, bread, and side dishes. To create *Nakashoku* items, FamilyMart's product development teams draws on the collective talents of representatives from related manufacturers, chefs, and food coordinators. The team also plans the *Nakashoku* lineup taking into consideration such factors as seasonal availability of foods, ingredient prices, and marketing factors. As underlying objectives, the team aims for the creation of price competitive and flavorful products with distinctive and appealing features. Through such efforts, FamilyMart has created a steady stream of year-round hit products in such categories as *bentos*, *onigiri*, and spaghetti.

- Our Kitchen-Fresh Beef Burgers offer a distinctively flavorful taste comparable to those prepared by restaurants specializing in hamburgers. The immensely popular Kitchen-Fresh Beef Burgers do not use additives and use bread that does not get soggy when microwaved. To promote sales of Kitchen-Fresh Beef Burgers, in February 2001 FamilyMart held weekend half-price sales. Testimony to the success of these promotional efforts, FamilyMart sold an average of approximately 500,000 Kitchen-Fresh Beef Burgers a day, a figure considered high even in the hamburger industry. Over a six-week period, FamilyMart also held a limited-supply sale of Bon Curry Bread. During this campaign, FamilyMart sold out its entire supply of approximately five million loaves of Bon Curry Bread.
- In the second half of fiscal 2001, FamilyMart posted a 20% increase in sales of prepared noodles from the same period of the previous fiscal year. We achieved this increase by offering special noodles with a wide selection of sauces matched to the tastes of consumers in specific geographic regions.

Vigorously Targeting the Growing Market for *Nakashoku* Items

Young consumers and middle-aged men account for the lion's share of *Nakashoku* item sales. However, a recent survey* revealed that amounts spent per month on *Nakashoku* items in all consumer segments were growing rapidly. Particularly noteworthy was an approximately 80% increase in spending on *Nakashoku* items over the past several years by homemakers and senior citizens. To respond to the expected growth of this market, in fiscal 2002 FamilyMart will focus even more closely on the development of its *Nakashoku* lineup and intends to introduce 400 new *Nakashoku* items, including 100 types of *bentos*.

* Food Service Industry Research Center

Strengthening Our Merchandising Capabilities

Masaaki Matsumaru
Director and Executive Officer

Our *Nakashoku* product development team, which has compiled an extensive record of achievement, plans to revamp its organizational structure to further bolster its product creation capabilities. Also, in close collaboration with various manufacturers, this team plans to create new value by jointly developing original items, including sauces, seasonings, and side dishes.

Introducing Appealing New *Nakashoku* Items

For our favorably acclaimed *Tobikiri Gohan* series, we have reviewed the frequency with which we introduce new menus as well as the number of products offered in this series. Specifically, during the year we created more than double the number of variations offered in fiscal 2000. We also devised new concepts in our *Shiki no Gohan* series of seasonal *bentos*. As two new pillars of our offerings in prepared noodles, we introduced Double Sauce Items, including *Tororo* and *Daikon Oroshi* sauces.

FamilyMart is also going to great lengths to enhance the flavor of its sandwiches, which account for more than 70% of sales of prepared bread products. These efforts are focused on upgrading the quality and flavor of our bread and ingredients as well as enhancing the quality of our popular Kitchen-Fresh Beef Burger.

In cup-packaged noodles, which make up approximately 50% of processed food sales, FamilyMart will continue to develop distinctive PB cup-packaged noodles. In confectioneries and candies, FamilyMart is offering *Muji Ryohin* confectioneries in various sizes according to the needs of customers. In spring 2001, FamilyMart launched sales of a new type of ice cream containing melted cheese as an ingredient. The first such ice cream in the industry to be developed through a tie-up with a prominent ice cream manufacturer, this product has already become a mainstay in our lineup of original desserts.

Bolstering Our Lineup of Everyday Merchandise

We plan to fortify and increase our lineup of everyday merchandise in fiscal 2002, in line with our goal of raising the percentage of sales of such merchandise to 30% of total PB sales, up from 15% in fiscal 2001. To achieve this objective, we will make a full-scale launch of our original makeup series for women in their 20s and 30s. We will also review all sizes, colors, and patterns in our ALL DAYS POSi line of popular, high-quality apparel and miscellaneous merchandise that project a sense of simple elegance. FamilyMart also intends to expand its lineup of ALL DAYS POSi merchandise. In cooperation with Sanrio Co., Ltd., FamilyMart is also selling Hello Kitty goods, mainly special-sale items, on a four-to-six-week cycle.

FamilyMart does not intend to stand pat on its achievements in merchandising and will continue to tackle new challenges to ensure it remains on a growth path.

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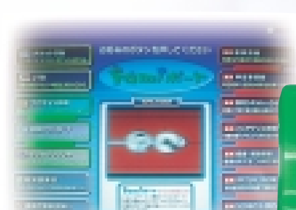

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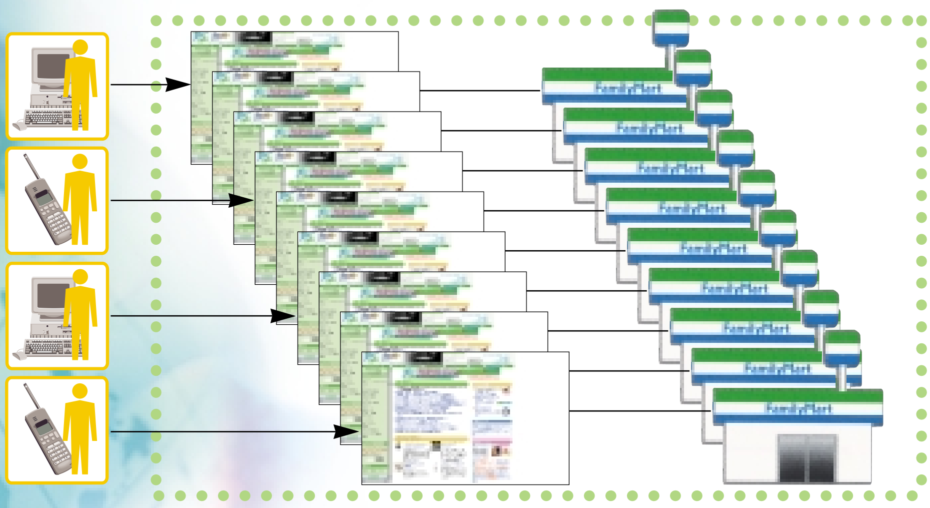

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Toward Optimal Logistics

Since fiscal 1997, FamilyMart has made steady strides in implementing its Logistics Infrastructure Plan. This plan was devised based on the concepts "product shipments by temperature range," "independent deliveries in each region," and "mixed-lot deliveries." The Logistics Infrastructure Plan is aimed at ensuring that strong-selling merchandise arrives at stores prior to peak demand periods. Strenuous efforts to guarantee timely deliveries to our stores are yielding significant results and represent a key strategy for further enhancing our outstanding merchandising capabilities and raising the level of precision ordering at franchised stores.

Shipping products by temperature range involves preserving products at their respective optimal temperatures between the production plant and store to ensure products reach customers at the pinnacle of freshness. Carrying out independent deliveries within each region requires the establishment of logistics bases that can autonomously supply each geographic region to ensure stable just-in-time (JIT) deliveries of products demanded by customers. Mixed-lot deliveries entail the handling of products with different temperature requirements at the same distribution centers and using trucks partitioned according to temperature while working to raise the efficiency and preciseness of deliveries. By combining these three concepts, we have upgraded our distribution capabilities in a number of key areas.

Reform of Our Logistics Network Yields Significant Results

In fiscal 1997, FamilyMart operated 204 delivery centers for handling products according to their respective temperature requirements. In its unending quest to enhance efficiency, FamilyMart had streamlined these facilities into 89 centers as of fiscal 2001. FamilyMart has also made important headway in constructing integrated distribution centers that combine delivery centers with production facilities for *bentos* and desserts. By fiscal 2001 year-end, we had 14 of these centers and plan to open two more in fiscal 2002. Our Toda, Fukushima, and Tohoku centers use delivery vehicles equipped with global positioning system (GPS) units that allow these centers to promptly dispatch alternate delivery vehicles when a primary vehicle is caught in traffic or in the unlikely event of a mechanical breakdown. By utilizing GPS, we have achieved a 99.9% JIT delivery rate, defined as deliveries within 15 minutes of scheduled arrival.

In fiscal 2001, we focused on rationalizing our delivery system for frozen foods and also introduced "stock-and-through" delivery to promote smoother deliveries. Supporting this "stock-and-through" delivery are the western Kanto, eastern Kanto, and Chubu stock centers, which commenced operation during fiscal 2001.

The reform of its logistics infrastructure has improved several areas of FamilyMart's distribution, including reduced delivery times, decreased number of delivery runs to each store, and significantly shorter lead times from ordering to delivery.

FamilyMart is also improving delivery vehicle load ratios. In fiscal 2001, an average of 10 trucks were required to make deliveries to each store daily, down from 22 trucks in fiscal 1991. Besides reducing delivery costs and workloads at each store, fewer truck deliveries contribute to environmental protection by lowering the volume of exhaust emissions and cutting energy usage.

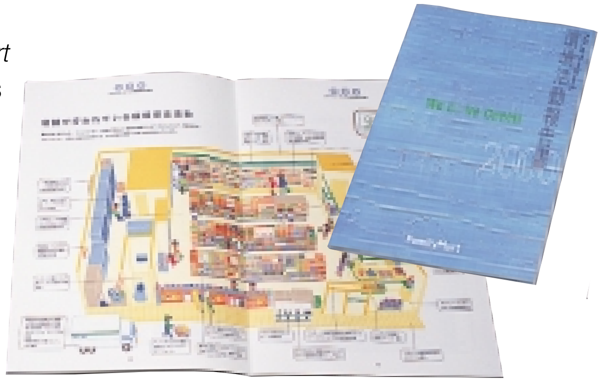
CVS-Style Environmental Protection

Aiming to Become an Environment-Friendly CVS

FamilyMart has obtained ISO 14001 certification for all its business offices and stores. We are now implementing specific measures based on the slogan "Let each person love nature and protect the environment." Examples of measures taken include using containers and wrapping that do not emit toxic gases when incinerated, introducing environment-friendly staff uniforms and such sales promotion materials as flags, and utilizing delivery vehicles that place minimal burden on the environment.

FamilyMart once again demonstrated its commitment to protecting the environment in fiscal 2001 when it commenced operation of a waste material recycling system in the 23 wards of Tokyo as well as in Kyoto. FamilyMart also opened a new outlet in Nagoya that uses the CVS industry's first integrated heat storage system.

Also in fiscal 2001, FamilyMart opened a new Eco-Shop in Sendai that integrates a solar power system and energy conservation system. This store became FamilyMart's 10th Eco-Shop, following the opening of the first in 1997. Also in fiscal 2001, we added 14 new items to our We Love Green lineup of environment-friendly PB daily-use merchandise and now offer 30 such items.



Details about the previously mentioned activities are explained in the *FamilyMart Environmental Activity Report*. This publication is distributed to consumers, various types of organizations, and companies. The 2000 version of this report included, for the first time, a section on environmental auditing, which made public FamilyMart's expenditures and results in its environment protection efforts.

To publicize its environmental activities, FamilyMart holds We Love Green concerts. At these concerts, FamilyMart solicits donations for protecting the natural environment of Oze and distributes the funds to the Oze Protection Committee Organization. To show its gratitude for these funds, this organization sent a letter of appreciation to FamilyMart. In addition, FamilyMart was presented with the Clean Consumer Award from Green Consumer Tokyo Net and the Tokyo Chamber of Commerce. FamilyMart was presented with this in recognition of its promotion of an environment-friendly CVS chain and its development of We Love Green products.

In the future, FamilyMart intends to carry out its operations in the 21st century in a manner consistent with maintaining the natural beauty of the Earth.

Cooperating with Save the Children and Helping Promote the Spread of Donor Cards

In cooperating with Save the Children Japan (SCJ), FamilyMart has placed donation boxes in each of its stores since July 1993. SCJ is an independent self-supporting nongovernmental organization that provides assistance for improving the education and lifestyles of children, mainly in Asian countries. As of February 2001, thanks to the goodwill of its patrons, FamilyMart stores had collected a cumulative total of ¥283 million in donations since 1993.

In April 1999, FamilyMart placed organ donor cards in all its stores. By doing so, FamilyMart is providing people willing to become organ donors with the opportunity to obtain a donor card.

Board of Directors, Executive Officers, and Corporate Auditors

President and Representative Director,
Chief Executive Officer
Michio Tanabe

Senior Managing Representative Director
and Senior Managing Executive Officer
Hiroyoshi Yada

Managing Director and
Managing Executive Officer
Naoji Ishizu

Managing Director and
Managing Executive Officer
Shisaburo Ueda

Managing Director and
Managing Executive Officer
Junji Ueda

Managing Director and
Managing Executive Officer
Shinichiro Harima

Directors and
Executive Officers
Masahiro Ikeda
Shiro Inoue
Yasuhiko Uramoto
Masaaki Matsumaru
Gonjiro Minamimoto
Takayuki Yokota

Executive Officers
Fumio Horiuchi
Hiroshi Inuma
Kagao Okada
Noboru Kanazawa
Masatsuna Seki
Toshio Anazawa
Sadanobu Iemura
Masaharu Ishiguro
Hidemitsu Ozawa
Shota Takahashi
Noboru Nishioka
Kenichi Hatta

Standing Corporate Auditors
Naoki Mitsuhashi
Yukinobu Maeda
Kunihiro Fujimoto

Corporate Auditor
Takashi Endo

(As of May 25, 2001)

Consolidated Five-Year Summary

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

	Millions of Yen (except per share data and other data)					Thousands of U.S. Dollars (Note 1)
	2001	2000	1999	1998	1997	**2001**
RESULTS OF OPERATIONS:						
Operating revenues:						
Franchise commission from franchised stores	**¥111,729**	¥ 96,570	¥ 94,143	¥ 86,562	¥ 76,075	**$ 963,181**
Net sales of Company-owned stores	**54,122**	34,016	39,124	48,797	55,677	**466,569**
Total operating revenues	**176,099**	147,295	148,261	150,740	146,962	**1,518,095**
Operating income	**24,123**	28,098	29,181	28,687	24,768	**207,957**
Net income	**8,112**	12,960	15,514	9,817	12,262	**69,931**
Net income per share (in yen and U.S. dollars)	**¥ 83.5**	¥ 134.6	¥ 161.2	¥ 102.0	¥ 127.4	**$ 0.7**
Cash dividends per share (in yen and U.S. dollars)	**38.0**	38.0	34.0	30.0	25.5	**0.3**
FINANCIAL POSITION:						
Total assets	**¥230,883**	¥206,492	¥222,939	¥208,752	¥159,672	**$1,990,371**
Total shareholders' equity	**126,190**	122,555	112,187	99,875	93,048	**1,087,845**
OTHER DATA:						
Franchised stores and Company's own stores	**5,275**	4,555	4,398	4,242	3,816	
Area franchised stores (including overseas area franchised stores)	**2,341**	2,455	2,133	1,843	1,460	
Total stores	**7,616**	7,010	6,531	6,085	5,276	
Total shareholders	**31,429**	16,364	8,976	11,590	8,480	
Total full-time employees	**3,917**	—	—	—	—	
Weighted average number of shares (thousands)	**97,683**	96,312	96,220	96,220	96,220	

Notes: 1. Conversion into U.S. dollars has been made at the exchange rate of ¥116=U.S.$1, the rate prevailing on February 28, 2001.
2. Per share data has been adjusted for free share distributions and stock splits.
3. From fiscal 2001, total full-time employees is shown on a consolidated basis. Data for past years is not shown.

Overview of Operations

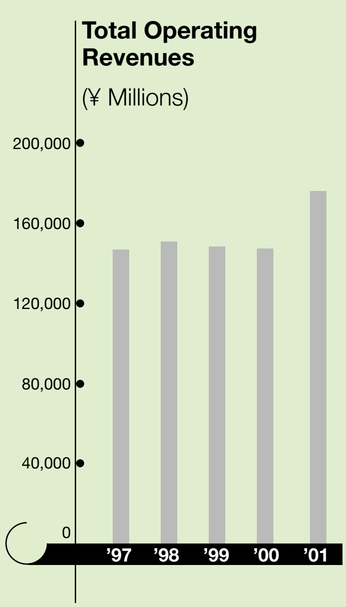
The FamilyMart Group is composed of 27 companies, including the parent company, 20 subsidiaries (including 7 consolidated subsidiaries), and 6 affiliated companies. The Group's main business is the operation of franchised convenience stores, which includes logistics as well as various related services.

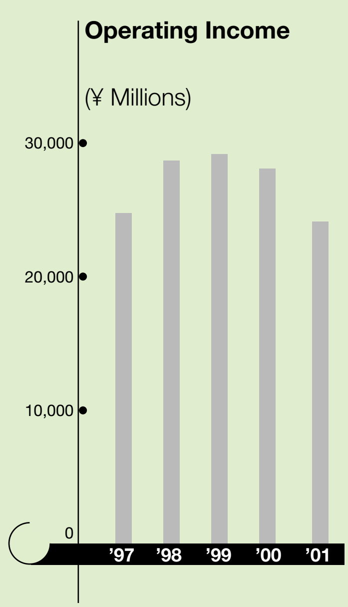
In fiscal 2001, consolidated total operating revenues increased 19.6%, to ¥176,099 million. This was mainly due to such factors as an increase in revenues from franchised stores accompanying a net increase in the total number of stores operated. The addition of sales of Taiwan FamilyMart, which became a newly consolidated subsidiary during the fiscal year under review, also contributed to the increase.

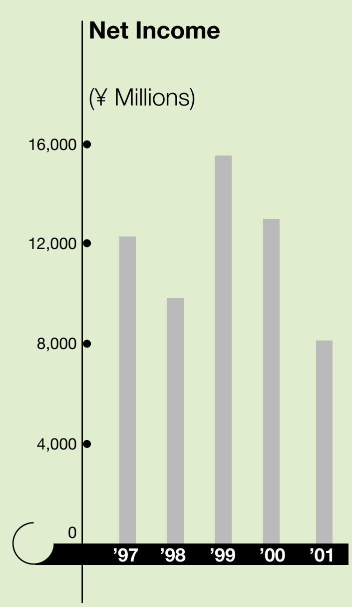
However, net income decreased 37.4%, to ¥8,112 million, due mainly to the provision for the shortfall of funds in planned assets for employees' retirement benefits.

In convenience store operations, total sales of all chain stores, including those of the parent company and four consolidated subsidiaries that are domestic and overseas area franchised companies (including two companies merged in September 2000), increased to ¥937,395 million. When including four domestic and overseas area franchised companies that are accounted for by the equity method, total net sales of all chain stores in the FamilyMart Group reached ¥1,042 billion, marking the first time that the FamilyMart Group has achieved sales of ¥1 trillion.

In store development activities, through our regional system, which integrates store operation and development functions, we are striving to maintain or expand our dominant position in specific geographic regions. As part of these efforts, FamilyMart made a net increase of 217 stores during the fiscal year, including the opening of its first store in Yamaguchi Prefecture. Also, in September 2000 FamilyMart merged two area franchised companies and took over the operations of those companies'







503 stores. Therefore, as of the end of the fiscal year, the number of stores operated by FamilyMart increased by 720 stores, to 5,275 stores, and the number of prefectures covered increased by 8, to 32.

When including the stores of six domestic and overseas area franchised companies, the total number of stores in the FamilyMart chain at the end of the fiscal year amounted to 7,616 stores. In overseas store operations, FamilyMart has expanded store operations in other countries in Asia. In particular, Taiwan FamilyMart opened its 1,000th store in December 2000.

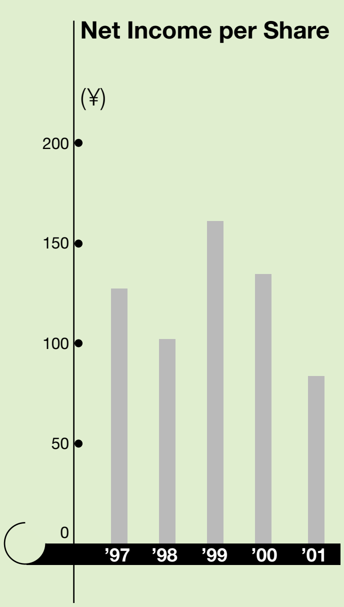
In accordance with the Company's policy concerning the distribution of dividends that are stable and consistent with the continuous growth of operations, even when the business environment is difficult, the parent company declared cash dividends applicable to fiscal 2001, including dividends paid for the interim period, of ¥38 per share, the same as in the previous fiscal year.

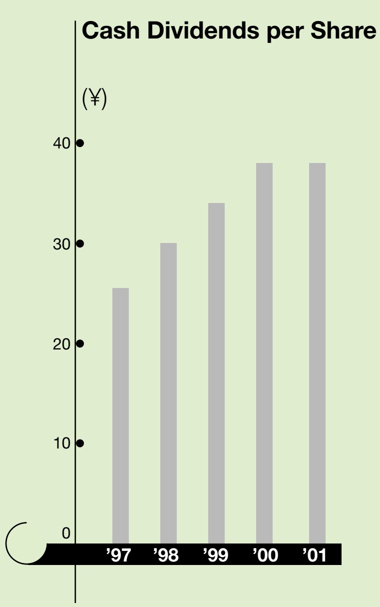
Operating Results

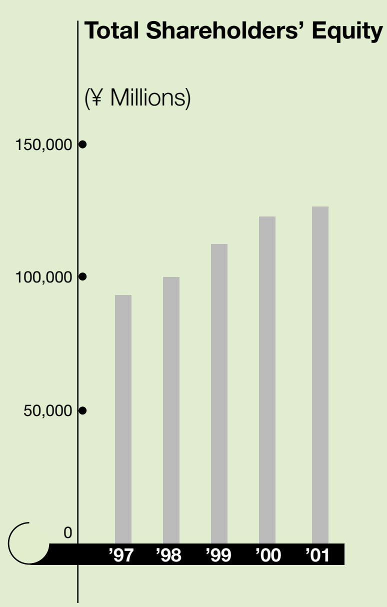
(Analysis of Revenues, Costs, and Expenses)

Total consolidated operating revenues increased by ¥28,804 million, or 19.6%, to ¥176,099 million. These revenues consist of revenues from franchised stores (franchise commission from franchised stores), net sales of Company-owned stores, and other operating revenues.

Looking at individual revenues, in our convenience store business, franchise commission from franchised stores increased by ¥15,159 million, or 15.7%, to ¥111,729 million. This robust increase was primarily because Taiwan FamilyMart was consolidated during the fiscal year based on the management control concept and because of an increase in the number of stores resulting from the merger of two area franchised companies that were previously accounted for by the equity method. Franchise commission from franchised stores accounted for 63.4% of total operating revenues.







On the other hand, net sales of Company-owned stores increased by 59.1%, to ¥54,122 million. This gain was due mainly to the addition of sales from stores belonging to the newly consolidated Taiwan FamilyMart.

During the fiscal year under review, all distribution services previously carried out by a consolidated subsidiary were outsourced to a company outside the FamilyMart Group with the aim of further raising the efficiency of our distribution structure. Therefore, during the fiscal year under review, the difference in offsetting revenues against expenses involved in the distribution of goods is recorded in other operating revenues.

Other operating revenues increased by ¥1,714 million, or 20.1%, to ¥10,248 million. This increase was mainly due to the addition of sales from stores belonging to Taiwan FamilyMart, which was newly included in the scope of consolidation in the year under review.

Operating revenues from overseas operations accounted for ¥26,331 million, or 15.0%, of FamilyMart's total operating revenues. These revenues were from FamilyMart's operations in the Asian region, such as those in Taiwan and Thailand.

Total consolidated operating expenses increased by ¥32,779 million, or 27.5%, to ¥151,976 million, overriding the 19.6% increase in revenues. This was due mainly to an increase in rent as well as growth in sales promotion and advertising expenses aimed at strengthening market penetration.

As a result of the preceding, operating income decreased by ¥3,975 million, or 14.1%, to ¥24,123 million. The ratio of operating income to operating revenue fell 5.4 percentage points, to 13.7%, from 19.1% in the previous fiscal year.

Other expenses—net significantly increased by ¥7,006 million, to ¥9,539 million, and this was a principal reason for the drop in income. This increase was due mainly to a ¥3,100 million loss on devaluation of treasury stock, marketable securities and investment securities; a ¥4,856 million loss on provision for the shortfall of funds in planned assets for employees' retirement benefits aimed at strengthening the Company's financial position; and a ¥496 million loss for accompanying the early introduction of mark-to-market accounting. The allowance for employees' retirement benefits was made to cover insufficient provisions for projected benefits obligations. The ¥496 million loss accompanying the early introduction of mark-to-market accounting was due to a devaluation loss of a golf club membership, expected losses on leasehold deposits, and impairment in unlisted stocks. These were undertaken to strengthen the Company's financial condition.

As a result of the above, income before income taxes and minority interests decreased by ¥10,981 million, or 43.0%, to ¥14,584 million. Net income decreased by ¥4,848 million, or 37.4%, to ¥8,112 million, from the previous year. The corporation tax charge decreased by ¥1,711 million due to the early adoption of deferred tax accounting from the fiscal year under review.

As a consequence of the previous factors, net income per share decreased by ¥51.1, to ¥83.5.

Financial Position

Total year-end assets increased by ¥24,391 million, or 11.8%, to ¥230,883 million, due to an expansion of the scope of consolidation.

By asset classification, net property and store facilities increased by ¥7,706 million, to ¥62,453 million. This was due mainly to the inclusion of assets of the newly consolidated subsidiary, Taiwan FamilyMart, as well as investments in new stores.

Investments and other assets increased by ¥15,128 million, to ¥87,915 million. The main reasons for this increase were a ¥7,260 million increase in leasehold deposits, a ¥5,526 million increase in investment securities, and a ¥1,812 million increase in software. Also, the Company recorded deferred tax assets of ¥2,332 million due to the previously mentioned adoption of deferred tax accounting.

On the other side of the balance sheet, total liabilities increased by ¥17,835 million, or 21.4%, to ¥101,280 million, from the previous fiscal year-end. Current liabilities increased by ¥11,563 million, to ¥85,647 million. This increase in current liabilities was mainly due to an ¥8,086 million increase in payables accompanying the expansion of the scope of consolidation and an increase in the number of stores.

Long-term liabilities increased by ¥6,272 million, to ¥15,633 million. This was due to mainly a ¥4,879 million increase in retirement benefits for employees.

Minority interests increased by ¥2,921 million from the end of the previous fiscal year, to ¥3,413 million. This increase was due to minority shareholders in Taiwan FamilyMart, a newly consolidated subsidiary.

Shareholders' equity increased by ¥3,635 million from the end of the previous fiscal year, to ¥126,190 million. This was due to an increase in retained earnings. The shareholders' equity ratio declined 4.8 percentage points, from 59.4% to 54.6%, due to an increase in total assets because of the consolidation of Taiwan FamilyMart.

Cash Flows

Cash and cash equivalents at the end of the fiscal year amounted to ¥45,806 million, primarily reflecting expenditures for the purchase of property and store facilities and intangible assets.

Net cash flows provided by operating activities amounted to ¥23,305 million. This consisted mainly of income before income taxes and minority interests and such noncash items as depreciation and amortization.

Net cash used in investing activities amounted to ¥30,980 million. This consisted mainly of investments in the opening of new stores, the refurbishment of existing stores, and the further upgrading of information systems. A portion of surplus funds were allocated for long-term fund management.

Furthermore, net cash used in financing activities amounted to ¥6,160 million. This consisted mainly of payments for purchase of treasury stock due to the adoption of a stock option plan and for the distribution of dividends.

Consolidated Balance Sheets

FamilyMart Co., Ltd. and consolidated subsidiaries
February 28, 2001 and February 29, 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2000	**2001**
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	**¥ 45,806**	¥ 57,419	**$ 394,879**
Time deposits	**3,104**	263	**26,759**
Marketable securities (Note 6)	**1,744**	851	**15,034**
Receivables:			
Due from franchised stores (Note 5)	**7,533**	5,919	**64,940**
Other	**8,981**	7,304	**77,422**
Allowance for doubtful accounts	**(680)**	(716)	**(5,862)**
Merchandise and supplies	**5,911**	2,362	**50,957**
Deferred tax assets (Notes 2 (j) and 11)	**828**		**7,138**
Prepaid expenses and other current assets	**7,288**	5,556	**62,828**
Total current assets	**80,515**	78,958	**694,095**
PROPERTY AND STORE FACILITIES:			
Land	**14,705**	13,340	**126,767**
Buildings and structures	**46,227**	40,433	**398,509**
Machinery and equipment	**2,852**	2,522	**24,586**
Furniture and fixtures	**41,936**	32,559	**361,517**
Construction in progress	**497**	163	**4,285**
Total	**106,217**	89,017	**915,664**
Accumulated depreciation	**(43,764)**	(34,270)	**(377,276)**
Net property and store facilities	**62,453**	54,747	**538,388**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 6)	**8,860**	3,334	**76,379**
Investments in and advances to unconsolidated subsidiaries and associated companies (Note 4)	**2,493**	5,708	**21,491**
Software	**6,334**	4,522	**54,604**
Goodwill (Note 7)	**1,407**	989	**12,129**
Leasehold deposits	**62,347**	55,087	**537,474**
Foreign currency translation adjustments	**883**	874	**7,612**
Deferred tax assets (Notes 2 (j) and 11)	**2,332**		**20,104**
Other assets	**3,259**	2,273	**28,095**
Total investments and other assets	**87,915**	72,787	**757,888**
TOTAL	**¥230,883**	¥206,492	**$1,990,371**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2000	**2001**
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term bank loans (Note 8)	**¥ 1,051**	¥ 240	**$ 9,060**
Payables:			
Trade notes	**2,525**	253	**21,767**
Trade for franchised and Company-owned stores	**45,106**	37,020	**388,845**
Due to franchised stores (Note 5)	**2,485**	2,882	**21,422**
Other	**14,127**	9,586	**121,785**
Income taxes payable (Note 11)	**1,907**	8,659	**16,440**
Utility payments received (Note 5)	**15,127**	12,365	**130,405**
Accrued expenses	**1,853**	1,818	**15,974**
Other current liabilities	**1,466**	1,261	**12,638**
Total current liabilities	**85,647**	74,084	**738,336**
LONG-TERM LIABILITIES:			
Long-term bank loans (Note 8)	**206**	214	**1,776**
Retirement benefits—employees (Notes 3 and 9)	**4,994**	115	**43,052**
Retirement benefits—directors and corporate auditors (Note 9)	**420**	583	**3,621**
Leasehold deposits received from franchised stores	**10,007**	8,449	**86,267**
Other long-term liabilities	**6**		**51**
Total long-term liabilities	**15,633**	9,361	**134,767**
MINORITY INTERESTS	**3,413**	492	**29,423**
COMMITMENTS AND CONTINGENT LIABILITIES (Note 12)			
SHAREHOLDERS' EQUITY (Notes 10 and 15):			
Common stock, ¥50 par value— authorized, 250,000,000 shares; issued and outstanding, 97,683,133 shares in 2001 and 2000	**16,659**	16,659	**143,612**
Additional paid-in capital	**17,057**	17,057	**147,043**
Retained earnings	**94,179**	88,854	**811,888**
Unrealized gain on available-for-sale securities	**26**		**224**
Total	**127,921**	122,570	**1,102,767**
Treasury stock	**(1,731)**	(15)	**(14,922)**
Total shareholders' equity	**126,190**	122,555	**1,087,845**
TOTAL	**¥230,883**	¥206,492	**$1,990,371**

See notes to consolidated financial statements.

Consolidated Statements of Income

FamilyMart Co., Ltd. and consolidated subsidiaries
Years Ended February 28, 2001 and February 29, 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2000	**2001**
OPERATING REVENUES:			
Franchise commission from franchised stores (Note 5)	**¥111,729**	¥ 96,570	**$ 963,181**
Net sales of Company-owned stores	**54,122**	34,016	**466,569**
Freight and distribution fees from suppliers (Note 13)		8,175	
Other operating revenues (Notes 4, 5 and 13)	**10,248**	8,534	**88,345**
Total operating revenues	**176,099**	147,295	**1,518,095**
OPERATING EXPENSES:			
Cost of sales of Company-owned stores	**38,135**	23,871	**328,750**
Selling, general and administrative expenses (Notes 9, 12 and 13)	**113,841**	95,326	**981,388**
Total operating expenses	**151,976**	119,197	**1,310,138**
Operating income	**24,123**	28,098	**207,957**
OTHER INCOME (EXPENSES):			
Interest and dividends	**525**	402	**4,526**
Equity in earnings of associated companies	**280**	444	**2,414**
Gain on sales of marketable and investment securities—net	**2,567**	701	**22,129**
Loss on devaluation of treasury stock and marketable and investment securities	**(3,100)**	(573)	**(26,724)**
Loss on disposals/sales of property and store facilities	**(2,088)**	(1,939)	**(18,000)**
Loss on cancellations of lease contracts	**(1,819)**	(1,304)	**(15,681)**
Provision for employees' retirement benefits (Notes 3 and 9)	**(4,856)**		**(41,862)**
Other—net	**(1,048)**	(264)	**(9,035)**
Other expenses—net	**(9,539)**	(2,533)	**(82,233)**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**14,584**	25,565	**125,724**
INCOME TAXES (Note 11)**:**			
Current	**8,257**	12,762	**71,181**
Deferred	**(1,711)**		**(14,750)**
Total income taxes	**6,546**	12,762	**56,431**
MINORITY INTEREST IN NET LOSS	**74**	157	**638**
NET INCOME	**¥ 8,112**	¥ 12,960	**$ 69,931**
	Yen		U.S. Dollars (Note 1)
PER SHARE OF COMMON STOCK:			
Net income	**¥ 83.5**	¥ 134.6	**$ 0.7**
Cash dividends applicable to the year	**38.0**	38.0	**0.3**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

FamilyMart Co., Ltd. and consolidated subsidiaries
Years Ended February 28, 2001 and February 29, 2000

	Outstanding Number of Shares of Common Stock	Millions of Yen: Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Gain on Available-for-Sale Securities	Treasury Stock
BALANCE, MARCH 1, 1999	96,219,633	¥16,586	¥16,136	¥79,498		¥ (33)
Net income				12,960		
Cash dividends, ¥36 per share				(3,464)		
Bonuses to directors and corporate auditors				(140)		
Purchase/sales of treasury stock						18
Issuances of new shares on the share for share exchanges	1,463,500	73	921			
BALANCE, FEBRUARY 29, 2000	97,683,133	16,659	17,057	88,854		(15)
Adjustment of retained earnings for the adoption of deferred tax accounting method (Note 2 (j))				**1,356**		
Net income				**8,112**		
Cash dividends, ¥38 per share				**(3,696)**		
Bonuses to directors and corporate auditors				**(94)**		
Purchase of treasury stock (Note 10)						**(3,488)**
Loss on devaluation of treasury stock						**1,772**
Unrealized gain on available-for-sale securities of foreign associated companies accounted for by the equity method:						
Transfer from retained earnings				**(353)**	**¥353**	
Net unrealized loss during the year					**(327)**	
BALANCE, FEBRUARY 28, 2001	**97,683,133**	**¥16,659**	**¥17,057**	**¥94,179**	**¥ 26**	**¥(1,731)**

	Thousands of U.S. Dollars (Note 1): Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Gain on Available-for-Sale Securities	Treasury Stock
BALANCE, FEBRUARY 29, 2000	$143,612	$147,043	$765,983		$ (129)
Adjustment of retained earnings for the adoption of deferred tax accounting method (Note 2 (j))			**11,689**		
Net income			**69,931**		
Cash dividends, $0.33 per share			**(31,862)**		
Bonuses to directors and corporate auditors			**(810)**		
Purchase of treasury stock (Note 10)					**(30,069)**
Loss on devaluation of treasury stock					**15,276**
Unrealized gain on available-for-sale securities of foreign associated companies accounted for by the equity method:					
Transfer from retained earnings			**(3,043)**	**$3,043**	
Net unrealized loss during the year				**(2,819)**	
BALANCE, FEBRUARY 28, 2001	**$143,612**	**$147,043**	**$811,888**	**$ 224**	**$(14,922)**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

FamilyMart Co., Ltd. and consolidated subsidiaries
Year Ended February 28, 2001

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2001	2001
OPERATING ACTIVITIES:		
Income before income taxes and minority interests	¥14,584	$125,724
Adjustments for:		
Income taxes—paid	(15,041)	(129,664)
Depreciation and amortization	12,059	103,957
Allowance for doubtful accounts	470	4,052
Provision for retirement benefits	4,651	40,095
Equity in earnings of associated companies	(280)	(2,414)
Loss on devaluation/sale of treasury stock, marketable and investment securities—net	545	4,698
Loss on disposal/sale of property and store facilities—net	2,088	18,000
Loss on cancellation of lease contracts	1,220	10,517
Bonuses to directors and corporate auditors	(94)	(810)
Changes in assets and liabilities:		
Increase in due from/to franchised stores—net	(2,015)	(17,371)
Increase in merchandise and supplies	(1,264)	(10,897)
Increase in payables—trade	4,432	38,207
Increase in utility payments received	2,762	23,810
Other—net	(812)	(6,999)
Total adjustments	8,721	75,181
Net cash provided by operating activities	23,305	200,905
INVESTING ACTIVITIES:		
Increase in time deposits—net	(2,841)	(24,491)
Purchases of marketable and investment securities	(9,592)	(82,690)
Proceeds from sales of marketable and investment securities	4,686	40,397
Purchases of property and store facilities, software, goodwill and other intangible assets	(17,105)	(147,457)
Proceeds from sales of property and store facilities, software, goodwill and other intangible assets	1,254	10,810
Payments of leasehold deposits	(9,106)	(78,500)
Refunds of leasehold deposits	1,963	16,922
Receipts of leasehold deposits received from franchised stores	1,269	10,940
Refunds of leasehold deposits received from franchised stores	(732)	(6,310)
Other—net	(776)	(6,690)
Net cash used in investing activities	(30,980)	(267,069)
FINANCING ACTIVITIES:		
Increase in short-term bank loans—net	821	7,078
Purchase of treasury stock	(3,488)	(30,069)
Proceeds from minority interest shareholders	198	1,707
Dividends paid	(3,691)	(31,819)
Net cash used in financing activities	(6,160)	(53,103)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	121	1,043
NET DECREASE IN CASH AND CASH EQUIVALENTS	(13,714)	(118,224)
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR	2,101	18,112
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	57,419	494,991
CASH AND CASH EQUIVALENTS, END OF YEAR	¥45,806	$394,879
NONCASH FINANCIAL ACTIVITIES:		
Assets increased by consolidation of subsidiaries previously acounted for by the equity method	¥12,481	$107,595
Liabilities increased by consolidation of subsidiaries previously accounted for by the equity method	7,628	65,759

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

FamilyMart Co., Ltd. and consolidated subsidiaries
Years Ended February 28, 2001 and February 29, 2000

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 results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

Effective March 1, 2000, a consolidated statement of cash flows is required to be prepared under Japanese accounting standards. The statement of cash flows for the year ended February 28, 2001, is presented herein. Such statement for the year ended February 29, 2000 is not presented, as Japanese accounting standards do not require retroactive preparation or presentation for prior years' financial statements.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in Japan 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 principles generally accepted in Japan but is presented herein as additional information.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which FamilyMart Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥116 to $1, the approximate rate of exchange at February 28, 2001. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation

The consolidated financial statements as of February 28, 2001 include the accounts of the Company and its 7 significant subsidiaries (together, the "Group"). Consolidation of the remaining 13 subsidiaries (10 in 2000) would not have a material effect on the accompanying consolidated financial statements.

Effective March 1, 2000, the Group changed its consolidation scope of subsidiaries and associated companies from the application of the ownership concept to the control or influence concept. Under the control or influence concept, those companies in which the Parent, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method. Taiwan FamilyMart Co., Ltd., previously accounted for by the equity method, has been consolidated in the consolidated financial statements. The consolidated financial statements for the year ended February 29, 2000 have not been retroactively adjusted for this change.

Investments in 6 associated companies are accounted for by the equity method. Investments in the remaining 13 (10 in 2000) 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 its 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 Group is eliminated.

(b) Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are not exposed to insignificant risk of changes in value. Cash equivalents include time deposits, certificate of deposits, commercial paper, bond funds 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.

(c) Merchandise and Supplies

Merchandise other than fast food is primarily 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 mainly 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 of property and store facilities of the Company and its consolidated domestic subsidiaries is computed substantially by the declining-balance method at rates based on the estimated useful lives of the assets, while the straight-line method is applied to the property and store facilities of consolidated foreign subsidiaries. Buildings acquired on or after April 1, 1998 are depreciated using the straight-line method. The range of useful lives is principally from 2 to 50 years for buildings and structures, from 2 to 24 years (5 to 18 years in 2000) for machinery and equipment and from 2 to 20 years for furniture and fixtures, respectively.

(f) Software

Capitalized software are stated at cost less accumulated amortization, which is calculated by the straight-line method over the estimated useful lives.

(g) Goodwill

Goodwill is stated at cost less accumulated amortization, which is calculated by the straight-line method over 5 years.

(h) Retirement Benefits and Pension Plans

The Company has two types of pension plans for employees, a contributory fund and a non-contributory fund, to be applied depending on the length of services upon termination. The provision for employees' retirement benefits is computed on the basis of the present value of projected benefit obligations less fair market value of planned assets as of balance sheet date (see Note 3). Foreign consolidated subsidiaries provide for the amount of retirement benefits required by local accounting standards.

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

Effective March 1, 2000, the Company and its consolidated domestic subsidiaries adopted the new accounting standard for inter-period allocation of income taxes based on the asset and liability method. The cumulative effect of the application of interperiod tax allocation in prior years in the amount of ¥1,356 million ($11,689 thousand) is included as an adjustment to retained earnings as of March 1, 2000. Such cumulative effect is calculated by applying the income tax rate stipulated by enacted tax laws as of March 1, 2000.

Deferred income taxes are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

(k) Appropriations of Retained Earnings

Appropriations of retained earnings at each year-end are reflected in the financial statements for the following year upon share-holders' approval.

(l) Foreign Currency Financial Statements

The balance sheet accounts of the consolidated foreign 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 foreign subsidiaries are translated into yen at the average rate.

(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 weighted average number of common shares used in the computation was 97,683,133 shares for 2001 and 96,311,752 shares for 2000.

Diluted net income per share is not disclosed because the Company does not have any dilutive instruments.

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. ACCOUNTING CHANGE

Prior to February 29, 2000, the Company charged the past service costs to income upon payment of contributions to pension funds, while the balance of the provision for retirement benefits for employees to income has been amortized over the period of amortization of past service costs.

Effective March 1, 2000, the Company changed the policy of retirement benefits for employees to the basis of the present value of projected benefit obligations less fair market value of planned assets as of balance sheet date in these plans.

As a result of this change, income before income taxes and minority interests, calculated using the new method, decreased by ¥4,856 million ($41,862 thousand).

4. RELATED PARTIES AND ORGANIZATION

The Company's main shareholder is Family Corporation Inc., which owns 30.65% of the total shares of the Company outstanding at February 28, 2001. Family Corporation Inc. is 70% owned by Nishino Trading Co., Ltd. and 30% owned by ITOCHU Corporation, which 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 and the Company records this as "Other operating revenues." Area franchised companies as of February 28, 2001 were as follows:

Name of Franchisee	Area	The Company's Ownership Percentage in Franchisee
Subsidiaries:		
Siam FamilyMart Co., Ltd.	Thailand	70.00%
Taiwan FamilyMart Co., Ltd.	Taiwan	45.80
Associated companies:		
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., 87.10% owned by the Company, is a holding company of Siam FamilyMart Co., Ltd., and MBE Japan, Inc., a wholly owned subsidiary, is operating "MAIL BOXES ETC." franchised stores. famima.com Co., Ltd., 50.50% owned subsidiary, and e-PLAT JAPAN Co., Ltd., 36.36% owned associated company, both support E-commerce operations.

Kouyou Co., Ltd., a wholly owned subsidiary of the Company, 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 items to "FamilyMart" stores.

5. TRANSACTIONS WITH FRANCHISED STORES

As discussed in Note 4 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 ¥1,500,000, which is credited to income of the Company as "Other operating revenues" for the lump-sum franchise fee. The franchisee shall also pay another ¥1,500,000 for services with respect to research, training and preparations of store opening. The remaining amount of the later fee 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 account receivable due from franchised stores for such purchases.

Each franchised store shall make a remittance of cash from sales to the Company on a daily basis. Furthermore, the franchised stores collect utility payments from customers on behalf of utility service providers, such as electric power companies and telecommunications companies, which is remitted to the Company on a daily basis.

The receipts of such charges are recorded as a liability due to utility service suppliers and presented as "Utility payments received" on the accompanying consolidated balance sheets.

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

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

6. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of February 28, 2001 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Current:		
Marketable equity securities	¥1,744	$15,034
Non-current:		
Marketable equity securities	¥1,498	$12,914
Government and corporate bonds	7,000	60,345
Other investment securities	362	3,120
Total	¥8,860	$76,379

Carrying amounts and aggregate market values of current and non-current marketable equity securities included in marketable securities and investment securities at February 28, 2001 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current:		
Carrying amount	¥1,744	$15,034
Aggregate market value	1,836	15,827
Unrealized gain	¥ 92	$ 793
Non-current:		
Carrying amount	¥1,498	$12,914
Aggregate market value	1,486	12,810
Unrealized loss	¥ 12	$ 104

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

7. GOODWILL

Goodwill at February 28, 2001 and February 29, 2000 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Consolidation goodwill	**¥ 742**	¥ 80	**$ 6,396**
Acquisition goodwill	**665**	909	**5,733**
Total	**¥1,407**	¥989	**$12,129**

Amortization charged to income for the years ended February 28, 2001 and February 29, 2000 were ¥521 million ($4,491 thousand) and ¥293 million ($2,526 thousand), respectively.

8. SHORT-TERM AND LONG-TERM BANK LOANS

Short-term bank loans at February 28, 2001 and February 29, 2000 consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 1. 018% to 4.250% and 1.375% to 7.375% at February 28, 2001 and February 29, 2000, respectively.

Long-term bank loans at February 28, 2001 and February 29, 2000 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Unsecured loans from banks due in 2002 with interest rate of 4.5%	**¥206**	¥214	**$1,776**

9. RETIREMENT BENEFITS AND PENSION PLANS

Total charges to income for retirement benefits—employees were ¥5,565 million ($47,974 thousand) and ¥629 million and for retirement benefits—directors and corporate auditors were ¥105 million ($905 thousand) and ¥111 million for the years ended February 28, 2001 and February 29, 2000, respectively.

The total plan assets and total past service liabilities of the Saison Group Kosei Nenkin Kikin, a contributory pension plan which covers retirement benefits of employees with a length of service five years or more, as of March 31, 2000 were ¥350,503 million ($3,021,578 thousand) and ¥4,929 million ($42,491 thousand), respectively.

The Company's share of participating members of this plan is approximately 3.94%.

The plan 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, 2000 were ¥572 million ($4,931 thousand) and ¥477 million ($4,112 thousand), respectively.

10. 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. The Company's reserve amount, which is included in retained earnings, totals ¥2,477 million ($21,353 thousand) and ¥2,090 million as of February 28, 2001 and February 29, 2000, 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 a 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.

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.

The Company is authorized to repurchase, at management's discretion, up to 9,600,000 shares of the Company's stock for the purpose of canceling the shares and charging such amounts to retained earnings.

The Company is also authorized to purchase treasury stock to be used for stock options to directors and key employees.

The balance of treasury stock recorded in shareholders' equity as of February 28, 2001 includes treasury stock purchased for the purpose of granting stock options to directors and key employees. As of February 28, 2001, 822,000 stock options have been granted and are exercisable from September 1, 2001 to August 31, 2004.

Under the Code, the amount available for dividends is based on retained earnings as recorded on the Company's books. At February 28, 2001, retained earnings recorded on the Company's books which is available for future dividends subject to the approval of the shareholders and legal reserve requirements totaled ¥93,241 million ($803,802 thousand).

11. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rates of approximately 42% and 47% for the years ended February 28, 2001 and February 29, 2000, respectively.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at February 28, 2001, are as follows:

February 28, 2001	Millions of Yen	Thousands of U.S. Dollars
Deferred tax assets:		
Allowance for doubtful accounts	¥ 310	$ 2,672
Accrued bonuses	147	1,267
Retirement benefits—employees	2,046	17,638
Retirement benefits—directors and corporate auditors	176	1,517
Depreciation	152	1,310
Loss on disposals of property and store facilities and cancellations of lease contracts	180	1,552
Enterprise tax payable	148	1,276
Tax loss carryforwards	1,324	11,414
Other	260	2,242
Less valuation allowance	(1,329)	(11,457)
Deferred tax assets	3,414	29,431
Deferred tax liabilities:		
Special reserve for tax purpose depreciation	207	1,784
Other	47	405
Deferred tax liabilities	254	2,189
Net deferred tax assets	¥3,160	$27,242

A reconciliation between the normal effective statutory tax rate for the year ended February 28, 2001 and the actual effective tax rates reflected in the accompanying consolidated statement of income is as follows:

	Year ended February 28, 2001
Normal effective statutory tax rate	42.0%
Inhabitants taxes	1.2
Refund of corporate taxes	(1.1)
Expiration of tax loss carryforwards	3.7
Other—net	(0.9)
Actual effective tax rate	44.9%

The normal effective tax rate reflected in the accompanying consolidated statement of income for the year ended February 29, 2000 differs from the actual effective tax rate, primarily due to the effect of permanently non-deductible expenses and temporary differences in the recognition of asset and liability items for tax and financial reporting purposes.

At February 28, 2001, certain subsidiaries have tax loss carryforwards aggregating approximately ¥3,512 million ($30,276 thousand), which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending February 28 (or 29)	Millions of Yen	Thousands of U.S. Dollars
2002	¥ 85	$ 733
2003	121	1,043
2004	727	6,267
2005	638	5,500
2006	1,941	16,733
Total	¥3,512	$30,276

12. LEASES

The Group leases certain furniture, software and other assets.

Total rental expenses for the years ended February 28, 2001 and February 29, 2000 were ¥6,710 million ($57,845 thousand) and ¥5,335 million, respectively.

Pro forma information of leased property, such as acquisition cost, accumulated depreciation, obligation under finance lease, depreciation expense and 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 28, 2001 and February 29, 2000 was as follows:

	Millions of Yen			Thousands of U.S. Dollars		
February 28, 2001	Furniture and Fixtures	Software	Total	Furniture and Fixtures	Software	Total
Acquisition cost	**¥40,699**	**¥597**	**¥41,296**	**$350,853**	**$5,147**	**$356,000**
Accumulated depreciation	**(18,517)**	**(32)**	**(18,549)**	**(159,629)**	**(276)**	**(159,905)**
Net leased property	**¥22,182**	**¥565**	**¥22,747**	**$191,224**	**$4,871**	**$196,095**

	Millions of Yen			
February 29, 2000	Machinery and Equipment	Furniture and Fixtures	Software	Total
Acquisition cost	¥10	¥37,401	¥517	¥37,928
Accumulated depreciation	(1)	(17,613)	(316)	(17,930)
Net leased property	¥ 9	¥19,788	¥201	¥19,998

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Due within one year	**¥ 5,574**	¥ 4,997	**$ 48,052**
Due after one year	**18,059**	15,931	**155,681**
Total	**¥23,633**	¥20,928	**$203,733**

Depreciation expense and interest expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Depreciation expense	**¥5,575**	¥4,526	**$48,060**
Interest expense	**865**	757	**7,457**
Total	**¥6,440**	¥5,283	**$55,517**

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

The minimum rental commitments under noncancelable operating leases at February 28, 2001 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥ 8	$ 69
Due after one year	10	86
Total	¥18	$155

13. FREIGHT AND DISTRIBUTION

Prior to February 29, 2000, Kouyou Co., Ltd., a wholly owned subsidiary of the Company, had delivered merchandise and supplies to each "FamilyMart" store and received freight and distribution fees from suppliers in return. Kouyou Co., Ltd. transferred such business to outside of the Group as of March 1, 2000. As a result of this transfer, no such "Freight and distribution fees from suppliers" and the related freight and distribution costs (included in "Selling, general and administrative expenses") were incurred for the year ended February 28, 2001. However, Kouyou Co., Ltd. is still responsible for the administration of the distribution centers, which generated net fees of ¥7 million ($60 thousand) included in "Other operating revenues" for the year ended February 28, 2001.

14. SEGMENT INFORMATION

Information about industry segments, geographic segments and operating revenues from foreign customers of the Group for the years ended February 28, 2001 and February 29, 2000 were as follows:

(1) Industry Segments

The Group operates mainly in the convenience store related business. Operating revenue, operating income and total assets of this segment exceeded 90% of the respective total amounts of all segments, while those of other segments were not significant for comparison. Accordingly, segment information by industry is not disclosed.

(2) Geographical Segments

The geographical segments of the Group for the year ended February 28, 2001 were as follows:

	Millions of Yen				Thousands of U.S. Dollars			
	Japan	Asia	Eliminations/ Corporate	Consolidated	Japan	Asia	Eliminations/ Corporate	Consolidated
Operating revenues from outside the Group	**¥149,768**	**¥26,331**		**¥176,099**	**$1,291,104**	**$226,991**		**$1,518,095**
Interarea transfers	**289**		**¥ (289)**		**2,491**		**$ (2,491)**	
Total operating revenues	**150,057**	**26,331**	**(289)**	**176,099**	**1,293,595**	**226,991**	**(2,491)**	**1,518,095**
Operating expenses	**119,899**	**26,487**	**5,590**	**151,976**	**1,033,612**	**228,336**	**48,190**	**1,310,138**
Operating income (loss)	**¥ 30,158**	**¥ (156)**	**¥ (5,879)**	**¥ 24,123**	**$ 259,983**	**$ (1,345)**	**$ (50,681)**	**$ 207,957**
Assets	**¥179,179**	**¥17,818**	**¥33,886**	**¥230,883**	**$1,544,647**	**$153,603**	**$292,121**	**$1,990,371**

Information for the year ended February 29, 2000 is not shown because operating revenues and total assets of foreign geographic areas were immaterial.

(3) Operating Revenues from Foreign Customers

Operating revenues from foreign customers for the year ended February 28, 2001 amounted to ¥26,331 million ($226,991 thousand). Operating revenues from foreign customers for the year ended February 29, 2000 were less than 10% of consolidated operating revenues.

15. SUBSEQUENT EVENT

The following appropriations of retained earnings at February 28, 2001 were approved at the Company's shareholders meeting held on May 25, 2001:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥19 ($0.16) per share	¥1,840	$15,862
Transfer to legal reserve	191	1,647
Bonuses to directors and corporate auditors	65	560

16. RELATED PARTY TRANSACTIONS

Transactions with related parties for the years ended February 28, 2001 and February 29, 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Family Corporation Inc.:			
Purchases	**¥69,459**	¥59,054	**$598,784**
Payables—trade for franchised and Company-owned stores	**4,740**	4,182	**40,862**
Nishino Trading Co., Ltd.:			
Purchases	**¥71,243**	¥67,671	**$614,164**
Payables—trade for franchised and Company-owned stores	**5,517**	1,805	**47,560**

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Deloitte Touche Tohmatsu

INDEPENDENT AUDITORS' REPORT

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

We have examined the consolidated balance sheets of FamilyMart Co., Ltd. and consolidated subsidiaries as of February 28, 2001 and February 29, 2000, the related consolidated statements of income and shareholders' equity for the years then ended, and the related consolidated statement of cash flows for the year ended February 28, 2001, all expressed in Japanese yen. Our examinations were 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.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of FamilyMart Co., Ltd. and consolidated subsidiaries as of February 28, 2001 and February 29, 2000, the results of their operations for the years then ended, and the result of their cash flows for the year ended February 28, 2001, in conformity with accounting principles and practices generally accepted in Japan consistently applied during the period, except for the change, with which we concur, in the accounting for retirement benefits to employees, as discussed in Note 3.

As described in Note 2, effective March 1, 2000, the consolidated financial statements have been prepared in accordance with new accounting standards for consolidated financial statements and interperiod allocation of income taxes.

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

Deloitte Touche Tohmatsu

May 25, 2001

Corporate Data

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
2,152

Domestic Affiliates
Okinawa FamilyMart Co., Ltd.
Matsuhaya 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 28, 2001)