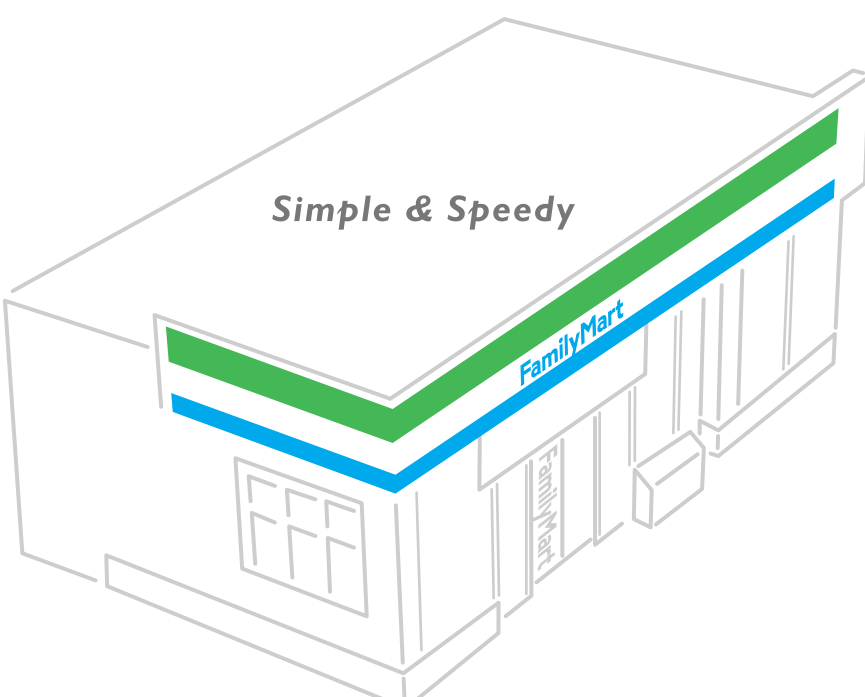
FamilyMart

Annual Report 2002



PROFILE

The FamilyMart Group's core business is the operation of convenience stores through a network of 8,184 stores* in Japan and other East Asian countries. The 26 companies in the FamilyMart Group also engage in a diversity of other fields such as Internet shopping and credit-card business. FamilyMart's corporate philosophy is encapsulated in the word "Co-Growing": building positive mutual relations and growing and developing in tandem with its customers, franchised stores, business partners, employees, and the local communities it serves. Founded on this ideal, FamilyMart's business philosophy is to engage in the operation of convenience stores characterized by harmonious interaction between franchised stores, business partners, employees, and customers, and to be an innovative corporate group and the industry leader. It will continue to strive for industry leadership as a high-quality company dedicated to bringing comfort and convenience to people's daily lives.

*At end of February 2002

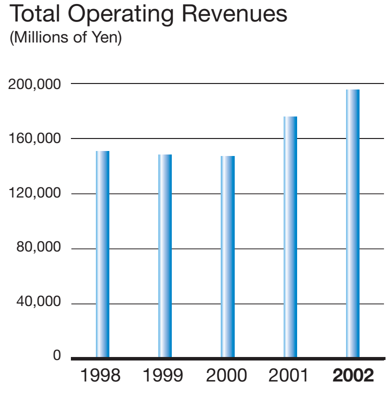
FamilyMart Co., Ltd. and consolidated subsidiaries

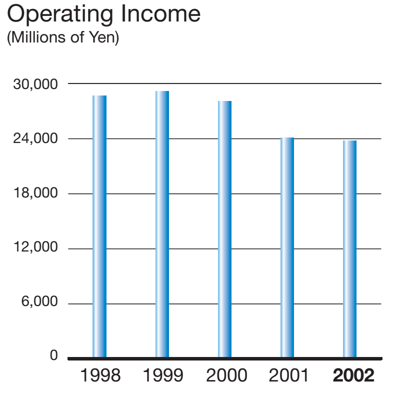
Consolidated Financial Highlights

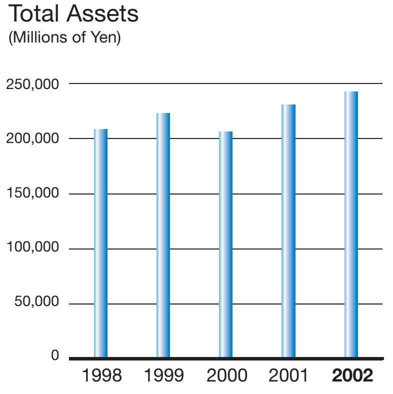
Years ended February 28, 2002 and 2001

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2002	2001	**2002**
Results of Operations:			
Total operating revenues	**¥195,605**	¥176,099	**$1,459,739**
Operating income	**23,756**	24,123	**177,284**
Net income	**8,549**	8,112	**63,799**
Net income per share (in yen and U.S. dollars)	**88.3**	83.5	**0.7**
Cash dividends per share (in yen and U.S. dollars)	**38.0**	38.0	**0.3**
Financial Position:			
Total assets	**¥242,517**	¥230,883	**$1,809,828**
Total shareholders' equity	**130,510**	126,190	**973,955**
Other Data:			
Number of stores (Note 2)	**8,184**	7,616	
Number of shareholders	**28,088**	31,429	
Number of full-time employees	**4,205**	3,917	

Notes: 1. Conversion into U.S. dollars has been made at the exchange rate of ¥134=U.S.$1, the rate prevailing on February 28, 2002.
2. Number of stores includes domestic and overseas area franchised company's stores.







Michio Tanabe
Chairman and Representative Director, Chief Executive Officer

Junji Ueda
President and Representative Director, Chief Operating Officer

During fiscal 2002, the term ended February 2002, we upgraded to a more closely integrated system of operations and conducted an extensive revamping of our corporate structure, enabling us to achieve a steady improvement in performance. During fiscal 2003, we will focus our full efforts on further enhancing our capabilities in retailing — our core business field — with the goal of achieving improved earnings.

The following is an overview of the FamilyMart Group's business performance in fiscal 2002.

Amid the increasingly harsh environment in the retailing industry, the FamilyMart Group worked vigorously to implement structural reform aimed at bringing about a qualitative change in the nature of the chain. We focused in particular on enhancing the precision of our product-ordering capabilities, to enable us to cater accurately to customer needs, and on the development of attractive merchandise designed to invigorate the market. We also took steps to strengthen profitability by ensuring thorough cost-consciousness at FamilyMart headquarters and among area franchisers in each region, and also through resolute action in closing 503 unprofitable stores of those directly franchised by the Company, while opening 515 new stores at promising locations. These measures enabled us to make firm progress in establishing a growth-oriented corporate base. In spite of very weak consumer spending as a result of the persistent sluggishness of the Japanese economy, in the year ended February 2002 consolidated total operating revenues rose by 11.1% from the preceding year, to ¥195,605 million (US$1,460 million) and net income was up by 5.4%, at ¥8,549 million (US$64 million). We are looking for more in fiscal 2003, when we expect the results of the government's structural reforms to be reflected in a boost to our own figures. To that end, we will devote ourselves to providing backup for the further strengthening of the management of franchised stores — the wellspring of our business growth — assuring them of the basis for both sales and profit growth.

Chairman and Representative Director,
Chief Executive Officer

Junji Ueda

President and Representative Director,
Chief Operating Officer

FamilyMart strives for industry leadership in terms of quality by rapidly devising and executing easy-to-understand measures for franchised stores.

Positively addressing three priority issues

Q : Would you care to outline your recently announced priority issues for fiscal 2003?

A : The most important management issue is that of working in conjunction with our franchised stores to grow sales and profits. As is well known, increasing customer satisfaction forms the basis of the retailing industry, so we will gain competitive advantage if we create sales areas that always appear novel and cheerful to customers and make them want to visit a FamilyMart store every day.

To achieve that, we must concentrate on three things. First, we must place firm emphasis on service, quality and cleanliness (SQ&C), so stores are convenient and pleasant; second, raise the precision of our product ordering to ensure that customers find the goods that they want on our shelves; and third, strengthen merchandising to reinforce customer loyalty. Very simple principles, but if we fail in just one of them we will not be able to win customer loyalty. During the current fiscal year, we will be taking pains to put these three principles into practice, our watchword being: "simple system; fast decision-making."

Increasing the level of service, quality and cleanliness (SQ&C) as the basis of store management

Q : What are your specific policies as regards SQ&C for enhancing customer satisfaction?

A : SQ&C forms the very basis of store management. Strict attention must be paid to treating customers in a welcoming manner, ensuring shelves are always stocked with the right goods, having an attractive product lineup, and making stores clean and neat.

Convenience stores are facing increasingly fierce competition; department stores, supermarkets, and other stores are extending their opening hours and refurbishing their outlets; and all retailing firms are stepping up efforts to create their own distinctive sales areas and are working hard to secure sales. With competition becoming so intense, customers are demanding higher levels of service, quality and cleanliness. The era in which opening deep into the night by convenience stores was viewed as a kind of special free service is already over, and SQ&C standards must obviously also move with the times.

To do that, our Customer Service Department at FamilyMart Headquarters has been collating and analyzing customer comments and opinions gathered by telephone, the Internet, and other means, and drawing up new standards. These will be used uniformly by all our outlets, and should bring about improvements to store operations.

Using IT to eliminate losses caused by stockouts

Q : Have steps taken since last year, such as the introduction of your New Store System, enhanced the precision of product ordering?

A : Improving the precision of product-ordering capabilities to totally eliminate losses caused by the inadequacy of stocks is vital for assuring SQ&C, and it will be continued in fiscal 2003.

The New Store System, which was introduced full-scale last year, is a system that enables us to identify the state of sales of individual products in real time and place orders accordingly, and thereby to identify customer needs more accurately and ensure that the goods they want are stocked. We are also focusing on the use of new handheld Store Activation Terminals within stores, and the sharing of the ordering burden by store managers and store staff.

To continue to triumph over the competition in the future, we will be supporting our franchised stores and devoting our energies to reforming ordering procedures so as to expand customer choice and minimize the risk of losing business opportunities.

Expanding the range of original goods sought after by customers

Q : What concrete measures are you taking as regards the third issue: strengthening merchandising?

A : As regards products on offer, as the only convenience store operator to be a supporting company for the Japanese national soccer team we have assembled a product lineup unmatched by our rival chains, such as boxed lunches officially endorsed by the Japan Football Association and the Japanese team uniform. And in our mainstream *Nakashoku** items we emphasize rice products such as *bento* (boxed lunches) and *onigiri* (rice balls). We have already succeeded in reducing the development period for boxed lunches substantially, with the aim of creating hit products in response to changes in our customers' tastes and of boosting sales.

We also plan to expand our range of original products this year, pushing the ratio up to around 30% of our entire range of goods. Original products also have larger profit margins, so our policy is to continue to increase the number of goods that both please our customers and at the same time generate a steady profit.

**Nakashoku*: Delicatessen-style takeout foods such as boxed lunches, rice balls, side dishes, prepared noodles, breads and pastries, and desserts.

Active support for multistore management

Q : Could you describe the main points of emphasis in your store-opening strategy?

A : Building a profitable network is of primary importance. For franchising companies there are stores owned or leased by franchisees (Type 1 Franchise) and stores owned or leased by the head office (Type 2 Franchise). For Type 1 stores, in June last year we introduced a grant scheme for encouraging multistore management, and it is already being widely used. Also, this year we introduced our "New Franchise Contract Package (Type 1-c)," which is designed to facilitate multistore franchises. For Type 2 stores we intend to establish a scheme to enable them to upgrade to Type 1 stores to allow future multistore franchises.

In our store-opening we will continue to place emphasis on openings in the three major metropolises of Tokyo, Nagoya, and Osaka. We will also be adopting an active approach to new markets, setting up stores in such locations as hotels, universities, office buildings, large factories, and expressway service areas.

Introduction of IC credit cards

Q : What is the future direction of your E-Retail business?

A : With the spread of ADSL connections and Internet-compatible mobile phones, e-commerce business is on the rise. Our webshopping site famima.com receives as many as two million hits a day, and we have already started operating a shopping website accessible via i-mode and J-Sky. What is more, our unique FamilyMart EC Franchise System*, which links our bricks-and-mortar stores and on-site virtual stores, adds further strength to our overall network.

In May this year we scored another first in the convenience store industry when we started issuing the JUPI Card, a credit card with an embedded IC chip that provides services tailored to the needs of convenience store customers, such as a system of awarding points. And as no signatures are required to use the card, this also speeds up the handling of transactions in stores. We hope that this will help us to win new customers and to solidify customer loyalty. We are targeting a total of one million cardholders by the year 2005.

*The FamilyMart EC Franchise System: Unlike other convenience store operators, where virtual stores are managed from the head office, this is a unique system in which franchised stores (bricks-and-mortar stores) have their own on-site virtual stores. Franchised stores handle customer registrations as famima club members, and sales to these members through the famima.com site are posted as sales of the stores that handled the registrations.

No.1 for quality

Q : Finally, could you tell us your motto as president and what your management vision is?

A : My management goal for FamilyMart in fiscal 2003 is to strive for industry leadership in terms of quality.

By quality I mean a high quality of service, quality and cleanliness relative to any other convenience store chain, with stores well-supported by customer loyalty; in other words, a corporate group that enhances the profitability of franchised stores, whose employees work enthusiastically, and that is highly regarded in the stock market. And the main point as regards attaining this quality is to go back to the basics of the retailing industry, not dwelling on theory, but producing solid results.

My personal credo is: “When winter comes, spring cannot be far behind.” The distribution industry really is experiencing a harsh winter now, but only companies that prepare carefully for the coming spring can emerge as winners when it arrives.

In an era of fierce competition such as that we face today, I believe that we must work with a forward-looking attitude armed with energy, with courage, and with a dream — a vision for the future. But this vision is not something we can obtain from outsiders; it is something we must ourselves create and translate into reality. To do that I want to deepen the interaction between our headquarters and our franchised stores, and strengthen management in a way more closely attuned to their needs.

My key concept for fiscal 2003 is something I referred to earlier: “simple system; fast decision-making.” This entails providing franchised stores rapidly with easy-to-understand measures, giving maximum priority to implementing measures that will boost sales and profits. In particular, I am determined to achieve our goal of non-consolidated net sales by the chain as a whole of ¥1 trillion in fiscal 2004, and will devote my full energies to meeting the expectations of franchisees, shareholders, and other stakeholders.

Customer Satisfaction

No Chance Lost

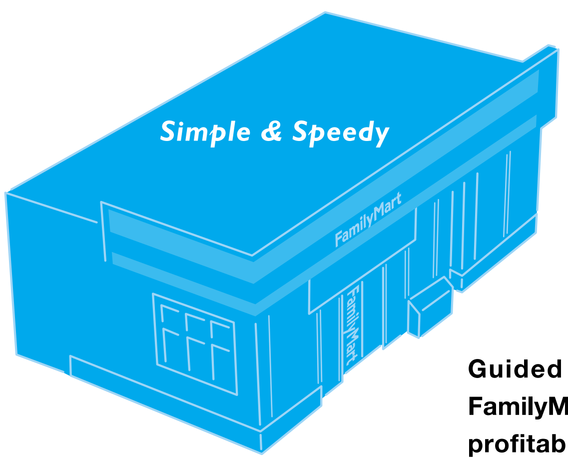
Development

Product Value

E-commerce

Logistics

Corporate Citizenship



Guided by a policy of having a simple system with fast decision-making, FamilyMart aims to maintain industry leadership in terms of quality and a highly profitable chain structure. Pursuing its three major themes: strict attention to service, quality and cleanliness; raising the precision of product ordering; and strengthening merchandising to maximize customer satisfaction; FamilyMart is strengthening competitiveness and also vigorously tackling environmental problems in a variety of ways, including by enhancing the quality of its stores, expanding e-commerce business, and improving the efficiency of its logistics. Here we introduce you to the challenges facing FamilyMart as it seeks to lay the foundations of further success in the 21st century.

Customer Satisfaction

Achieving customer satisfaction that surpasses rival stores through customer care, merchandise, and services that offer more than just "convenience"

Store Staff Total System: a systematic education program

Amid competition in the retail industry that is growing fiercer and is crossing the boundaries between industry segments, FamilyMart is pursuing customer satisfaction that surpasses that of rival stores in every respect, including customer care, merchandise, and services.

FamilyMart's devotion to exhaustive SQ&C (service, quality and cleanliness) in all its stores is part of its practical efforts to achieve this, and to this end the Company introduced its Store Staff Total System (SSTS) in spring 2000. This is a systematic program that focuses on attracting, educating, motivating, and remunerating store staff. Skill levels are raised with minimum effort through the use of a Management Manual prepared for store managers, which serves as a compendium of staff recruitment and evaluation know-how, and also of training manuals targeted at store staff at beginner, intermediate, and advanced levels. In addition, the burden on store managers is lightened by educating trainers from among store staff to take responsibility for the education of other staff. Another aspect is that the program motivates and teaches self-reliance to store staff — a key component of our fighting strength. SSTS is a program that goes well beyond the contents of a manual.

Getting back to basics – putting the customer first

As part of its efforts to enhance profitability, FamilyMart will expedite improvements to services and store operations by adopting the customer's perspective.

To increase the level of SQ&C, the large volume of information collated to date, including customers' opinions expressed to the Customer Service Department at FamilyMart headquarters and the comments of franchisees and FamilyMart operations in individual regions, will be used to create a mechanism for building and improving know-how. This will greatly widen the use of information, previously confined to dealing with individual problems. It will link comments at store level directly with the improvement of the mechanism, and lead to rapid problem resolution.

Through these efforts, we will continually upgrade the level of SQ&C and build attractive stores that always have the range of merchandise and services that customers want.

No Chance Lost

Reinforcing a highly accurate product-ordering system that identifies needs, and does not lead to missed sales opportunities

More accurate monitoring of individual products

FamilyMart is placing emphasis on the establishment of a highly accurate product-ordering system that will help to bolster sales and profits. If merchandise that people want to buy is not laid out on the shelves, sales opportunities are lost, and customer confidence is damaged.

By increasing the precision of its product-ordering capabilities in this way, FamilyMart aims to minimize the risk of losing business opportunities. In June 2001, the company radically overhauled the previous ordering system and introduced its New Store System in all stores, through which constantly changing customer needs are identified swiftly and accurately on a product-by-product basis, and the merchandise that customers want is assured of being stocked. The system is a device for ascertaining sales trends for individual products and taking the appropriate decisions for quantities to be ordered; handheld Store Activation Terminals (SATs) serve as tools to support these ordering activities. The SATs screens indicate how individual products are moving and the real-time situation in each store, and the operator can confirm what is on the display shelves and what is in stock before placing an order.

Use of this state-of-the-art information technology enables FamilyMart to create stores that please customers by always presenting them with the merchandise they want.

Strengthening store management by dividing responsibilities for product ordering

Another purpose of the New Store System for increasing the accuracy of product ordering is to divide ordering responsibilities: enabling it to be carried out not only by store managers and other management personnel, but also by other store staff. This sharing not only alleviates the administrative burden on store managers but also cultivates a sense of responsibility in non-managerial staff and boosts their motivation, and because of this it is effective for minimizing the risk of losing business opportunities and creating stores that generate customer loyalty.

FamilyMart also uses Store Staff Total System (SSTS) for encouraging the division of responsibility for product ordering. By apportioning information on as many as 2,800 items of merchandise among store staff it is possible to ascertain product movements accurately and to boost the precision of ordering substantially. Moreover, by raising staff members' awareness of their sales areas and merchandise, the level of SQ&C is raised, and store-management capability is enhanced considerably.

A Product Ordering Committee has been formed at FamilyMart headquarters, from where supervisors give support to franchise store managers with respect to accurate ordering methods, including use of SATs, helping to build stores in which losses from stockouts are a thing of the past.

Development

Building a strong and competitive network and expanding multistore management

Creating an intrinsically profitable network

During fiscal 2003 FamilyMart worked hard to develop high-quality stores, opening 515 new outlets. The Company brought the FamilyMart Geographic Information System (FM-GIS) into full-scale use. The use of this system enabled FamilyMart in fiscal 2002 to achieve the highest-ever daily sales generated by new stores.

During fiscal 2002, FamilyMart opened 46 new stores in Hiroshima and in Kagawa Prefecture, marking the first openings on the island of Shikoku, one of the four main islands of the Japanese archipelago. In addition, 65 stores were opened by the partial transfer of operations from Higashi Kinki Region Spar HQ Co., Ltd., which covers Shiga, Fukui, and Kyoto Prefectures.

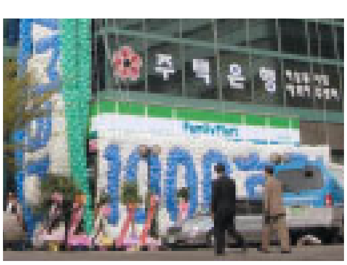
Qualitative improvements were made by closing a total of 503 stores, most of which were directly managed. However, more than a fifth of these closed stores were shifted to new premises nearby in more promising locations, and their results have subsequently shown steady improvement.

The net result of these adjustments was that the number of FamilyMart stores at the end of the fiscal year totaled 5,287, and together with the 569 stores of domestic franchised companies and the 2,328 stores of overseas franchised companies, the grand total reached 8,184 stores.

Advancing into new markets and encouraging multistore management

Plans for fiscal 2003 call for the opening of 500 high-quality stores and the closure of 350 unprofitable stores, with the aim of expediting FamilyMart's qualitative shift. This approach will include the stepping-up of the previous year's advance into new markets such as large-scale shopping centers, university campuses, and office buildings. In the term under review, new store-openings produced good results, including openings in the Atago Green Hills complex and the Shinjuku Washington Hotel. In fiscal 2003, FamilyMart will continue its vigorous program of opening stores in new, convenient locations, including at Tohoku Fukushi University.

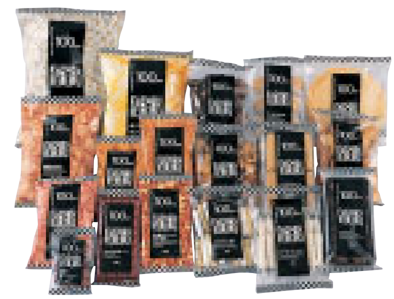
During the term under review, FamilyMart inaugurated a grant scheme to encourage multistore management, designed to take advantage of the advanced operating capabilities built up by franchised stores and to foster the further expansion of the scale of their management. This was followed in the current fiscal year by the introduction of our "Type 1 Franchise Contract," a highly regarded new form of franchise-company contract designed to make it easier for future entrepreneurs who want to spin off a company to establish themselves independently, as well as capable franchisees wishing to expand into multistore management.



FamilyMart's strong growth overseas

Since establishing its first overseas store in Taiwan in 1988, FamilyMart has opened more than 2,300 stores in other East Asian countries such as South Korea and Thailand through area franchises, and the scale of this overseas network is continuing to expand annually. In February 2002, the shares of FamilyMart's Taiwanese subsidiary Taiwan FamilyMart Co., Ltd. were listed on the over-the-counter market in Taiwan. This is the first time that a Japanese convenience store operator has had shares listed on an overseas stock market. This was followed in April by another milestone, when the number of FamilyMart stores in South Korea topped the 1,000 mark.

Product Value



Boosting profitability by extending the range of Nakashoku items and original merchandise

A stronger lineup of delicatessen foods

Nakashoku (delicatessen) such as boxed lunches, breads and pastries are FamilyMart's principal products, accounting for a third of total sales. Fiscal 2002 saw increasingly fierce price competition that crossed the boundaries of industry segments, including price-cutting by a chain of eateries specializing in *gyudon* beef and rice dishes, but FamilyMart countered this by offering an ¥88 *onigiri* and a boxed lunch for just ¥380. FamilyMart also improved its range of hamburgers, already with a well-established identity distinguishing them from other chains' products, and also launched a new category: rice burgers.

In fiscal 2003, as the only convenience store operator to be a supporting company of the Japanese national soccer team, FamilyMart will be placing emphasis on expanding sales of the officially endorsed "supporters' boxed lunches" and related goods. FamilyMart is also devoting greater attention to taking best advantage of the characteristics of individual regions, for example by putting fried-oyster boxed lunches on limited sale in the Hiroshima area, one of Japan's foremost oyster-producing areas. A key strategy for the entire term is the pursuit of flavor and also the healthiness, safety, and freshness of our food products, and to that end we plan a complete revamp ranging from the procurement of ingredients to product development. In tandem with this we will also be enhancing our offerings of *oden* (stewed hotchpotch), which has long been on sale in FamilyMart stores. This will also entail a complete overhaul of all aspects, from the product itself to the utensils used, the cooking, and the selling, so as to ensure the product is even more delicious than hitherto.

Augmenting merchandise unique to FamilyMart

Products available only at FamilyMart outlets, such as individualized products and merchandise produced under exclusive tie-ups with manufacturers, both generate customer loyalty and boost sales. During fiscal 2002, sales of daily necessities were bolstered by the introduction of original M/F/C cosmetics products, while in the sphere of goods produced under tie-ups we scored a hit with Meiji Milk Chocolate Pan, a product with added value created by its cheerful and novel qualities. Also of note was the sale — under a tie-up with Debuya, a popular late-night television program on the Television Tokyo network — of a line of boxed lunches and rice balls for which emphasis was placed on large size and great taste. This gained renown for being a unique FamilyMart venture in which original goods were sold only during a limited time slot.

In the spring of 2002 FamilyMart launched a 37-variety range of original confectionery called Oyatsu Tankentai, each variety being priced at a uniform ¥100, and also five products under a tie-up with Ezaki Glico, including Glico Pan and Bisco Pan. These are rapidly becoming popular products. During fiscal 2003, we will seek to invigorate FamilyMart stores by increasing the proportion of sales accounted for by original products such as these. We aim to expand daily sales volume by placing emphasis on the development of products with originality and added value that attract customers.

E-commerce

Increasing visit frequency and unit prices by enhancing and expanding unique e-commerce services

Developing E-Retail business to boost store earnings

FamilyMart's aim is to become a "Super Convenience Store" that provides full support for people's lifestyles 24 hours a day. It will do so by expanding E-Retail business so that people may use its facilities by visiting its stores when they are out and about, and by using the Internet when they are at home. In fiscal 2003 we plan to enhance the profitability of our E-Retail business by focusing development on entertainment content such as games, ticket sales, and celebrity merchandise, and on lifestyle support services such as gift-buying, removals, and financial services.

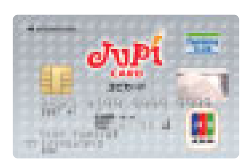
Based on FamilyMart's unique FamilyMart EC Franchise System, which posts the sales figures of individual franchised stores, FamilyMart's famima.com Internet shopping site offers benefits such as award points, and had as many as 850,000 registered members as of the end of April 2002. Two other sites usable from mobile phones, famima-i (i-mode accessible) and famima-j (J-Sky accessible), are also producing good results.

In addition, products, tickets, and other items listed in Fami Korepia, a free magazine published monthly, can be ordered through a variety of media such as PCs, portable terminals, telephones, or faxes. The use of this service through mobile phones has been showing particularly strong growth.

We began installing Famiport Multimedia Kiosks in our stores in the autumn of 2000, and since then their service content, which includes ticket sales and a music download service, has been improved every year. All stores will be equipped with the terminals by autumn this year. Stores are also being equipped with bank ATMs, which at the end of April 2002 were installed in 2,678 outlets, where they help to attract more customers.

Start of IC card service an industry first

Behind the increase in the number of famima club members is the fact that in May 2002 FamilyMart started handling the JUPI Card. The JUPI Card is an IC card issued by Famima Credit Corporation, established by FamilyMart jointly with five other companies: Itochu Corp., JCB Co., Ltd., Toyota Finance Corp., PIA Corp. and NTT Data Corp. The IC gives the card both point-awarding and credit-card functions, and it can be used not only for Net shopping, but also for gaining reward points for purchases at FamilyMart stores and JCB member merchants.



A minimum monthly payment method under revolving credit facilities is available, and purchases can be settled without the need for a signature. The ease of use of the card, with features such as these, adds to its appeal, and is sure to increase the frequency with which cardholders visit FamilyMart stores and also the average value of their purchases. Canvassing for cardholders is currently under way, centering on the 850,000 famima club members, the target being to increase the number of cardholders to 300,000 during the course of fiscal 2003, and to 1 million by fiscal 2005.


FamilyMart
Japan
national team
ファミリーマートはサッカー日本代表チームの
サポーティングカンパニーです。

Logistics

Operating the most powerful logistics system to create a highly efficient and accurate supply chain

Building DCM for the improvement of the procurement structure

The objective of Demand Chain Management (DCM) is to respond to demand information gathered at store level on matters such as customer needs and spending habits, and ensure that it is reflected in merchandise offered in stores in a prompt, highly accurate, and low-cost manner. For that purpose, the flow from the procurement of raw materials to the manufacture of goods and their sale by stores to customers is subject to management jointly at all stages, including by FamilyMart headquarters and business partners. In the sphere of goods distribution, the Company has focused its efforts on enhancing the level of service and efficiency of distribution from centers to stores, but in the future, attention will focus further back, to raw-material procurement. By stepping up efforts that give total coverage of all stages right up to store sales, FamilyMart will create a more efficient, faster, and lower-cost goods-distribution and procurement structure.

The specialized Demand Chain Management Development Office at FamilyMart headquarters is seeking to optimize store supplies by building a structure for product deliveries at all temperatures. By the autumn of 2002 FamilyMart will be able to carry out joint deliveries of everyday merchandise in fixed-temperature runs, and also joint foodstuff deliveries at normal temperatures for alcoholic and other beverages, processed foods, and confectionery and pastries, reducing the current six deliveries a day to only four deliveries.

Reducing franchised store purchasing costs

In order to raise the level of service to stores and cut goods distribution costs, FamilyMart is undertaking the reorganization and consolidation of its delivery centers. During fiscal 2002 the Company substantially improved distribution costs, including by means of concentrating distribution bases through collaboration with the Itochu Group.

In addition to reducing the number of delivery centers, FamilyMart is also constructing highly efficient integrated distribution centers that combine delivery center functions with plants making goods such as boxed lunches, prepared noodle dishes, and desserts. As an example, in October 2001 the FamilyMart Yamagata Integrated Distribution Center was brought into full operation as the manufacturing and delivery base for the Yamagata area.

This center is a full-scale composite plant preparing rice dishes and *nakashoku* items. Because of this, instead of making deliveries to stores in Yamagata Prefecture from the neighboring Miyagi and Fukushima prefectures, those stores can now be assured of stable supplies of much fresher *nakashoku* items. Moreover, the center is also a concentration of goods-distribution capabilities in that it is a base for the delivery of products in all temperature ranges, such as chilled goods, processed foods, and everyday merchandise, in which capacity it has become a model.

Enhancing the efficiency of goods distribution in this way will not only trim expenses and lighten the work burden on stores, but will also save energy and reduce emissions of CO_2 and other pollutants by delivery vehicles. FamilyMart's improvement of the accuracy of product ordering and its optimization of logistics will also serve to maximize the earnings capacity of stores in the current fiscal year.

Corporate Citizenship

FamilyMart is committed to being a good corporate citizen, with a mission to contribute to environmental conservation and the community

A convenience store chain operator committed to environmental conservation

FamilyMart appointed an officer with responsibility for environmental matters in 1991, and since then has worked actively in this field. In 1999 the company received ISO 14001 certification for its environmental management system covering all its headquarters business offices and stores. FamilyMart aims to ensure environmentally friendly merchandise, goods distribution, store facilities, and store management, thereby fulfilling its responsibility as a corporate citizen.

In the sphere of merchandise, FamilyMart has assembled its We Love Green lineup of environmentally friendly private-brand products developed according to unique criteria for reducing the burden on the environment at all stages — from the raw-material stage to product use and the disposal of waste. As regards goods distribution, the adoption of a more efficient delivery system has allowed a reduction in the number of visits to each store by delivery vehicles, with consequent reductions in energy use and emissions of greenhouse gases. We are also making progress in switching to the use of vehicles with very low rates of emission of nitrates and other pollutants. Also, given that our stores are normally required to operate around the clock, in a pilot scheme we have designated ten stores as "Eco-Shops," which are designed to save energy, minimize resource consumption, and preserve the environment. In August last year, a compact gas cogeneration system using natural gas was installed in the Aoba Sumiyoshidai store in Yokohama, which has started an on-site power-generation business using a combination of electric power and discharges of waste heat. In addition, FamilyMart has been vigorously operating a total waste-material recycling system directed at separating and recovering every scrap of waste that emerges from its stores. For example FamilyMart was quick to begin composting perishable waste and transforming it into fertilizer, and has also completed recycling systems in all areas for the recovery of used cooking oil that would otherwise become industrial waste.

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For the sake of deprived children

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In another charitable gesture, to assist members of the public desiring to become organ donors, FamilyMart places organ donor cards in all its outlets.

Customer Satisfaction

Achieving customer satisfaction that surpasses rival stores through customer care, merchandise, and services that offer more than just “convenience”

Store Staff Total System: a systematic education program

Amid competition in the retail industry that is growing fiercer and is crossing the boundaries between industry segments, FamilyMart is pursuing customer satisfaction that surpasses that of rival stores in every respect, including customer care, merchandise, and services.

FamilyMart’s devotion to exhaustive SQ&C (service, quality and cleanliness) in all its stores is part of its practical efforts to achieve this, and to this end the Company introduced its Store Staff Total System (SSTS) in spring 2000. This is a systematic program that focuses on attracting, educating, motivating, and remunerating store staff. Skill levels are raised with minimum effort through the use of a Management Manual prepared for store managers, which serves as a compendium of staff recruitment and evaluation know-how, and also of training manuals targeted at store staff at beginner, intermediate, and advanced levels. In addition, the burden on store managers is lightened by educating trainers from among store staff to take responsibility for the education of other staff. Another aspect is that the program motivates and teaches self-reliance to store staff — a key component of our fighting strength. SSTS is a program that goes well beyond the contents of a manual.

Getting back to basics – putting the customer first

As part of its efforts to enhance profitability, FamilyMart will expedite improvements to services and store operations by adopting the customer’s perspective.

To increase the level of SQ&C, the large volume of information collated to date, including customers’ opinions expressed to the Customer Service Department at FamilyMart headquarters and the comments of franchisees and FamilyMart operations in individual regions, will be used to create a mechanism for building and improving know-how. This will greatly widen the use of information, previously confined to dealing with individual problems. It will link comments at store level directly with the improvement of the mechanism, and lead to rapid problem resolution.

Through these efforts, we will continually upgrade the level of SQ&C and build attractive stores that always have the range of merchandise and services that customers want.

Raising the Accuracy of Product Ordering

No Chance Lost

Reinforcing a highly accurate product-ordering system that identifies needs, and does not lead to missed sales opportunities

More accurate monitoring of individual products

FamilyMart is placing emphasis on the establishment of a highly accurate product-ordering system that will help to bolster sales and profits. If merchandise that people want to buy is not laid out on the shelves, sales opportunities are lost, and customer confidence is damaged.

By increasing the precision of its product-ordering capabilities in this way, FamilyMart aims to minimize the risk of losing business opportunities. In June 2001, the company radically overhauled the previous ordering system and introduced its New Store System in all stores, through which constantly changing customer needs are identified swiftly and accurately on a product-by-product basis, and the merchandise that customers want is assured of being stocked. The system is a device for ascertaining sales trends for individual products and taking the appropriate decisions for quantities to be ordered; handheld Store Activation Terminals (SATs) serve as tools to support these ordering activities. The SATs screens indicate how individual products are moving and the real-time situation in each store, and the operator can confirm what is on the display shelves and what is in stock before placing an order.

Use of this state-of-the-art information technology enables FamilyMart to create stores that please customers by always presenting them with the merchandise they want.

Strengthening store management by dividing responsibilities for product ordering

Another purpose of the New Store System for increasing the accuracy of product ordering is to divide ordering responsibilities: enabling it to be carried out not only by store managers and other management personnel, but also by other store staff. This sharing not only alleviates the administrative burden on store managers but also cultivates a sense of responsibility in non-managerial staff and boosts their motivation, and because of this it is effective for minimizing the risk of losing business opportunities and creating stores that generate customer loyalty.

FamilyMart also uses Store Staff Total System (SSTS) for encouraging the division of responsibility for product ordering. By apportioning information on as many as 2,800 items of merchandise among store staff it is possible to ascertain product movements accurately and to boost the precision of ordering substantially. Moreover, by raising staff members' awareness of their sales areas and merchandise, the level of SQ&C is raised, and store-management capability is enhanced considerably.

A Product Ordering Committee has been formed at FamilyMart headquarters, from where supervisors give support to franchise store managers with respect to accurate ordering methods, including use of SATs, helping to build stores in which losses from stockouts are a thing of the past.

Development

Building a strong and competitive network and expanding multistore management

Creating an intrinsically profitable network

During fiscal 2003 FamilyMart worked hard to develop high-quality stores, opening 515 new outlets. The Company brought the FamilyMart Geographic Information System (FM-GIS) into full-scale use. The use of this system enabled FamilyMart in fiscal 2002 to achieve the highest-ever daily sales generated by new stores.

During fiscal 2002, FamilyMart opened 46 new stores in Hiroshima and in Kagawa Prefecture, marking the first openings on the island of Shikoku, one of the four main islands of the Japanese archipelago. In addition, 65 stores were opened by the partial transfer of operations from Higashi Kinki Region Spar HQ Co., Ltd., which covers Shiga, Fukui, and Kyoto Prefectures.

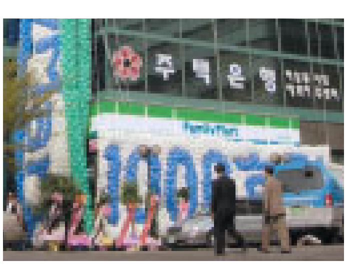
Qualitative improvements were made by closing a total of 503 stores, most of which were directly managed. However, more than a fifth of these closed stores were shifted to new premises nearby in more promising locations, and their results have subsequently shown steady improvement.

The net result of these adjustments was that the number of FamilyMart stores at the end of the fiscal year totaled 5,287, and together with the 569 stores of domestic franchised companies and the 2,328 stores of overseas franchised companies, the grand total reached 8,184 stores.

Advancing into new markets and encouraging multistore management

Plans for fiscal 2003 call for the opening of 500 high-quality stores and the closure of 350 unprofitable stores, with the aim of expediting FamilyMart's qualitative shift. This approach will include the stepping-up of the previous year's advance into new markets such as large-scale shopping centers, university campuses, and office buildings. In the term under review, new store-openings produced good results, including openings in the Atago Green Hills complex and the Shinjuku Washington Hotel. In fiscal 2003, FamilyMart will continue its vigorous program of opening stores in new, convenient locations, including at Tohoku Fukushi University.

During the term under review, FamilyMart inaugurated a grant scheme to encourage multi-store management, designed to take advantage of the advanced operating capabilities built up by franchised stores and to foster the further expansion of the scale of their management. This was followed in the current fiscal year by the introduction of our "Type 1 Franchise Contract," a highly regarded new form of franchise-company contract designed to make it easier for future entrepreneurs who want to spin off a company to establish themselves independently, as well as capable franchisees wishing to expand into multistore management.



FamilyMart's strong growth overseas

Since establishing its first overseas store in Taiwan in 1988, FamilyMart has opened more than 2,300 stores in other East Asian countries such as South Korea and Thailand through area franchises, and the scale of this overseas network is continuing to expand annually. In February 2002, the shares of FamilyMart's Taiwanese subsidiary Taiwan FamilyMart Co., Ltd. were listed on the over-the-counter market in Taiwan. This is the first time that a Japanese convenience store operator has had shares listed on an overseas stock market. This was followed in April by another milestone, when the number of FamilyMart stores in South Korea topped the 1,000 mark.

Product Value

Boosting profitability by extending the range of Nakashoku items and original merchandise

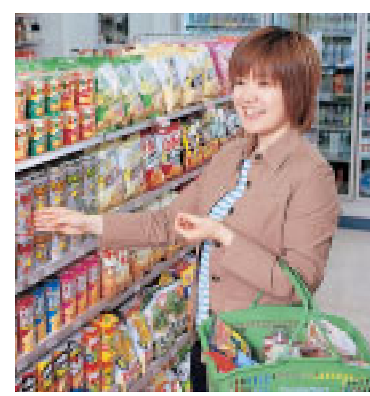
A stronger lineup of delicatessen foods

Nakashoku (delicatessen) such as boxed lunches, breads and pastries are FamilyMart's principal products, accounting for a third of total sales. Fiscal 2002 saw increasingly fierce price competition that crossed the boundaries of industry segments, including price-cutting by a chain of eateries specializing in *gyudon* beef and rice dishes, but FamilyMart countered this by offering an ¥88 *onigiri* and a boxed lunch for just ¥380. FamilyMart also improved its range of hamburgers, already with a well-established identity distinguishing them from other chains' products, and also launched a new category: rice burgers.

In fiscal 2003, as the only convenience store operator to be a supporting company of the Japanese national soccer team, FamilyMart will be placing emphasis on expanding sales of the officially endorsed "supporters' boxed lunches" and related goods. FamilyMart is also devoting greater attention to taking best advantage of the characteristics of individual regions, for example by putting fried-oyster boxed lunches on limited sale in the Hiroshima area, one of Japan's foremost oyster-producing areas. A key strategy for the entire term is the pursuit of flavor and also the healthiness, safety, and freshness of our food products, and to that end we plan a complete revamp ranging from the procurement of ingredients to product development. In tandem with this we will also be enhancing our offerings of *oden* (stewed hotchpotch), which has long been on sale in FamilyMart stores. This will also entail a complete overhaul of all aspects, from the product itself to the utensils used, the cooking, and the selling, so as to ensure the product is even more delicious than hitherto.

Augmenting merchandise unique to FamilyMart

Products available only at FamilyMart outlets, such as individualized products and merchandise produced under exclusive tie-ups with manufacturers, both generate customer loyalty and boost sales. During fiscal 2002, sales of daily necessities were bolstered by the introduction of original M/F/C cosmetics products, while in the sphere of goods produced under tie-ups we scored a hit with Meiji Milk Chocolate Pan, a product with added value created by its cheerful and novel qualities. Also of note was the sale — under a tie-up with Debuya, a popular late-night television program on the Television Tokyo network — of a line of boxed lunches and rice balls for which emphasis was placed on large size and great taste. This gained renown for being a unique FamilyMart venture in which original goods were sold only during a limited time slot.



In the spring of 2002 FamilyMart launched a 37-variety range of original confectionery called Oyatsu Tankentai, each variety being priced at a uniform ¥100, and also five products under a tie-up with Ezaki Glico, including Glico Pan and Bisco Pan. These are rapidly becoming popular products. During fiscal 2003, we will seek to invigorate FamilyMart stores by increasing the proportion of sales accounted for by original products such as these. We aim to expand daily sales volume by placing emphasis on the development of products with originality and added value that attract customers.

E-commerce

Increasing visit frequency and unit prices by enhancing and expanding unique e-commerce services

Developing E-Retail business to boost store earnings

FamilyMart's aim is to become a "Super Convenience Store" that provides full support for people's lifestyles 24 hours a day. It will do so by expanding E-Retail business so that people may use its facilities by visiting its stores when they are out and about, and by using the Internet when they are at home. In fiscal 2003 we plan to enhance the profitability of our E-Retail business by focusing development on entertainment content such as games, ticket sales, and celebrity merchandise, and on lifestyle support services such as gift-buying, removals, and financial services.

Based on FamilyMart's unique FamilyMart EC Franchise System, which posts the sales figures of individual franchised stores, FamilyMart's famima.com Internet shopping site offers benefits such as award points, and had as many as 850,000 registered members as of the end of April 2002. Two other sites usable from mobile phones, famima-i (i-mode accessible) and famima-j (J-Sky accessible), are also producing good results.

In addition, products, tickets, and other items listed in Fami Korepia, a free magazine published monthly, can be ordered through a variety of media such as PCs, portable terminals, telephones, or faxes. The use of this service through mobile phones has been showing particularly strong growth.

We began installing Famiport Multimedia Kiosks in our stores in the autumn of 2000, and since then their service content, which includes ticket sales and a music download service, has been improved every year. All stores will be equipped with the terminals by autumn this year. Stores are also being equipped with bank ATMs, which at the end of April 2002 were installed in 2,678 outlets, where they help to attract more customers.

Start of IC card service an industry first

Behind the increase in the number of famima club members is the fact that in May 2002 FamilyMart started handling the JUPI Card. The JUPI Card is an IC card issued by Famima Credit Corporation, established by FamilyMart jointly with five other companies: Itochu Corp., JCB Co., Ltd., Toyota Finance Corp., PIA Corp. and NTT Data Corp. The IC gives the card both point-awarding and credit-card functions, and it can be used not only for Net shopping, but also for gaining reward points for purchases at FamilyMart stores and JCB member merchants.

A minimum monthly payment method under revolving credit facilities is available, and purchases can be settled without the need for a signature. The ease of use of the card, with features such as these, adds to its appeal, and is sure to increase the frequency with which cardholders visit FamilyMart stores and also the average value of their purchases. Canvassing for cardholders is currently under way, centering on the 850,000 famima club members, the target being to increase the number of cardholders to 300,000 during the course of fiscal 2003, and to 1 million by fiscal 2005.


FamilyMart
Japan
national team
ファミリーマートはサッカー日本代表チームの
サポーティングカンパニーです。

Logistics

Operating the most powerful logistics system to create a highly efficient and accurate supply chain

Building DCM for the improvement of the procurement structure

The objective of Demand Chain Management (DCM) is to respond to demand information gathered at store level on matters such as customer needs and spending habits, and ensure that it is reflected in merchandise offered in stores in a prompt, highly accurate, and low-cost manner. For that purpose, the flow from the procurement of raw materials to the manufacture of goods and their sale by stores to customers is subject to management jointly at all stages, including by FamilyMart headquarters and business partners. In the sphere of goods distribution, the Company has focused its efforts on enhancing the level of service and efficiency of distribution from centers to stores, but in the future, attention will focus further back, to raw-material procurement. By stepping up efforts that give total coverage of all stages right up to store sales, FamilyMart will create a more efficient, faster, and lower-cost goods-distribution and procurement structure.

The specialized Demand Chain Management Development Office at FamilyMart headquarters is seeking to optimize store supplies by building a structure for product deliveries at all temperatures. By the autumn of 2002 FamilyMart will be able to carry out joint deliveries of everyday merchandise in fixed-temperature runs, and also joint foodstuff deliveries at normal temperatures for alcoholic and other beverages, processed foods, and confectionery and pastries, reducing the current six deliveries a day to only four deliveries.

Reducing franchised store purchasing costs

In order to raise the level of service to stores and cut goods distribution costs, FamilyMart is undertaking the reorganization and consolidation of its delivery centers. During fiscal 2002 the Company substantially improved distribution costs, including by means of concentrating distribution bases through collaboration with the Itochu Group.

In addition to reducing the number of delivery centers, FamilyMart is also constructing highly efficient integrated distribution centers that combine delivery center functions with plants making goods such as boxed lunches, prepared noodle dishes, and desserts. As an example, in October 2001 the FamilyMart Yamagata Integrated Distribution Center was brought into full operation as the manufacturing and delivery base for the Yamagata area.

This center is a full-scale composite plant preparing rice dishes and *nakashoku* items. Because of this, instead of making deliveries to stores in Yamagata Prefecture from the neighboring Miyagi and Fukushima prefectures, those stores can now be assured of stable supplies of much fresher *nakashoku* items. Moreover, the center is also a concentration of goods-distribution capabilities in that it is a base for the delivery of products in all temperature ranges, such as chilled goods, processed foods, and everyday merchandise, in which capacity it has become a model.

Enhancing the efficiency of goods distribution in this way will not only trim expenses and lighten the work burden on stores, but will also save energy and reduce emissions of CO_2 and other pollutants by delivery vehicles. FamilyMart's improvement of the accuracy of product ordering and its optimization of logistics will also serve to maximize the earnings capacity of stores in the current fiscal year.

Corporate Citizenship

FamilyMart is committed to being a good corporate citizen, with a mission to contribute to environmental conservation and the community

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Board of Directors, Executive Officers, and Corporate Auditors

(Front row, from left) Michio Tanabe, Junji Ueda
(Back row, from left) Shisaburo Ueda, Naoji Ishizu, Hiroyoshi Yada, Shinichiro Harima

Chairman and Representative Director, Chief Executive Officer

Michio Tanabe

President and Representative Director, Chief Operating Officer

Junji Ueda

Senior Managing Representative Director and Senior Managing Executive Officer

Hiroyoshi Yada

Managing Directors and Managing Executive Officers

Naoji Ishizu

Shisaburo Ueda

Shinichiro Harima

Directors and Executive Officers

Masahiro Ikeda

Shiro Inoue

Yasuhiko Uramoto

Masaaki Matsumaru

Gonjiro Minamimoto

Takayuki Yokota

Fumio Horiuchi

Executive Officers

Kagao Okada

Noboru Kanazawa

Masatsuna Seki

Toshio Anazawa

Sadanobu Iemura

Masaharu Ishiguro

Hidemitsu Ozawa

Shota Takahashi

Noboru Nishioka

Kenichi Hatta

Kunio Idei

Standing Corporate Auditors

Naoki Mitsuhashi

Yukinobu Maeda

Kunihiro Fujimoto

Corporate Auditor

Takashi Endo

(As of May 29, 2002)

Financial Section

FamilyMart Co., Ltd. and Consolidated Subsidiaries

Consolidated Five-Year Summary

Years ended the Last Day of February

	Millions of Yen (except per share data and other data)					Thousands of U.S. Dollars (Note 1)
	2002	2001	2000	1999	1998	**2002**
Results of operations:						
Operating revenues:						
Franchise commission from franchised stores	**¥116,478**	¥111,729	¥ 96,570	¥ 94,143	¥ 86,562	**$ 869,239**
Net sales	**67,822**	54,122	34,016	39,124	48,797	**506,134**
Total operating revenues	**195,605**	176,099	147,295	148,261	150,740	**1,459,739**
Operating income	**23,756**	24,123	28,098	29,181	28,687	**177,284**
Net income	**8,549**	8,112	12,960	15,514	9,817	**63,799**
Net income per share (in yen and U.S. dollars)	**88.3**	83.5	134.6	161.2	102.0	**0.7**
Cash dividends per share (in yen and U.S. dollars)	**38.0**	38.0	38.0	34.0	30.0	**0.3**
Financial position:						
Total assets	**¥242,517**	¥230,883	¥206,492	¥222,939	¥208,752	**$1,809,828**
Total shareholders' equity	**130,510**	126,190	122,555	112,187	99,875	**973,955**
Other data:						
Number of franchised stores and Company's own stores	**5,287**	5,275	4,555	4,398	4,242	
Number of area franchised stores (including overseas area franchised stores)	**2,897**	2,341	2,455	2,133	1,843	
Number of stores	**8,184**	7,616	7,010	6,531	6,085	
Number of shareholders	**28,088**	31,429	16,364	8,976	11,590	
Number of full-time employees (Note 2)	**4,205**	3,917	—	—	—	
Weighted average number of shares (thousands)	**96,868**	97,107	96,312	96,220	96,220	

Notes: 1. Conversion into U.S. dollars has been made at the exchange rate of ¥134=U.S.$1, the rate prevailing on February 28, 2002.
2. From fiscal 2001, the number of full-time employees shown is on a consolidated basis. Data for past years is not shown.

Operating Results
(Analysis of Revenues, Costs, and Expenses)

The FamilyMart Group is comprised of 26 companies, including the Company, 18 subsidiaries (of which 6 are consolidated subsidiaries), and 7 affiliated companies. The Group's main business is the operation of franchised convenience stores, and it has recently diversified into the development of e-commerce (EC) and other related services.

Consolidated total operating revenues, consisting of franchise commissions from franchised stores, net sales and other operating revenues, increased by ¥19,506 million, or 11.1%, to ¥195,605 million (US$1,460 million).

Looking at individual revenues, franchise commissions from franchised stores increased by ¥4,749 million, or 4.2%, to ¥116,478 million (US$869 million), due mainly to an increase in sales of franchised stores and improvements in gross margins.

Franchise commissions accounted for 59.5% of total operating revenues.

Net sales increased by ¥13,700 million, or 25.3%, to ¥67,822 million (US$506 million), due primarily to an increase in sales of Company-owned stores in the convenience store business, and growth in e-commerce service-related sales such as Internet shopping.

Operating revenues from overseas operations accounted for ¥28,949 million (US$216 million), or 14.8%, of the Company's total operating revenues. These revenues came from operations in East Asia, including Taiwan, Thailand, and South Korea.

During the year under review, total operating expenses increased by ¥19,873 million, or 13.1%, to ¥171,849 million (US$1,282 million), due primarily to increases in e-commerce service-related sales cost of sales and selling, general and administrative expenses such as store rents, lease premiums for store facilities and water and electricity charges due to the increase in number of stores.

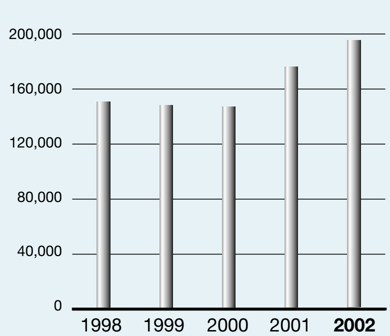
As a result of the above figures, operating income decreased by ¥367 million, or 1.5%, to ¥23,756 million (US$177 million).

During the year under review, net other expenses decreased ¥2,261 million, to ¥7,278 million (US$54 million), due to a decrease in provisions for employees' retirement benefits as opposed to an increase in losses on the closure of non-profitable stores. The Company charged a lump-sum amount of the unfunded pension obligation to income in the amount of ¥4,856 million in the previous year.

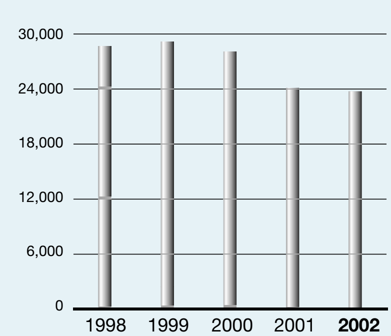
As a result of the above, income before income taxes and minority interests and net income increased by ¥1,894 million, or 13.0%, to ¥16,478 million (US$123 million) and ¥437 million, or 5.4%, to ¥8,549 million (US$64 million) respectively.

As a consequence, earnings per share increased by ¥4.8, to ¥88.3 (US$0.7).

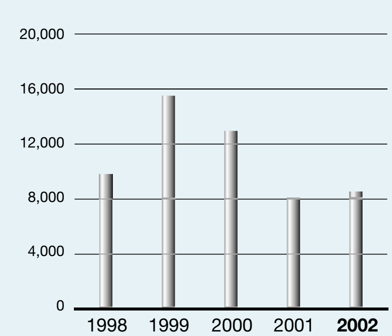
Total Operating Revenues
(Millions of Yen)



Operating Income
(Millions of Yen)



Net Income
(Millions of Yen)



Dividend Policy

In accordance with the Company's policy of the stable distribution of dividends to shareholders in line with the growth of operations, the Company announced dividends of ¥38 (US$0.3) per share, the same as in the previous fiscal year.

Financial Position

Total assets increased by ¥11,634 million, or 5.0% during the year, to ¥242,517 million (US$1,810 million).

Current assets increased by ¥4,629 million, to ¥85,144 million (US$635 million), due primarily to increases in cash and cash equivalents, merchandise and supplies, and deferred tax assets.

Net property and store facilities increased by ¥3,985 million, to ¥66,438 million (US$496 million), due mainly to new stores opened and the Company's introduction of the New Store System.

Total investments and other assets increased by ¥3,020 million, to ¥90,935 million (US$679 million), mainly as a result of the introduction of an integrated core-operating system software and newly acquired goodwill in the acquisition of the operations of stores formerly owned by Higashi Kinki Region Spar HQ Co., Ltd.

Total liabilities increased by ¥6,556 million, or 6.5%, to ¥107,836 million (US$805 million), largely owing to increases in the Company's income taxes payable and trade notes payable of Taiwan FamilyMart Co., Ltd.

Minority interests increased by ¥758 million, or 22.2%, to ¥4,171 million (US$31 million), due primarily to the sale of a portion of the shares held in Taiwan FamilyMart by the parent company, accompanying the initial public offering of the subsidiary.

As a result of the above, shareholders' equity increased by ¥4,320 million, or 3.4%, to ¥130,510 million (US$974 million), due to an increase in retained earnings.

Cash Flows

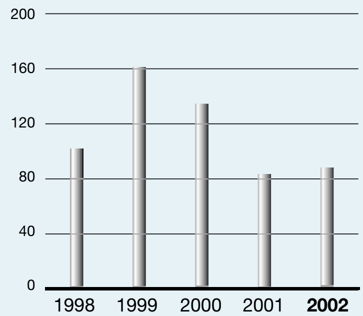
The year-end balance of cash and cash equivalents increased by ¥845 million, or 1.8%, to ¥46,651 million (US$348 million).

Net cash provided by operating activities increased by ¥10,914 million, to ¥34,219 million (US$255 million), due mainly to a decrease in income taxes paid.

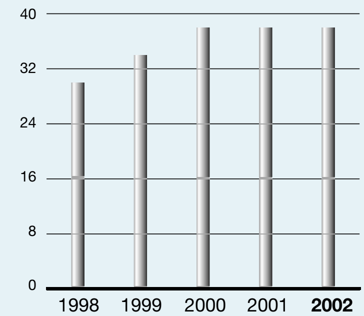
Net cash used in investing activities decreased by ¥2,168 million, to ¥28,812 million (US$215 million), as a mixed result of an increase in the acquisition of property and store facilities and investments and other assets, due to new stores opened and improvements in existing stores on the one hand and a decrease in time deposits related to a transfer of amounts to cash on the other hand.

Net cash used in financing activities decreased by ¥1,822 million, to ¥4,338 million (US$32 million), primarily because no purchases of treasury stocks for the stock option plan were made in the current year as compared to the previous year.

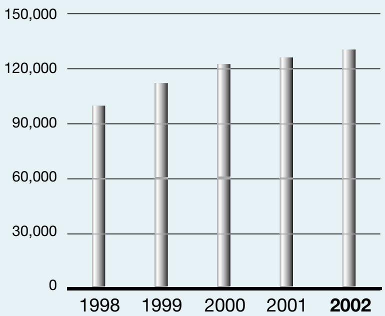
Net Income per Share
(Yen)



Cash Dividends per Share
(Yen)



Total Shareholders' Equity
(Millions of Yen)



Consolidated Balance Sheets

February 28, 2002 and 2001

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2002	2001	2002
Assets			
Current assets:			
Cash and cash equivalents	**¥ 46,651**	¥ 45,806	**$ 348,142**
Time deposits	**8**	3,104	**60**
Marketable securities (Notes 2-d and 6)	**3,164**	1,744	**23,612**
Receivables:			
Due from franchised stores (Note 5)	**7,847**	7,533	**58,560**
Other	**8,858**	8,981	**66,104**
Allowance for doubtful accounts	**(991)**	(680)	**(7,396)**
Merchandise and supplies	**7,417**	5,911	**55,351**
Deferred tax assets (Notes 2-j and 12)	**1,827**	828	**13,634**
Prepaid expenses and other current assets	**10,363**	7,288	**77,336**
Total current assets	**85,144**	80,515	**635,403**
Property and store facilities:			
Land	**15,049**	14,705	**112,306**
Buildings and structures	**48,139**	46,227	**359,246**
Machinery and equipment	**3,290**	2,852	**24,552**
Furniture and fixtures	**49,527**	41,936	**369,604**
Construction in progress	**68**	497	**508**
Total	**116,073**	106,217	**866,216**
Accumulated depreciation	**(49,635)**	(43,764)	**(370,410)**
Net property and store facilities	**66,438**	62,453	**495,806**
Investments and other assets:			
Investment securities (Notes 2-d and 6)	**10,018**	8,860	**74,761**
Investments in and advances to unconsolidated subsidiaries and associated companies (Note 4)	**2,353**	2,493	**17,560**
Software	**8,383**	6,334	**62,560**
Goodwill (Note 7)	**2,254**	1,407	**16,821**
Leasehold deposits (Note 8)	**61,416**	62,347	**458,328**
Foreign currency translation adjustments (Note 2-m)		883	
Deferred tax assets (Notes 2-j and 12)	**2,618**	2,332	**19,537**
Other assets	**3,893**	3,259	**29,052**
Total investments and other assets	**90,935**	87,915	**678,619**
Total	**¥242,517**	¥230,883	**$1,809,828**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2002	2001	**2002**
Liabilities and shareholders' equity			
Current liabilities:			
Short-term bank loans (Note 9)	**¥ 320**	¥ 1,051	**$ 2,388**
Payables:			
Trade notes	**2,943**	2,525	**21,963**
Trade for franchised and Company-owned stores (Note 8)	**47,329**	45,106	**353,201**
Due to franchised stores (Note 5)	**2,342**	2,485	**17,478**
Other (Note 8)	**12,547**	14,127	**93,634**
Income taxes payable (Note 12)	**4,937**	1,907	**36,843**
Utility payments received (Note 5)	**16,749**	15,127	**124,993**
Accrued expenses	**2,069**	1,853	**15,440**
Other current liabilities	**2,809**	1,466	**20,963**
Total current liabilities	**92,045**	85,647	**686,903**
Long-term liabilities:			
Long-term bank loans (Note 9)		206	
Provision for retirement benefits–employees (Notes 2-h, 3 and 10)	**5,043**	4,994	**37,634**
Provision for retirement benefits–directors and corporate auditors	**166**	420	**1,239**
Leasehold deposits received from franchised stores	**10,502**	10,007	**78,373**
Other long-term liabilities	**80**	6	**597**
Total long-term liabilities	**15,791**	15,633	**117,843**
Minority interests	**4,171**	3,413	**31,127**
Commitments and contingent liabilities (Note 13)			
Shareholders' equity (Notes 11 and 15)**:**			
Common stock–authorized, 250,000,000 shares; issued, 97,683,133 shares in 2002 and 2001	**16,659**	16,659	**124,321**
Additional paid-in capital	**17,057**	17,057	**127,291**
Retained earnings	**98,978**	94,179	**738,642**
Unrealized gain (loss) on available-for-sale securities (Note 2-d)	**(20)**	26	**(149)**
Foreign currency translation adjustments (Note 2-m)	**(476)**		**(3,553)**
Total	**132,198**	127,921	**986,552**
Treasury stock–at cost (810,961 shares in 2002 and 832,342 shares in 2001) (Note 11)	**(1,688)**	(1,731)	**(12,597)**
Total shareholders' equity	**130,510**	126,190	**973,955**
Total	**¥242,517**	¥230,883	**$1,809,828**

See notes to consolidated financial statements.

FamilyMart Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Income

Years ended February 28, 2002 and 2001

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2002	2001	**2002**
Operating revenues:			
Franchise commission from franchised stores (Note 5)	**¥116,478**	¥111,729	**$ 869,239**
Net sales	**67,822**	54,122	**506,134**
Other operating revenues (Notes 4 and 5)	**11,305**	10,248	**84,366**
Total operating revenues	**195,605**	176,099	**1,459,739**
Operating expenses:			
Cost of sales	**50,788**	38,135	**379,015**
Selling, general and administrative expenses (Notes 7, 10 and 13)	**121,061**	113,841	**903,440**
Total operating expenses	**171,849**	151,976	**1,282,455**
Operating income	**23,756**	24,123	**177,284**
Other income (expenses):			
Interest and dividends	**505**	525	**3,769**
Equity in earnings of associated companies	**207**	280	**1,545**
Gain on sales of marketable and investment securities–net	**188**	2,567	**1,403**
Gain on sales of investment in consolidated subsidiary	**369**		**2,754**
Loss on devaluation of treasury stock and marketable and investment securities	**(538)**	(3,100)	**(4,015)**
Loss on disposals/sales of property and store facilities–net	**(4,455)**	(2,088)	**(33,246)**
Loss on cancellations of lease contracts	**(3,165)**	(1,819)	**(23,619)**
Provision for employees' retirement benefits (Notes 2-h, 3 and 10)	**(210)**	(4,856)	**(1,567)**
Other–net	**(179)**	(1,048)	**(1,338)**
Other expenses–net	**(7,278)**	(9,539)	**(54,314)**
Income before income taxes and minority interests	**16,478**	14,584	**122,970**
Income taxes (Note 12)**:**			
Current	**8,885**	8,257	**66,306**
Deferred	**(1,258)**	(1,711)	**(9,388)**
Total income taxes	**7,627**	6,546	**56,918**
Minority interest in net income (loss)	**302**	(74)	**2,253**
Net income	**¥ 8,549**	¥ 8,112	**$ 63,799**
	Yen		U.S. Dollars
Per share of common stock:			
Net income	**¥88.3**	¥83.5	**$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

Years ended February 28, 2002 and 2001

	Thousands	Millions of Yen					
	Issued number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Unrealized gain (loss) on available-for-sale securities	Foreign currency translation adjustments	Treasury stock
Balance, March 1, 2000	97,683	¥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)			
Increase in treasury stock–net							(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	16,659	17,057	94,179	26		(1,731)
Net income				**8,549**			
Cash dividends, ¥38 per share				**(3,681)**			
Bonuses to directors and corporate auditors				**(69)**			
Net decrease in unrealized loss on available-for-sale securities (Note 2-d)					**(46)**		
Adjustment resulting from application of revised accounting standard for foreign currency transactions (Note 2-m)						**¥(476)**	
Decrease in treasury stock–net							**43**
Balance, February 28, 2002	**97,683**	**¥16,659**	**¥17,057**	**¥98,978**	**¥(20)**	**¥(476)**	**¥(1,688)**

	Thousands of U.S. Dollars (Note 1)					
	Common stock	Additional paid-in capital	Retained earnings	Unrealized gain (loss) on available-for-sale securities	Foreign currency translation adjustments	Treasury stock
Balance, February 28, 2001	$124,321	$127,291	$702,828	$194		$(12,918)
Net income			**63,799**			
Cash dividends, $0.28 per share			**(27,470)**			
Bonuses to directors and corporate auditors			**(515)**			
Net decrease in unrealized loss on available-for-sale securities (Note 2-d)				**(343)**		
Adjustment resulting from application of revised accounting standard for foreign currency transactions (Note 2-m)					**$(3,553)**	
Decrease in treasury stock–net						**321**
Balance, February 28, 2002	**$124,321**	**$127,291**	**$738,642**	**$(149)**	**$(3,553)**	**$(12,597)**

See notes to consolidated financial statements.

FamilyMart Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows

Years ended February 28, 2002 and 2001

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2002	2001	**2002**
Operating activities:			
Income before income taxes and minority interests	**¥16,478**	¥14,584	**$122,970**
Adjustments for:			
Income taxes–paid	**(5,863)**	(15,041)	**(43,754)**
Depreciation and amortization	**14,706**	12,059	**109,746**
Allowance for doubtful accounts	**699**	470	**5,216**
Provision for retirement benefits–employees	**49**	4,814	**366**
Provision for retirement benefits–directors and corporate auditors	**(254)**	(163)	**(1,896)**
Equity in earnings of associated companies	**(207)**	(280)	**(1,545)**
Loss on devaluation/sale of treasury stock, marketable and investment securities–net	**350**	545	**2,612**
Gain on sales of investment in consolidated subsidiary	**(369)**		**(2,754)**
Loss on disposal/sale of property and store facilities–net	**4,455**	2,088	**33,246**
Loss on cancellation of lease contracts	**2,023**	1,220	**15,097**
Bonuses to directors and corporate auditors	**(69)**	(94)	**(515)**
Changes in assets and liabilities:			
Increase in due from/to franchised store–net	**(449)**	(2,015)	**(3,350)**
Increase in merchandise and supplies	**(1,235)**	(1,264)	**(9,215)**
Increase in payables–trade	**1,933**	4,432	**14,425**
Increase in utility payments received	**1,622**	2,762	**12,104**
Other–net	**350**	(812)	**2,613**
Total adjustments	**17,741**	8,721	**132,396**
Net cash provided by operating activities	**34,219**	23,305	**255,366**
Investing activities:			
Decrease (increase) in time deposits–net	**3,096**	(2,841)	**23,104**
Purchases of marketable and investment securities	**(3,100)**	(9,592)	**(23,134)**
Proceeds from sales of marketable and investment securities	**297**	4,686	**2,216**
Proceeds from sales of investment in consolidated subsidiary	**796**		**5,940**
Purchases of property and store facilities, software, goodwill and other intangible assets	**(23,218)**	(17,105)	**(173,269)**
Proceeds from sales of property and store facilities, software, goodwill and other intangible assets	**145**	1,254	**1,082**
Payments of leasehold deposits	**(8,632)**	(9,106)	**(64,418)**
Refunds of leasehold deposits	**3,458**	1,963	**25,806**
Receipts of leasehold deposits received from franchised stores	**1,917**	1,269	**14,306**
Refunds of leasehold deposits received from franchised stores	**(859)**	(732)	**(6,410)**
Payments for acquisition of business	**(2,905)**		**(21,679)**
Other–net	**193**	(776)	**1,441**
Net cash used in investing activities	**(28,812)**	(30,980)	**(215,015)**
Financing activities:			
(Decrease) increase in short-term bank loans–net	**(815)**	821	**(6,082)**
(Purchase)/sales of treasury stock–net	**52**	(3,488)	**388**
Contribution from minority interest shareholders	**100**	198	**746**
Dividends paid	**(3,675)**	(3,691)	**(27,425)**
Net cash used in financing activities	**(4,338)**	(6,160)	**(32,373)**
Foreign currency translation adjustments on cash and cash equivalents	**216**	121	**1,612**
Net increase (decrease) in cash and cash equivalents	**1,285**	(13,714)	**9,590**
Cash and cash equivalents of newly consolidated subsidiaries, beginning of year		2,101	
Cash and cash equivalents of subsidiaries excluded from consolidation	**(440)**		**(3,284)**
Cash and cash equivalents, beginning of year	**45,806**	57,419	**341,836**
Cash and cash equivalents, end of year	**¥46,651**	¥45,806	**$348,142**

Noncash financial activities:			
Assets increased by consolidation of subsidiaries previously accounted for by the equity method		¥12,481	
Liabilities increased by consolidation of subsidiaries previously accounted for by the equity method		7,628	

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended February 28, 2002 and 2001

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.

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

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 ¥134 to $1, the approximate rate of exchange at February 28, 2002. 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, 2002, include the accounts of the Company and its six (seven in 2001) significant subsidiaries (together, the "Group"). Kouyou Co., Ltd., a wholly owned and consolidated subsidiary was excluded from consolidation as the subsidiary has been in liquidation since February 28, 2002 and immaterial for the consolidation. Effective March 1, 2000, the Group changed its consolidation scope of subsidiaries and associated companies from the application on the ownership concept to the control or influence concept in accordance with the new accounting standard for consolidation. 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.

Investments in seven (six in 2001) associated companies are accounted for by the equity method. Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The excess of the cost of the Company's investments in consolidated subsidiaries and associated companies accounted for by the equity method over the fair value of their net assets acquired at the respective date of acquisition is included in goodwill and 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 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, 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***—Prior to March 1, 2001, marketable and investment securities listed on stock exchanges were mainly stated at the lower of cost, determined by the moving-average method, or market. Effective March 1, 2001, the Group adopted a new accounting standard for financial instruments, including marketable and investment securities. The standard requires all applicable securities to be classified and accounted for, depending on management's intent, as follows: (1) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost and (2) available-for-sale securities, other than (1), are reported at fair value, with unrealized gains and losses, net of applicable deferred taxes, reported in a separate component of shareholders' equity.

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

The effect of adopting the new standard was to increase income before income taxes and minority interests by ¥79 million ($590 thousand). Upon review of management's intention on holding such securities, marketable securities classified as current assets decreased by ¥1,744 million ($13,015 thousand) and investment securities increased by the same amount at March 1, 2001.

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

f. ***Software***—Capitalized software is stated at cost less accumulated amortization, which is calculated by the straight-line method over the estimated useful lives (5 years).

g. *Goodwill*—Goodwill is stated at cost less accumulated amortization, which is calculated by the straight-line method over the estimated useful lives (5 years).

h. *Retirement and Pension Plans*—Prior to March 1, 2001, 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).

Effective March 1, 2001, the Company and its consolidated domestic subsidiaries adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date.

The full amount of the transitional obligation upon the adoption of the new accounting standard of ¥210 million ($1,567 thousand), determined as of the beginning of year, is charged to income and presented as other expense in the consolidated statement of income. As a result, net periodic benefit costs as compared with the prior method, increased by ¥210 million ($1,567 thousand) and income before income taxes and minority interests decreased by the same amount (see Note 10).

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 the Japanese accounting standard for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

j. *Income Taxes*—Effective March 1, 2000, the Company and its consolidated domestic subsidiaries adopted the new accounting standard for interperiod 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 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 are reflected in the consolidated financial statements for the following year upon shareholders' approval.

l. *Foreign Currency Transactions*—Prior to March 1, 2001, short-term receivables and payables denominated in foreign currencies were translated into Japanese yen at the current exchange rates at each balance sheet date, while long-term receivables and payables denominated in foreign currencies were translated at historical rates.

Effective March 1, 2001, the Company and its consolidated domestic subsidiaries adopted a revised accounting standard for foreign currency transactions. In accordance with the revised standard, all short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income.

The effect of this change on income is immaterial.

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

Prior to March 1, 2001, differences arising from such translation were shown as "Foreign currency translation adjustments" as either all assets or liabilities in the consolidated balance sheet. Effective March 1, 2001, such differences are shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity in accordance with the revised accounting standard for foreign currency transactions.

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

n. *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, retroactively adjusted for stock splits. The weighted average number of common shares used in the computation was 96,868,092 shares for 2002 and 97,107,274 shares for 2001.

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

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

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 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.

4. Related Parties and Organization

The Company's main shareholder is Family Corporation Inc., which owns 30.65% of the total outstanding shares of the Company at February 28, 2002. 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, 2002, are as follows:

Name of Franchisee	Area	The Company's Ownership Percentage in Franchisee
Subsidiaries:		
Taiwan FamilyMart Co., Ltd.	Taiwan	40.27%
Siam FamilyMart Co., Ltd.	Thailand	70.00
Associated companies:		
Okinawa FamilyMart Co., Ltd.	Okinawa, Japan	48.98
Matsuhaya FamilyMart Co., Ltd.	Nagasaki and minor part of Saga, Japan	40.00
Minami Kyusyu FamilyMart Co., Ltd.	Kagoshima and Miyazaki, Japan	49.00
Bokwang FamilyMart Co. Ltd.	Korea	21.24

SFM HOLDING CO., LTD., 87.10% owned by the Company, is a holding company of Siam FamilyMart Co., Ltd. and MBE Japan, Inc., 82.76% 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.

Famima Credit Corporation (formerly IFJ Co., Ltd.), 35% owned subsidiary of the Company, operates financial services.

Kouyou Trading Co., Ltd., a wholly owned subsidiary of the Company, leases various equipment to "FamilyMart" stores.

Family Chef Co., Ltd., 30% 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 and which shall be spent for services such as research, training and preparations of store opening provided by the Company. In addition the franchisee shall advance another ¥1,500,000 to the Company as a deposit for purchases and it is credited to "Payables: Due to franchised stores." accordingly.

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

Each franchised store shall make a remittance of cash from sales to the Company on a daily basis. Furthermore, the franchised stores collect utility payments from customers on behalf of utility service providers, such as electric power companies and telecommunication companies, which 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, 2002 and 2001, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Current:			
Marketable equity securities		¥1,744	
Trust fund investments	**¥ 3,164**		**$23,612**
Total	**¥ 3,164**	¥1,744	**$23,612**
Non-current:			
Marketable equity securities	**¥ 2,663**	¥1,498	**$19,873**
Government and corporate bonds	**7,000**	7,000	**52,239**
Non-marketable equity securities	**355**	362	**2,649**
Total	**¥10,018**	¥8,860	**$74,761**

Information regarding each category of the securities classified as available-for-sale and held-to-maturity as of February 28, 2002, was as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥2,709	¥104	¥150	¥2,663
Debt securities	3,164			3,164
Held-to-maturity	7,000		95	6,905

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	$20,216	$776	$1,119	$19,873
Debt securities	23,612			23,612
Held-to-maturity	52,239		709	51,530

Available-for-sale securities non-marketable as of February 28, 2002, were as follows:

	Carrying Amount	
	Millions of Yen	Thousands of U.S. Dollars
Equity securities	¥355	$2,649

The amounts of redemption of debt securities classified as held-to-maturity are scheduled as of February 28, 2002, are as follows:

	Held to Maturity	
	Millions of Yen	Thousands of U.S. Dollars
Due after one year through five years	¥7,000	$52,239

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

	Millions of Yen		
	Carrying Amount	Aggregate Market Value	Unrealized Gain (Loss)
Current	¥1,744	¥1,836	¥92
Non-current	1,498	1,486	(12)
Total	¥3,242	¥3,322	¥80

7. Goodwill

Goodwill as of February 28, 2002 and 2001, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Consolidation goodwill	**¥ 370**	¥ 742	**$ 2,761**
Acquisition goodwill	**1,884**	665	**14,060**
Total	**¥2,254**	¥1,407	**$16,821**

Amortization charged to income for the years ended February 28, 2002 and 2001, was ¥1,010 million ($7,537 thousand) and ¥521 million, respectively.

8. Assets Pledged as Collateral

As of February 28, 2002, leasehold deposits of ¥421 million ($3,142 thousand) were pledged to vendors as collateral for payables–trade for franchised and Company-owned stores of ¥373 million ($2,784 thousand) and payables–other of ¥21 million ($157 thousand).

9. Short-Term and Long-Term Bank Loans

Short-term bank loans as of February 28, 2002 and 2001, consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans were 3% and ranged from 1.018% to 4.250% as of February 28, 2002 and 2001, respectively.

Long-term bank loans as of February 28, 2001, consisted of the following:

	Millions of Yen
	2001
Unsecured loans from banks due in 2002 with interest rates of 4.5%	¥206

10. Retirement and Pension Plans

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

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of either a lump-sum severance payment from the Company and its certain consolidated subsidiaries or annuity payments from a trustee operating the fund.

Effective March 1, 2001, the Company and its consolidated domestic subsidiaries adopted the new accounting standard for employees' retirement benefits.

The liability for employees' retirement benefits to be provided as of February 28, 2002, was computed as follows:

	Millions of Yen	Thousands of U.S. Dollars
Projected benefit obligation	¥16,823	$125,545
Fair value of plan assets	(8,088)	(60,358)
Unrecognized actuarial loss	(3,653)	(27,261)
Unrecognized transitional obligation	(39)	(292)
Net liability	¥ 5,043	$ 37,634

The components of net periodic benefit costs for the year ended February 28, 2002, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Service cost	¥ 804	$6,000
Interest cost	455	3,396
Expected return on plan assets	(267)	(1,993)
Recognized actuarial loss	1	7
Amortization of transitional obligation	214	1,597
Net periodic benefit costs	¥1,207	$9,007

Assumptions used for the year ended February 28, 2002, were as follows:

Discount rate	Primarily 2.7%
Expected rate of return on plan assets	Primarily 3.5%
Recognition period of actuarial gain/loss	Primarily 19 years

Amortization period of transitional obligation

The Company and domestic consolidated subsidiaries–fully charged to income in 2002. Foreign consolidated subsidiary–15 years

Total charges to income for retirement benefits for employees were ¥5,565 million for the year ended February 28, 2001.

11. Shareholders' Equity

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which certain amendments became effective October 1, 2001. Prior to October 1, 2001, the Code required 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 were credited to additional paid-in capital. Effective October 1, 2001, the Code was revised and common stock par values were abolished resulting in all shares being recorded with no par value.

Under the Code, companies may issue new common shares to existing shareholders without consideration as a stock split pursuant to a resolution of the Board of Directors. Prior to October 1, 2001, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the stock split could not be less than ¥50 equating to par value. The revised Code abolished this restriction.

Prior to October 1, 2001, the Code also provided that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other cash payments which are made as an appropriation of retained earnings applicable to each fiscal period shall be designated as a legal reserve to the extent that such reserve equals 25% of stated capital. Effective October 1, 2001, the revised Code allows for such appropriations to be designated as a legal reserve to the extent that the total additional paid-in capital and legal reserve equals 25% of stated capital. The amount of total additional paid-in capital and legal reserve which exceeds 25% of stated capital can be transferred to retained earnings by resolution of the shareholders, which may be available for dividends. The Company's legal reserve amount, which is included in retained earnings, totals ¥2,668 million ($19,910 thousand) and ¥2,477 million as of February 28, 2002 and 2001, respectively.

Prior to October 1, 2001, the Code imposed certain restrictions on the redemption and use of treasury stock. Effective October 1, 2001, the Code abolished these restrictions allowing companies to redeem treasury stock by a resolution at the annual general shareholders meeting and to dispose of such treasury stock by resolution of the Board of Directors held after March 31, 2002. The redeemed amount of treasury stock cannot exceed unappropriated retained earnings plus additional paid-in capital and legal reserve.

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, 2002, includes treasury stock purchased for the purpose of granting stock options to directors and key employees. As of February 28, 2002, 806,000 shares have been granted for stock options and are exercisable from September 1, 2001 to August 31, 2004.

The Code permits companies to transfer a portion of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Code also permits companies to transfer a portion of unappropriated retained earnings, available for dividends, to stated capital by resolution of the shareholders.

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.

Unappropriated retained earnings recorded on the Company's books which are available for future dividends subject to the approval of the shareholders and legal reserve requirements as of February 28, 2002 and 2001 were ¥98,978 million ($738,642 thousand) and ¥93,241 million, respectively.

12. Income Taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 42% for the years ended February 28, 2002 and 2001.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities as of February 28, 2002 and 2001, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Deferred tax assets:			
Allowance for doubtful accounts	¥ 611	¥ 310	$ 4,560
Accrued bonuses	254	147	1,896
Provision for retirement benefits–employees	2,023	2,046	15,097
Provision for retirement benefits–directors and corporate auditors	70	176	522
Depreciation	228	152	1,701
Loss on disposals of property and store facilities and cancellations of lease contracts	359	180	2,679
Enterprise tax payable	427	148	3,187
Tax loss carryforwards	2,114	1,324	15,776
Other	844	260	6,299
Less valuation allowance	(2,213)	(1,329)	(16,516)
Deferred tax assets	4,717	3,414	35,201
Deferred tax liabilities:			
Special reserve for tax purpose depreciation	189	207	1,410
Other	83	47	620
Deferred tax liabilities	272	254	2,030
Net deferred tax assets	¥4,445	¥3,160	$33,171

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income for the years ended February 28, 2002 and 2001, is as follows:

	2002	2001
Normal effective statutory tax rate	42%	42%
Inhabitants taxes	1	1
Refund of corporate taxes		(1)
Expiration of tax loss carryforwards	5	4
Other–net	(2)	(1)
Actual effective tax rate	46%	45%

As of February 28, 2002, certain subsidiaries have tax loss carryforwards aggregating approximately ¥5,328 million ($39,761 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
2003	¥ 136	$ 1,014
2004	427	3,187
2005	678	5,060
2006	1,968	14,687
2007	2,119	15,813
Total	¥5,328	$39,761

13. Leases

The Group leases certain furniture, software and other assets.

Total rental expenses for the years ended February 28, 2002 and 2001, were ¥7,738 million ($57,746 thousand) and ¥6,710 million, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance lease, depreciation expense, interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended February 28, 2002 and 2001, was as follows:

	February 28, 2002		
	Millions of Yen		
	Furniture and Fixtures	Software	Total
Acquisition cost	¥46,297	¥974	¥47,271
Accumulated depreciation	(21,345)	(215)	(21,560)
Net leased property	¥24,952	¥759	¥25,711

	February 28, 2002		
	Thousands of U.S. Dollars		
	Furniture and Fixtures	Software	Total
Acquisition cost	$345,500	$7,269	$352,769
Accumulated depreciation	(159,291)	(1,605)	(160,896)
Net leased property	$186,209	$5,664	$191,873

	February 28, 2001		
	Millions of Yen		
	Furniture and Fixtures	Software	Total
Acquisition cost	¥40,699	¥597	¥41,296
Accumulated depreciation	(18,517)	(32)	(18,549)
Net leased property	¥22,182	¥565	¥22,747

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Due within one year	¥ 6,564	¥ 5,574	$ 48,986
Due after one year	19,967	18,059	149,007
Total	¥26,531	¥23,633	$197,993

Depreciation expense and interest expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Depreciation expense	¥6,667	¥5,575	$49,754
Interest expense	845	865	6,306
Total	¥7,512	¥6,440	$56,060

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

The minimum rental commitments under noncancelable operating leases as of February 28, 2002, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥28	$209
Due after one year	15	112
Total	¥43	$321

14. Related Party Transactions

Transactions with related parties for the years ended February 28, 2002 and 2001, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Family Corporation Inc.:			
Purchases	**¥ 48,177**	¥69,459	**$359,530**
Payable–trade for franchised and Company-owned stores		4,740	
Nishino Trading Co., Ltd.:			
Purchases	**102,185**	71,243	**762,575**
Payable–trade for franchised and Company-owned stores	**10,170**	5,517	**75,896**

Nishino Trading Co., Ltd. took over the merchandise supplying business for “FamilyMart” stores of Family Corporation Inc. during the year ended February 28, 2002.

15. Subsequent Events

At the general shareholders meeting held on May 29, 2002, the Company’s shareholders approved the following appropriations of retained earnings and the purchase of treasury stock:

a. Appropriation of retained earnings

Appropriation of retained earnings for the year ended February 28, 2002, was as follows:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥19 ($0.14) per share	¥1,841	$13,739
Bonuses to directors and corporate auditors	50	373

b. Purchase of treasury stock

The Company is authorized to purchase up to 3,700 thousand shares of the Company’s common stock with the threshold amount of ¥10,000 million.

16. Segment Information

Information about industry segments, geographic segments and operating revenues from foreign customers of the Group for the years ended February 28, 2002 and 2001, 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 years ended February 28, 2002 and 2001, are summarized as follows:

	Millions of Yen			
	2002			
	Japan	Asia	Eliminations/ Corporate	Consolidated
Operating revenues from outside the Group	**¥166,794**	**¥28,811**		**¥195,605**
Interarea transfers	**443**	**84**	**¥ (527)**	
Total operating revenues	**167,237**	**28,895**	**(527)**	**195,605**
Operating expenses	**138,697**	**28,827**	**4,325**	**171,849**
Operating income (loss)	**¥ 28,540**	**¥ 68**	**¥ (4,852)**	**¥ 23,756**
Assets	**¥181,332**	**¥21,720**	**¥39,465**	**¥242,517**

	Thousands of U.S. Dollars			
	2002			
	Japan	Asia	Eliminations/ Corporate	Consolidated
Operating revenues from outside the Group	**$1,244,731**	**$215,008**		**$1,459,739**
Interarea transfers	**3,306**	**627**	**$ (3,933)**	
Total operating revenues	**1,248,037**	**215,635**	**(3,933)**	**1,459,739**
Operating expenses	**1,035,052**	**215,127**	**32,276**	**1,282,455**
Operating income (loss)	**$ 212,985**	**$ 508**	**$ (36,209)**	**$ 177,284**
Assets	**$1,353,224**	**$162,090**	**$294,514**	**$1,809,828**

	Millions of Yen			
	2001			
	Japan	Asia	Eliminations/ Corporate	Consolidated
Operating revenues from outside the Group	¥149,768	¥26,331		¥176,099
Interarea transfers	289		¥ (289)	
Total operating revenues	150,057	26,331	(289)	176,099
Operating expenses	119,899	26,487	5,590	151,976
Operating income (loss)	¥ 30,158	¥ (156)	¥ (5,879)	¥ 24,123
Assets	¥179,179	¥17,818	¥33,886	¥230,883

(3) Operating Revenues from Foreign Customers

Operating revenues from foreign customers for the years ended February 28, 2002 and 2001, amounted to ¥28,949 million ($216,037 thousand) and ¥26,331 million, respectively.

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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, 2002 and 2001, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, 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, 2002 and 2001, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan consistently applied during the period except for the change effective March 1, 2000, with which we concur, in the accounting for retirement benefits to employees as discussed in Note 3.

As discussed in Note 2, effective March 1, 2001, the consolidated financial statements have been prepared in accordance with new accounting standards for employees' retirement benefits and financial instruments and a revised accounting standard for foreign currency transactions. Also, as discussed 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 29, 2002

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Incorporated
September 1, 1981

Paid-in Capital
¥16,659 million

Authorized Shares
250,000,000

Outstanding Shares
97,683,133

Number of Shareholders
28,088

Number of Full-Time Employees
2,090

Stock Exchange Listing
Tokyo stock exchange

Domestic Area Franchisees
Okinawa FamilyMart Co., Ltd.
Matsuhaya FamilyMart Co., Ltd.
Minami Kyushu FamilyMart Co., Ltd.

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

(As of February 28, 2002)