FamilyMart

Annual Report 2003

Profile

The FamilyMart Group's core business is the operation of convenience stores through a network of 9,123 stores* in Japan and other East Asian countries, around which it engages in business in the sphere of e-commerce and a range of other fields. The FamilyMart corporate philosophy is that of "Co-Growing": building beneficial relations with its customers, franchised stores, business partners, employees, and the local communities it serves, and growing and developing in tandem with them. Inspired by this, it aims constantly to be an innovative corporate group that is the most advanced in its industry. It will continue to strive for industry leadership in terms of quality, and to dedicate itself to bringing comfort and convenience to people's daily lives.

* At end of February 2003

Contents

Disclaimer on forward-looking statements

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

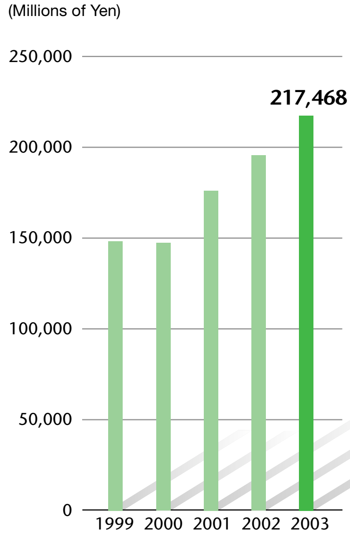
Consolidated Financial Highlights

Years ended February 28, 2003 and 2002

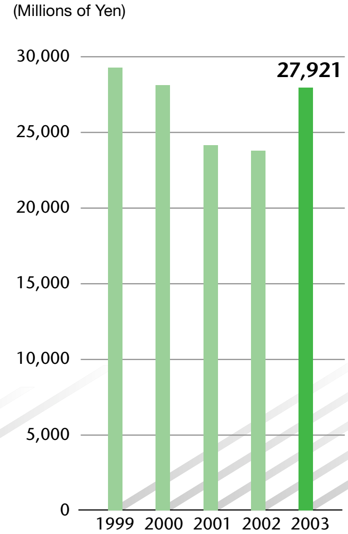
	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	**2003**
Results of Operations:			
Total operating revenues	**¥217,468**	¥195,605	**$1,842,949**
Operating income	**27,921**	23,756	**236,619**
Net income	**12,880**	8,549	**109,153**
Net income per share (in yen and U.S. dollars)	**133.0**	88.3	**1.1**
Cash dividends per share (in yen and U.S. dollars)	**38.0**	38.0	**0.3**
Financial Position:			
Total assets	**¥250,609**	¥242,517	**$2,123,805**
Total shareholders' equity	**137,636**	130,510	**1,166,407**
Other Data:			
Number of stores (Note 2)	**9,123**	8,184	
Number of shareholders	**24,263**	28,088	
Number of full-time employees	**4,466**	4,205	

Notes: 1. Conversion into U.S. dollars has been made at the exchange rate of ¥118=U.S.$1, the rate prevailing on February 28, 2003.
2. Number of stores includes domestic and overseas area franchised company's stores.

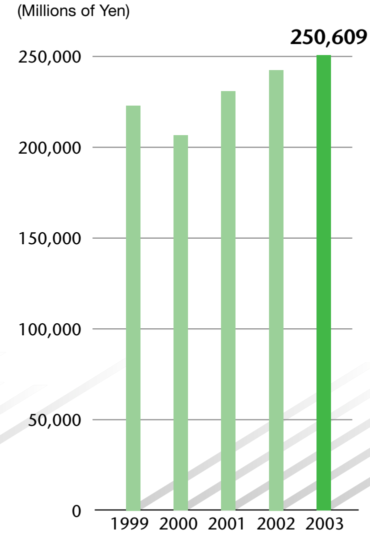
Total Operating Revenues
(Millions of Yen)



Operating Income
(Millions of Yen)



Total Assets
(Millions of Yen)



Message from the Management

We are committed to achieving growth by accelerating the revamping of our corporate structure, ensuring painstaking customer orientation, and further enhancing support for franchised stores.

We are pleased to report to our shareholders and other stakeholders that in the fiscal year ended February 2003, FamilyMart achieved increases in both revenue and profit. Consolidated total operating revenues were up by 11.2% from the preceding year, at ¥217,468 million (US$1,843 million), and net income surged by 50.7%, to ¥12,880 million (US$109 million).

The operating environment remained harsh during the year, impacted by the persistent deflationary trend of the economy and the sluggishness of consumer spending. In spite of this we achieved an improvement in average daily sales per store and daily sales by new stores showed a year-on-year rise for the second year in succession. We attribute these successes to the revamping of our corporate structure that we have been implementing for some time, and in particular to the steady progress made in reshaping the attitudes and perceptions of franchised stores and employees. Among group companies famima.com, which handles E-Retail services, is steadily improving its performance, while overseas Taiwan FamilyMart and Bokwang FamilyMart in South Korea have made substantial progress in their performance.

The economic environment in fiscal 2004, the current term ending in February 2004, is expected to be even more difficult, but we take a positive view of this situation, believing that conditions such as these as provide growth opportunities. We will be throwing our full energies into boosting performance by striving to mold stores from the perspective of our customers, to assure growth by all our franchised stores, and to further refine our capabilities as the franchisor.

Chairman, Representative Director
and Chief Executive Officer

President, Representative Director
and Chief Operating Officer

Highlights of the year

Average daily sales per store and daily sales by new stores both rise

Average daily sales per store (all stores) rose by ¥3,000, to ¥474,000. The daily sales generated by new stores rose substantially year-on-year for the second successive year, up ¥11,000, at a record ¥444,000.

Actively opening stores in new markets

In pursuit of greater customer convenience, the Company is bucking convention as regards the locations for its new stores. During fiscal 2003, the term under review, it opened stores in such new places as expressway service areas, within hospitals and university campuses, and police headquarters.

501 high-quality stores newly opened

Giving priority to the three principal metropolitan areas of Tokyo, Osaka, and Nagoya, where it already operates stores, FamilyMart opened 501 high-quality stores and at the same time closed 359. These moves, together with the store openings in new markets referred to above, are helping to develop a more profitable store network.

Reorganization into 16-district structure

With effect from March 2003, the business structure under which the network had been divided into 9 regions was reorganized into 16 districts, creating a flat organizational structure. The chief executive of each district is linked directly with the Company's management.

Stimulating personnel management through the promotion of capable younger personnel

There were also changes in the sphere of personnel management. The term of office of directors was shortened from two years to one year. In addition, young managers in their thirties and early forties have been promoted to join the ranks of the newly appointed executive officers, and a large number of young managers capable of reforming the company have been selected as district chief executives.

Original delicatessen foods and other merchandise well received by consumers

FamilyMart has gained an excellent reputation for its sale of original products. These include merchandise developed jointly with a renowned Japanese food manufacturer and under a tie-up with a popular television program, a boxed lunch developed by a famous chef, and "supporters' boxed lunches" targeted at fans of the Japanese soccer team.

Sale of goods related to status of supporting company of the Japanese soccer team

At the FIFA World Cup co-hosted by Japan and South Korea, FamilyMart was a supporting company of the Japanese team. In this capacity it had the exclusive right among convenience store operators to sell goods officially endorsed by the Japan Football Association, and ran commercials and conducted campaigns and other activities in support of the Japanese team. The temporary store operated for visitors to the World Cup games achieved record sales.

Nationwide expansion of handling of the JUPI Card since November 2002

The JUPI Card is a credit card that enables people to shop and pay public-utility bills at FamilyMart stores on a no-cash, no-signature basis, and also gives reward points. To enhance its convenience still further, the Company is now increasing the number of financial institutions that accept the card for obtaining cash advances.

With energy, courage, and vision

To O
Shar
Inve

Constantly reforming as a chain that adopts the customer's viewpoint, and achieving sustained growth

Progress with the revamping of the corporate structure, and raising of average daily sales per store

Q Please give us your evaluation of the term under review.

A

During the year, we stepped up still further the program of revamping the corporate structure that began in the previous term. To achieve reform, the most important component is the reform of employee attitudes and perceptions. To achieve this I have held special "president's tutorials" throughout Japan, where I have been able to talk face-to-face with the staff who are right in the front line of marketing and development. Also, by thorough implementation of management based on monthly budgets and results, management methods have been enhanced, and I have seen the emergence of a tremendous spirit of tenacity toward the achievement of profit plans.

At the same time we have implemented a major structural reform, closing as many as 862 stores over the past two years, and have strengthened communication with franchised stores. This has brought about a steady change in the perceptions of store management at those stores.

In my view, this cumulative series of structural reforms led to the increase in revenue and profit that we achieved.

Further strengthening of store competitiveness by improving capabilities as franchisor

Q Please outline the priority measures in your basic strategy for the current term.

A

Ever since I became president I have consistently stressed the importance of thorough adherence to the fundamentals of retailing, and to the motto "the customer is always right." In line with that, the most important task for fiscal 2004 is to strengthen the competitiveness of individual stores, the keys to which are maintaining our emphasis on service, quality and cleanliness (SQ&C), and to increase the accuracy of ordering. To do that we will go on improving the way we function as the franchisor, strengthening our system of guidance and direction so as to fine-tune it to the characteristics of each individual store: its location, daily sales, the state of its operations, and so on.

As for company-wide measures we are establishing an order of priorities, clarifying our achievement criteria, and following up the degree to which they are attained and the pace of doing so. As part of that we have started a "weekly action cycle." What this entails is that at strategy meetings held every week, the district senior managers jointly identify what measures to take, take them back to their districts, and hold confirmatory meetings with all district staff: the measures are then implemented exhaustively. At the same time, the state of implementation of the previous week's measures is examined based on the numerical data, and feedback is sent to the strategy meeting. Through the continuous operation of these cycles, we ensure that head-office strategies are spread thoroughly among all franchised stores.

To O
Shar
Inve

Thorough guidance for the improvement of store management, and achieving greater ordering accuracy

Q

What measures are you taking to ensure exhaustive SQ&C and to increase the accuracy of ordering?

A

Exhaustive SQ&C is a prerequisite for creating stores that win the loyalty of customers. In January and February 2003 we arranged for outside experts to conduct an inspection of the state of SQ&C at all our stores, and in March we fed back the results to all our franchise owners.

All supervisors were directed to draw up schedules regarding the issues that were identified at each store, in order to make improvements rapidly. To ensure these were carried out thoroughly, the improvement measures for each store and each district have a structure for conducting total execution and verification. We will conduct these inspections regularly in the future, so as to raise the level of store management. In the rare event that improvements are not achieved, staff from our Operations Division, established in fiscal 2004, will go to the store concerned and work relentlessly until they are.

As for your second point – increasing the accuracy of ordering – in January 2003 we began a system of transmitting information electronically to stores. specifically, to the store controllers and the handheld Store Activation Terminals (SATs) within stores. This electronic transmission makes it possible to quickly identify merchandise that is not moving and to introduce new merchandise smoothly, so we do not lose sales opportunities and can create display shelves that have an appealing freshness. We have also completed the introduction at all stores of our POS system incorporating sell-by date management. This is a support system for our management of the sell-by dates of merchandise, and enables us to provide customers with healthy, safe, and fresh merchandise at all times.

Strengthening merchandising by three types of marketing

Q

Would you comment on your measures to enhance merchandising, and efficiency improvements in goods distribution?

A

In our product lineup, we will cater more broadly than ever before to the wider variety of customers who visit our stores and to their increasingly diverse requirements as regards price, value, and preferences. To be more specific, we will strengthen our development of value-added merchandise aligned toward price, taste, and appearance to suit three distinct categories of marketing: “generation marketing,” which takes the wide variation in customers’ age-groups into consideration; “price marketing,” through which we shape a product lineup that caters to a wide array of needs, ranging from goods in which price is the prime consideration at one end, to high-value-added goods at the other; and “regional marketing,” through which we cater to the particular needs of individual regions throughout Japan.

Also, as a supporting company of Japanese soccer team, FamilyMart will continue to sell original goods and other products, particularly when the team is scheduled to play matches. In this way we aim to make the large number of soccer fans into loyal customers at all times.

As for goods distribution, primarily through demand-chain management (DCM) we are achieving success in its overall optimization and in reducing costs. During fiscal 2004 we will be strengthening the cooperative structure with our principal business partners by sharing sales and inventory information with them, and this will also have a positive impact on product development. I project that through the use of DCM in this way, we will reduce costs still further.

Emphasizing the development of high-quality stores, and aiming for 10,000 stores in East Asia

Q What is your store-development policy, including your overseas strategy, and the situation at group companies?

A

In fiscal 2004 we will continue with the development of high-quality stores, giving priority to the three major metropolitan areas. Since March 2003 we have been steadily re-opening stores acquired from Keiji Seicomart earlier in the year. Taking advantage of our know-how in the selection of sites, we have made rigorous selections of the best stores to take over. As a result, each of them has got off to an excellent start by generating average daily sales of more than ¥500,000.

We have also been expanding our store openings in new markets such as office buildings and university campuses, and we intend to proceed actively in that direction. As a result, we plan to open 550 stores in fiscal 2004, which are expected to generate average daily sales of ¥476,000. We also plan to close 250 stores. Total sales at all FamilyMart Group stores, including domestic and overseas area franchises that are either consolidated subsidiaries or equity-method affiliates were up by 5.8% from the previous term, at ¥1.15 trillion.

Overseas, the FamilyMart Group companies in Taiwan and South Korea are performing well. We intend to step up store openings there, placing emphasis on expanding management scale and increasing profitability. As for launches into new markets, we are currently drawing up a store-opening plan targeted at China. Through these measures we project that by the end of February 2004 we will have a network of 10,000 stores in the East Asian region.

Among Group companies, famima.com has been improving its performance on target, and is projected to move into full-year profit in fiscal 2004.

Enhancing business performance by a hands-on approach and a customer-first philosophy, aiming to maximize shareholder value

Q Do you have a message for shareholders as regards your results forecast and vision for fiscal 2004?

A For both franchised stores and the Company to maintain customer loyalty and growth, I am determined to continue strengthening communication with our people at store level, and reforming FamilyMart into a chain that always understands the customer's perspective and is truly No. 1 in terms of quality.

Our forecasts of consolidated results for fiscal 2004 are for total operating revenues up by 5.3% from the preceding year, at ¥229.0 billion, and a 6.4% increase in net income, to ¥13.7 billion.

In October 2002 we established the Compliance Council to oversee the company-wide compliance structure. This has been monitoring the legality and propriety of our business activities, and also promoting an education program for employees.

In spite of the harsh operating environment, my feeling is that this is just the time for us to make retail shopping a happy experience for both sides. Armed with my credo of always having energy, courage, and a vision of the future, I will devote my full energy to increasing the capacity for growth and the profitability of all of our franchised stores. I am also dedicated to maximizing shareholder value by establishing a solid structure for ongoing revenue and profit growth.

I want to thank all of our shareholders and ask them for their ongoing understanding of and support for the FamilyMart Group.

Welcome to FamilyMart

FamilyMart always puts the customer first, and is at one with its franchised stores in pursuing the highest level of quality in such areas as store operation and products and services. In the following pages, we introduce you to recent efforts by the FamilyMart Group as it has vigorously supported the growth of its franchised stores – by ensuring strict attention to service, quality and cleanliness, increasing the accuracy of ordering, and enhancing merchandising – and as it has developed high-quality stores, moved more strongly into new markets and e-retailing, and also devoted attention to environmental conservation and activities in support of the community.

FamilyMart aims to be the leading company in its industry for quality

In an age of fierce competition that knows no boundaries, FamilyMart seeks to be the store of choice for the consumer by pursuing a course of ceaseless change and reform. Our criterion for this is "the perspective of the customer," and our approach is threefold: (1) to devote strict attention to SQ&C so as to give consumers wholehearted satisfaction and turn them into FamilyMart fans, (2) to increase the accuracy of ordering, so that people can be assured of finding the merchandise they want whenever they visit a store, and (3) to enhance merchandising in a way that meets a broad range of customer needs. These three approaches comprise the cornerstone of our retail business, and our goal is to give them maximum effect in a way that eclipses all rival chains.

Within our chain, we develop profitable high-quality stores and also seek to make life more convenient for the consumer by moving into new markets, including through store openings in premises such as office blocks and universities. We are also placing emphasis on expanding our own unique e-retail services, which link our real (bricks-and-mortar) stores and our virtual stores. Fulfilling our responsibilities as a corporate citizen is also an area to which we give considerable attention. We are building the FamilyMart chain into the strongest of its kind, and one that is seen as No. 1 for quality in every respect.

The Industry-Leader for Quality

Strict Attention to SQ&C

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Exhaustive pursuit of customer satisfaction, to win overwhelming customer confidence and loyalty

Increasing the Accuracy of Ordering

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Assembling optimum product lineups through highly accurate ordering, to ensure no sales opportunities are lost

Strengthening Merchandising

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Meeting needs as they change and grow more diverse is a key to broadening the customer base and increasing daily sales

Expanding the Store Network

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Building a growth-oriented, profitable chain while emphasizing moves into new markets

E-Retail Services

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Unique E-Retail services increasing the frequency of store visits, boosting the value added of conventional stores

Environment and Community

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FamilyMart is fulfilling its responsibilities as a corporate citizen by stepping up activities to conserve the environment and contribute to society.

Service, Quality & Cleanliness

Devotion to doing everything for the customer

FamilyMart is devoting itself afresh to assuring service, quality and cleanliness (SQ&C) at every store in its chain. A neat, tidy, and pleasant store; a store where one receives a friendly greeting on entry, where service is fast and customers are not kept waiting, and where sales areas ensure no missed sales opportunities by always having a lineup of new merchandise and of the products that customers tend to buy frequently. FamilyMart devotes its energies to ensuring that all its stores have these fundamentals of retailing, and to strengthening its store-management capabilities by putting itself in the shoes of its customers, making them see a visit to a FamilyMart store as a daily pleasure.

FamilyMart does not simply call on its franchised stores to achieve this: it also commissions specialist outside firms to check and evaluate the degree of SQ&C at each store, whereupon it identifies the strong and weak points at each, and implements measures to improve store operations.

Exhaustive pursuit of customer satisfaction, to win overwhelming customer confidence and loyalty

Making store staff more resilient

FamilyMart has taken further steps to enhance its capabilities as a franchisor able to support store management by franchise owners, centering on the improvement of SQ&C. A reorganization in March 2003 saw the establishment of the Operation Support Department and the organization of the SV (supervisor) Support Group, which supports the work of the supervisors who act as conduits between FamilyMart headquarters and franchised stores. Fifteen specialists have been posted directly in stores, where they devote themselves to supporting store management and provide backup for the resolution of issues that arise at individual stores.

Store staff trainer instruction sessions have been held since April, where store instructors sent from FamilyMart headquarters give instructions in the fundamentals of SQ&C and how to put the customer first to the store personnel responsible for staff training. In addition, training buses are sent to more remote areas. Through ongoing efforts to increase the quality and mental flexibility of store staff, FamilyMart will endeavor to raise the level of service and ensure flawless sales areas, thereby completely outclassing rival stores in terms of customer satisfaction.

Store staff trainer instruction sessions

Raising the Accuracy of Product Ordering

Accurate monitoring of individual products

A prerequisite for increasing daily sales and profits is to ensure that the merchandise customers want to buy, and fast-selling items, are arrayed on store shelves at all times. The degree of accuracy in ordering is an underlying factor that FamilyMart strives to improve from a variety of angles.

In merchandise management, considerable importance is given to accurate shelf-stocking to ensure that there are no shortages of products, particularly popular items, during the time between one peak sales period and the arrival of the next delivery. For that purpose, sales trends are not monitored in terms of aggregate amounts, but on a painstaking product-by-product basis, so as to eliminate loss of sales opportunities.

Specifically, in-store systems are able to identify the changing status of sales (number sold, number remaining, number of losses) through different time periods for each individual product. These systems support appropriate ordering to ensure that fast-selling items are held constantly in stock.

Improvement of electronic information through SATs

The Store Activation Terminal (SAT) is an electronic tool that supports the ordering and shelf-stocking system at our stores. The screens in the SATs show instantaneously such information as the trend of sales of individual items at other FamilyMart stores, and whether sales of goods a store does not carry are increasing at other stores. This enables store staff to ascertain in real time how items are moving, and to identify what is in stock, helping them to place their orders more accurately.

In January 2003, FamilyMart began the electronic transmission of store information to SATs and store controllers. This not only enables them to identify product trends, but also gives them instant access to other information useful for ordering and in-store merchandising, such as information on sales campaigns and television commercials, and data on trends. The ability to make free use of this support is sure to facilitate the creation of sales areas that are fresh and bright in appearance, and eliminate any possible loss of sales opportunities.


Using an SAT

Assembling optimum product lineups through highly accurate ordering, to ensure no sales opportunities are lost

Information sharing to enhance store management capabilities

An information infrastructure is not in itself sufficient for increasing ordering accuracy. To respond swiftly to movements in a market that is changing hour by hour, it is essential to divide the responsibility for ordering, enabling it to be carried out not only by store managers and other managerial personnel, but also by store staff.

FamilyMart has also devised its Store Staff Total System, an educational program that systematically covers store operations and business training. The program helps to raise the skill levels of store staff by including aspects such as strict adherence to SQ&C and the division of responsibility for ordering. This series of measures has been helping to increase the accuracy of ordering and to create very lively sales areas that are stocked with ample ranges of fast-selling items and new products.

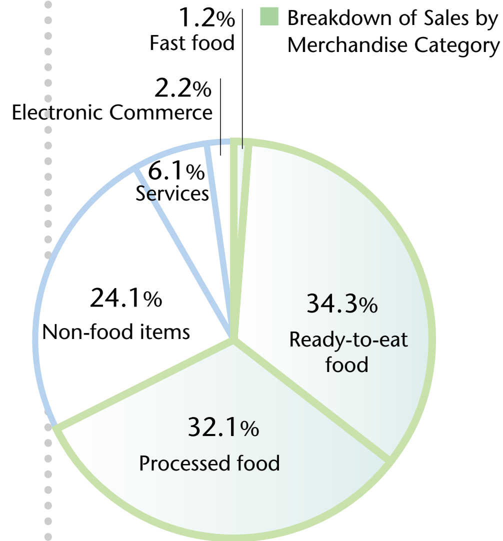
Skill Enhancement through the Store Staff Total System

Product Development Capability

Rapid development of attractive products

FamilyMart closely monitors the diversification of customer needs and changes in consumer preferences, and reflects these rapidly in its merchandise lineups and product development. In its development of delicatessen foods such as boxed lunches and rice balls, which are among its core products, FamilyMart places emphasis on satisfying basic customer requirements for flavor, good value, and variety, and engages in constant fine-tuning at all stages from the procurement of ingredients to the cooking method.

The Company is also further strengthening its development of original products with cheerful and novel qualities. It works hard to enhance the contents of its store shelves through the development of attractive products that range from foods to daily sundries such as its original MFC cosmetics. The former category includes not only staple rice dishes but also highly popular "homemade" desserts and *oden* (stewed hotchpotch), its renowned fried dishes such as potatoes and chicken, and its original range of varied *Oyatsu Tankentai* confectionery.



Meeting needs as they change and grow more diverse is a key to broadening the customer base and increasing daily sales

Strengthening the range of exclusive FamilyMart products

Merchandise developed jointly with well-known Japanese manufacturers and under tie-ups with television programs generate loyalty among large numbers of customers, and add to the pulling power of FamilyMart stores. As a supporting company of the Japanese soccer team for the 2002 World Cup, FamilyMart achieved strong sales of related merchandise, and other products that have attracted lively attention have included confectionery and pastry products developed jointly with Ezaki Glico and Fujiya, and rice balls and desserts developed under a collaboration agreement with Yamagata Television System and a popular star.

For the current term FamilyMart will continue to expand its range of original merchandise including boxed lunches and snacks developed in collaboration with the renowned comic entertainment company, Yoshimoto Kogyo Co., Ltd., and to produce fun, novel products that have strong customer appeal. Through these means and also by seeking out merchandise for its E-Retail services, the Company will continue offering a flow of merchandise that takes best advantage of its corporate strengths.

Expanding Our Customer Base through Three Types of Marketing

Boosting generation marketing

One of FamilyMart's new marketing strategies is to conduct three types of merchandising: generation, price, and regional. Generation marketing is targeted at middle to upper age-groups, particularly baby boomers, who account for a large proportion of the Japanese population and are projected to become the largest segment of the market. The aim is to win their loyalty to FamilyMart. To achieve that, the Company will step up its development of high-quality merchandise designed to meet the needs of those age groups, thereby increasing the frequency with which they visit stores.

In September 2002, the Company published a catalogue aimed at those age groups – called *Livin'Mart* – which is distributed free-of-charge in FamilyMart stores. This makes suggestions about new menu choices to these older customers, who tend to seek something a little more special to add a touch of charm to their daily lives, for example, foods delivered directly from the producing areas, particularly dishes prepared with in-season ingredients, and travel and accommodations to match the changes of the seasons.

One of FamilyMart's premium boxed lunches

Product Development Capabi

Catering to price-consciousness and the needs of the community

Through price marketing, the Company aims to expand its range of merchandise in a way that caters to the diversity of requirements with respect to price. This entails putting together a product lineup that meets a wide array of needs ranging from merchandise that gives good value for money in the current deflationary trend, to high-value-added merchandise.

The third type of marketing, regional marketing, calls for product development to match the customer preferences of the various regions throughout Japan. In line with this, FamilyMart is developing and refining a product lineup tailored to the requirements of each region around the country by using distinctive local ingredients to make boxed lunches and other ready-to-eat food products, and by developing products under tie-ups with local television stations.

FamilyMart is strengthening its merchandising by developing value-added products that have the price, taste, and appearance to suit each of these three pivotal markets.

Luxury rice balls made with premium rice

Merchandising team


Products manufactured under a tie-up with a local television station

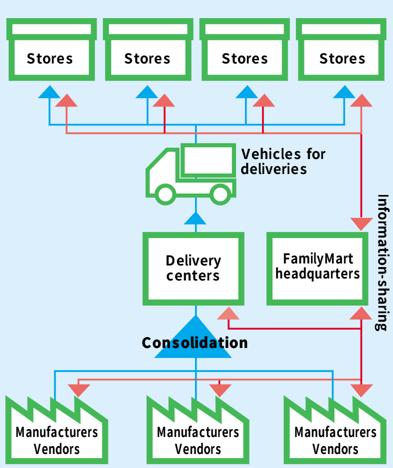
Products manufactured under a tie-up with Adidas

Example of Product Development

- Plan revision and research based on POS data, consumer information, and market research
- Preparation of product concept sheet
- Product-strategy and development meetings with manufacturers, vendors, and cooking experts
- Trial production → Improvement → Adjustment → Monitoring → Improvement
- Determination of product specifications → Lot testing on production line
- Quality inspection and pre-sale check
- Sale
- Verification

Building DCM

Goods distribution system (Blue)
Information system (Red)



Optimizing distribution in line with customer needs

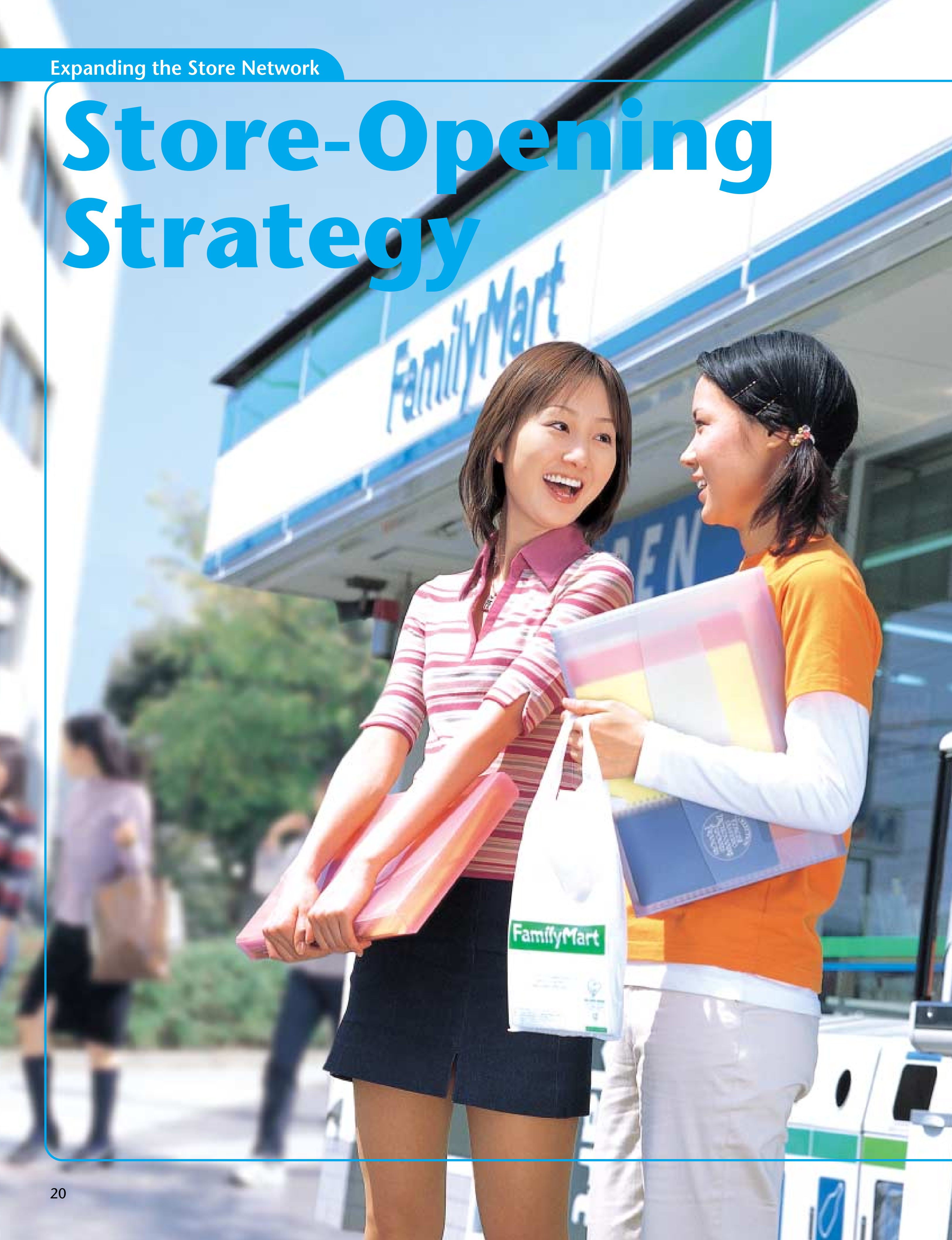
In the retail market, which is subject to marked changes in customer preferences, FamilyMart efficiently provides a range of merchandise that is constantly tailored to match customer needs through the building of demand-chain management (DCM).

DCM is aimed at achieving the overall optimization of goods distribution based on demand information that takes the customer as its starting point. Its principal objectives are both efficient goods distribution and the rationalization of inventory management. Specifically, the delivery routes of manufacturers and vendors are consolidated, and a systematic procurement structure is created; this then automatically computes the optimum routes for the dispatch of merchandise to each store in the chain. This system makes it possible for deliveries of foodstuffs at all temperature ranges to be made in a single truck, thereby realizing substantial savings in distribution costs.

Through the sharing of information with makers and vendors, we are able to maintain optimum inventories at all times, thereby avoiding the loss of sales opportunities on popular items. At the same time, the system enables us to swiftly adjust our shelf lineups to match changing consumer tastes.


Delivery center

Store-Opening Strategy



Toward creating a profit-generating value chain

FamilyMart has always sought qualitative change in its chain operation through the parallel development of high-quality stores in existing operating areas and closure of stores that do not generate adequate profits. At the same time, it is accentuating the opening of stores in new markets in pursuit of customer convenience.

In its store-opening strategy, emphasis is placed on store quality: the increase in the daily sales of newly established stores, with the objective of building a highly profitable store network.

During the year under review, FamilyMart opened 501 stores and closed 359, and through the absorption of Matsuhaya FamilyMart Co., Ltd. it acquired an additional 164 stores. As a result, at the end of February 2003 the number of its stores within Japan totaled 5,593. Including the stores of two domestic area franchised companies, the total number of FamilyMart stores in Japan stood at 6,013. While opening high-quality stores the Company has closed 862 stores, most of which were generating inadequate returns over the past two years. This illustrates our relentless push to build a powerful chain centered on the three principal metropolitan areas of Tokyo, Osaka, and Nagoya.

Store on the campus of Kyoto Sangyo University

Store which was operated for visitors to the World Cup games

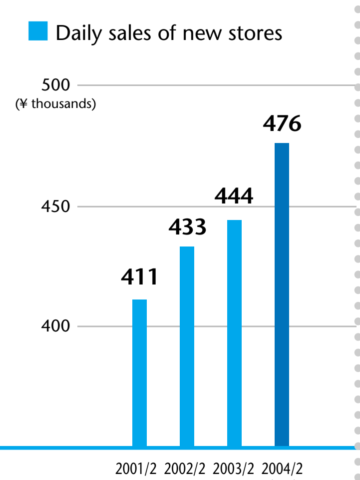
Building a growth-oriented, profitable chain while emphasizing moves into new markets

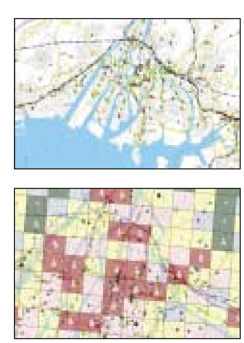
Increasing daily sales at newly opened stores

In the previous term, FamilyMart increased the number of its personnel responsible for store development to the 150 level. The purpose of this was not to make a substantial increase in store openings, but to create a structure in which responsible staff can be more strongly focused on the development of each individual high-quality store. The Company has also introduced the FamilyMart Geographic Information System (FM-GIS) as a support tool for store development. This makes possible more efficient and systematic processing of information based on human judgment backed by experience.

The synergetic impact of these staff increases and the support systems has enabled FamilyMart to achieve a steady increase in the daily sales generated by new stores.

Site selection utilizing FM-GIS





FM-GIS image on display

Store-Opening Strategy

Stepping up entry into new markets

In its ceaseless pursuit of customer convenience, FamilyMart also has great determination to create new markets. It has already built up a strong track record of store openings in previously untapped new location types such as hotels, office buildings, hospitals, university campuses, and expressway service areas. These stores are attracting repeat business from large numbers of customers, indicating that substantial demand can be expected from these market niches.

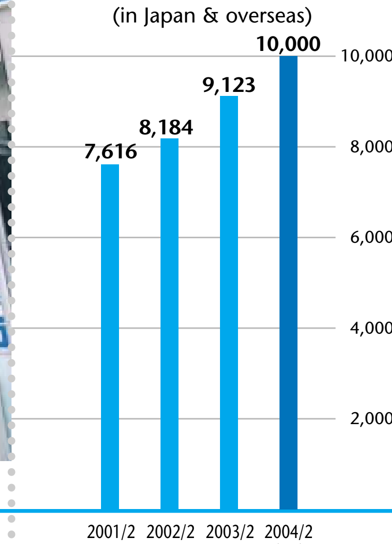
During the term under review, FamilyMart opened a store on the campus of Tohoku Fukushi University. We also opened an outlet in a service area of the Tomei Expressway and another at Osaka Prefectural Police Headquarters: these were the first-ever openings of convenience stores in such locations. FamilyMart will continue to defy convention through a vigorous store-opening policy designed to meet the needs of customers, wherever they may be.

■ Regional breakdown of store numbers

Tohoku Area	
Iwate	18
Miyagi	184
Yamagata	91
Fukushima	133
Kanto Area	
Ibaraki	106
Tochigi	110
Gunma	88
Saitama	336
Chiba	218
Tokyo	941
Kanagawa	494
Yamanashi	56
Tokai Area	
Shizuoka	188
Aichi	376
Gifu	78
Mie	106
Hokuriku Area	
Toyama	50
Ishikawa	57
Fukui	92
Kansai Area	
Shiga	66
Kyoto	139
Osaka	593
Hyogo	253
Nara	48
Wakayama	52
Chugoku • Shikoku Area	
Okayama	81
Hiroshima	86
Yamaguchi	8
Kagawa	20
Kyushu • Okinawa Area	
Fukuoka	207
Saga	43
Nagasaki	145
Kumamoto	71
Oita	59
Miyazaki	68
Kagoshima	191
Okinawa	161

Total in Japan: 6,013
(as of February 28, 2003)

■ Number of stores (in Japan & overseas)



Expanding the Overseas Chain

A 10,000-strong chain in Japan and other East Asian countries by the end of fiscal 2004

South Korea **1,528** stores
Taiwan **1,332** stores
Thailand **250** stores

Overseas stores **3,110**
(as of February 28, 2003)

In 1988, FamilyMart began opening stores in burgeoning Asian economies, and today boasts an overseas network of 3,110 stores in Taiwan, South Korea, and Thailand.

Entry into the Chinese market

Since opening its first overseas store in Taiwan in 1988, FamilyMart has built a chain of 1,332 stores in Taiwan and 1,528 stores in South Korea (as of the end of February 2003), and is maintaining a steady increase in the number of its stores in both countries. Amid fierce competition in Taiwan, FamilyMart has begun full-scale operation of its own plant for rice dishes, and pastry. Also, to bolster its competitiveness there it obtained a listing for its local subsidiary on the over-the-counter market in Taiwan in 2002.

In South Korea, FamilyMart has been enhancing its merchandising and customer service by such means as the construction of a plant for food production. It has been achieving remarkable growth there, becoming the country's foremost chain. Meanwhile, in Thailand FamilyMart has been conducting a program of store development in which the localization of management has been accentuated, bringing about a higher-than-ever degree of integration with the community through its enhanced corporate governance. This provides a basis for the ongoing expansion of the number of stores.

As of the end of February 2003, the total number of stores in the FamilyMart Group chain stood at 9,123. This total is projected to rise to 10,000 in East Asia by the end of February 2004.

As part of its moves into new markets, FamilyMart is currently proceeding with plans for store openings in China, which joined the World Trade Organization in 2001, and is the scene of vigorous economic growth and infrastructure development.

●Course of development overseas

1988	Start of franchise operations in Taiwan
1990	Start of franchise operations in South Korea
1992	Start of franchise operations in Thailand
2000	Taiwan FamilyMart chain reaches 1,000 stores
2002	Taiwan FamilyMart obtains listing on the over-the-counter market Bokwang (South Korea) FamilyMart chain reaches 1,000 stores
2003	Planned start of store openings in China

Bokwang FamilyMart, South Korea

Taiwan FamilyMart

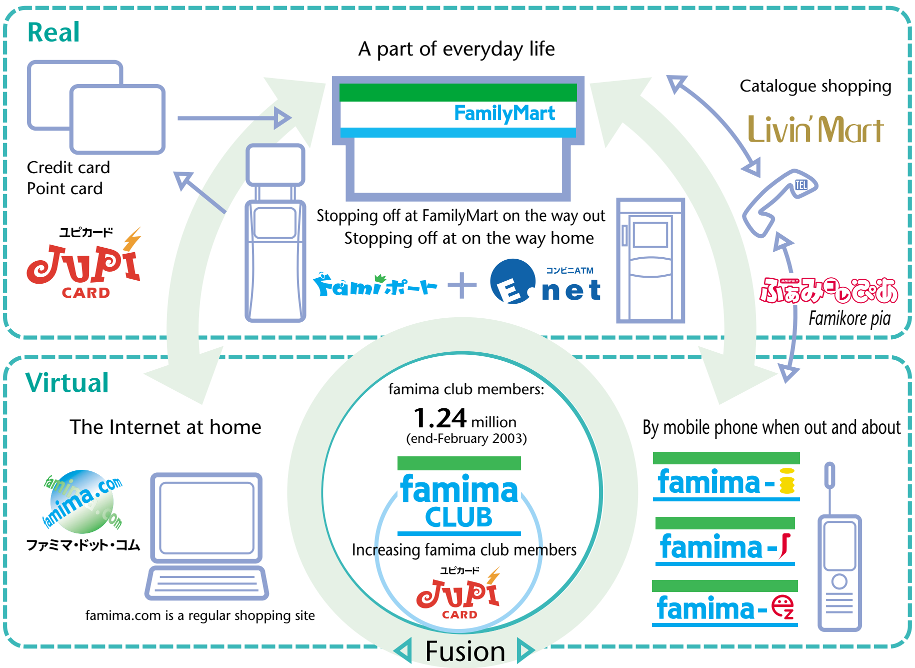
Fostering the Growth of E-Retail Services

Boosting the profitability of real stores

In its quest for excellence, FamilyMart seeks to enhance customer convenience and the added value of its stores not only through its range of in-store merchandise, but also through a varied array of additional services. These include (1) Internet shopping through personal computers and mobile phones, (2) the sale of tickets, travel vouchers, and prepaid services through Famiport Multimedia Kiosks, as well as digital content such as the printing of digital-camera images, (3) mail-order sales using catalogues and other sales channels, (4) ATM services through tie-ups with banks nationwide, and (5) a service for the payment and pick-up at FamilyMart stores of items purchased through partner companies' websites.

Of particular note is famicom.com, FamilyMart's Internet shopping site. This uses the unique FamilyMart EC Franchise System, under which each store has its own on-site virtual store. By offering goods and services in this way, irrespective of their own size in physical terms, stores augment their sales volumes. The number of registered members has risen from approximately 750,000 at the end of fiscal 2002, to 1.24 million as of the end of fiscal 2003.

http://www.famima.com/



Famiport
Multimedia Kiosk

E-net
convenience store ATM

Unique E-Retail services increasing the frequency of store visits, boosting the value added of conventional stores

Expansion of E-Retail services

FamilyMart publishes *Famikore pia (FamilyMart collection + PIA)*, a free monthly magazine distributed through stores nationwide, and this was joined in September 2002 by the store catalogue *Livin'Mart*. This is targeted at middle to upper age groups, and forms part of FamilyMart's steps to develop a significant customer base in addition to its base among younger age groups.

May 2002 saw the introduction of the JUPI Card, a credit card that enables people to shop at FamilyMart stores on a no-cash, no-signature basis, and to gain reward points. Customers receive one point for every ¥100 purchase in cash, and two points for every ¥100 purchase by credit card they make at the stores. Through famima club members the Company will fuse these E-Retail services with the services of its real brick-and-mortar stores, and conduct the one-to-one marketing that distinguishes it from rival chains.

Contributing to the Environment and the Community

Aiming to be an environmentally friendly convenience store chain true to the spirit of the 21st century

In March 1999, FamilyMart was granted ISO 14001 certification for its environmental management system covering all its stores and other places of business. This attests to its dedication to conducting convenience-store business in a manner that assists environmental preservation in all respects, encompassing its merchandise, goods distribution, and stores.

With respect to its merchandise, FamilyMart has assembled the We Love Green range of environmentally friendly private-brand products, mainly comprising daily necessities. This range was developed according to criteria for reducing the burden on the environment both at the raw-material stage and at the stage of waste disposal.

In goods distribution, the development of an all-temperature delivery system has reduced the number of vehicles needed to make those deliveries. Moreover, at the end of the term under review the Company introduced 94 delivery vehicles powered by CNG (compressed natural gas). Yet another achievement is the operation of solar-powered facilities in stores at 10 locations around Japan.

The disposal of waste by stores is handled properly through the use of FamilyMart's unique total waste material recycling system. In addition, in response to the recent enforcement of a food-recycling law in Japan, FamilyMart has introduced microwave-type perishable-waste processors to enable initial processing to be carried out within stores. These have now been installed in company-owned stores nationwide – an industry first.

Every year the Company publishes the FamilyMart Environmental Sustainability Report, in which it releases details of its environmental activities and its environmental accounting. The 2002 edition of the FamilyMart Environmental Sustainability Report won an award in the sixth round of the Environmental Report Awards, an incentive scheme in which awards are given on an industry-specific basis. This provides yet more evidence of FamilyMart's activities at the forefront of progress in addressing environmental conservation.


Microwave-type perishable-waste processor


FamilyMart Environmental Sustainability Report

FamilyMart is fulfilling its responsibilities as a corporate citizen by stepping up activities to conserve the environment and contribute to society.

Assistance for Save the Children fund-raising

Since 1993 FamilyMart has been engaging in fund-raising activities through its stores nationwide for Save the Children Japan. This is the Japanese arm of Save the Children, an international nongovernmental organization recognized by the United Nations. By April 15, 2003, the total amount of funds raised reached ¥420 million, which has been used for a variety of educational and other projects for deprived children worldwide, primarily in Asia.

In addition to the in-store fund-raising activities conducted over the past 10 years, in April 2003 FamilyMart inaugurated a project entitled "Let's Begin Together" for Save the Children, in which four pop stars – hiro, Eriko Imai, Takako Uehara, and HITOE – participate in the activities as goodwill ambassadors. FamilyMart will be engaging in support activities through events such as in-store campaigns and live concert appearances by these stars, plus the taking of store donations and the contribution of a percentage of its profits.


Save the Children collection box

Save the Children campaign poster

Board of Directors, Executive Officers, and Corporate Auditors

Michio Tanabe
Chairman,
Representative Director and
Chief Executive Officer

Junji Ueda
President,
Representative Director and
Chief Operating Officer

Hiroyoshi Yada
Executive Vice President,
Representative Director and
Vice President Executive Officer

Chairman, Representative Director and Chief Executive Officer

Michio Tanabe

President, Representative Director and Chief Operating Officer

Junji Ueda

Executive Vice President,
Representative Director and
Vice President Executive Officer

Hiroyoshi Yada

Senior Managing Directors and Senior Managing Executive Officers

Shisaburo Ueda
Shinichiro Harima

Managing Directors and Managing Executive Officers

Masahiro Ikeda
Shiro Inoue
Yasuhiko Uramoto
Gonjiro Minamimoto
Takayuki Yokota
Fumio Horiuchi

Directors and Executive Officers

Kagao Okada
Masatsuna Seki
Shota Takahashi

Executive Officers

Noboru Kanazawa
Toshio Anazawa
Masaharu Ishiguro
Hidemitsu Ozawa
Noboru Nishioka
Kenichi Hatta
Kunio Idei
Kazushige Ueno
Toshio Kato
Masaaki Kosaka
Akinori Wada

Standing Corporate Auditors

Yukinobu Maeda
Kunihiro Fujimoto
Naoji Ishizu

Corporate Auditor

Takashi Endo

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)
	2003	2002	2001	2000	1999	**2003**
Results of operations:						
Operating revenues:						
Commission from franchised stores	**¥122,738**	¥116,478	¥111,729	¥ 96,570	¥ 94,143	**$1,040,153**
Net sales	**80,952**	67,822	54,122	34,016	39,124	**686,034**
Total operating revenues	**217,468**	195,605	176,099	147,295	148,261	**1,842,949**
Operating income	**27,921**	23,756	24,123	28,098	29,181	**236,619**
Net income	**12,880**	8,549	8,112	12,960	15,514	**109,153**
Net income per share (in yen and U.S. dollars)	**133.0**	88.3	83.5	134.6	161.2	**1.1**
Cash dividends per share (in yen and U.S. dollars)	**38.0**	38.0	38.0	38.0	34.0	**0.3**
Financial position:						
Total assets	**¥250,609**	¥242,517	¥230,883	¥206,492	¥222,939	**$2,123,805**
Total shareholders' equity	**137,636**	130,510	126,190	122,555	112,187	**1,166,407**
Other data:						
Number of franchised stores and Company's own stores	**5,593**	5,287	5,275	4,555	4,398	
Number of area franchised stores (including overseas area franchised stores)	**3,530**	2,897	2,341	2,455	2,133	
Number of stores	**9,123**	8,184	7,616	7,010	6,531	
Number of shareholders	**24,263**	28,088	31,429	16,364	8,976	
Number of full-time employees (Note 2)	**4,466**	4,205	3,917	—	—	
Weighted average number of shares (thousands)	**96,867**	96,868	97,107	96,312	96,220	

Notes: 1. Conversion into U.S. dollars has been made at the exchange rate of ¥118=U.S.$1, the rate prevailing on February 28, 2003.
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 16 companies, including the Company, eight subsidiaries (of which six are consolidated subsidiaries), and seven affiliated companies (of which six are associated companies accounted for by the equity method). The Group's main business is the operation of franchised convenience stores, and it has recently diversified into the development of e-commerce and other related services.

Consolidated total operating revenues, consisting of commissions from franchised stores, net sales and other operating revenues, increased by ¥21,863 million, or 11.2%, to ¥217,468 million (US$1,843 million).

Looking at individual revenues, commissions from franchised stores increased by ¥6,260 million, or 5.4%, to ¥122,738 million (US$1,040 million), due mainly to an increase in sales of franchised stores.

Commissions from franchised stores accounted for 56.4% of total operating revenues.

Net sales increased by ¥13,130 million, or 19.4%, to ¥80,952 million (US$686 million), due mainly to an increase in sales by Famiport Multimedia Kiosks in the e-commerce business.

Operating revenues from overseas operations accounted for ¥33,200 million (US$281 million), or 15.3% 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 ¥17,698 million, or 10.3%, to ¥189,547 million (US$1,606 million), due primarily to an increase in e-commerce service-related cost of sales, and selling, general and administrative expenses such as lease premiums for store facilities and store rents.

As a result of the above figures, operating income increased by ¥4,165 million, or 17.5%, to ¥27,921 million (US$237 million).

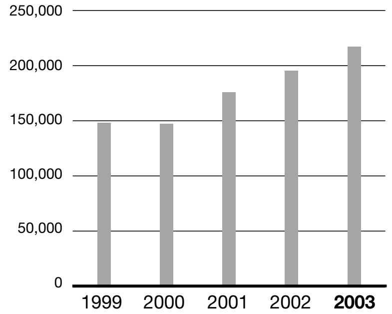
During the year under review, net other expenses decreased by ¥3,378 million, or 46.4%, to ¥3,900 million (US$33 million) due primarily to a decrease in losses on store closures.

As a result of the above, income before income taxes and minority interests and net income increased by ¥7,543 million, or 45.8%, to ¥24,021 million (US$204 million) and ¥4,331 million, or 50.7%, to ¥12,880 million (US$109 million) respectively.

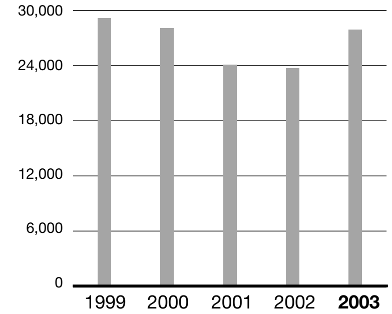
As a consequence, net income per share increased by ¥44.7 to ¥133.0.

Dividend Policy
In accordance with the Company's policy of the stable distribution of dividends to shareholders in line with the growth of

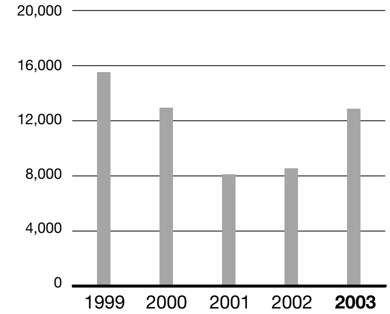
Total Operating Revenues
(Millions of Yen)



Operating Income
(Millions of Yen)



Net Income
(Millions of Yen)



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 ¥8,092 million, or 3.3% during the year, to ¥250,609 million (US$2,124 million).

Current assets increased by ¥17,869 million to ¥103,013 million (US$873 million), due primarily to the transfer of long-term held-to-maturity securities, which matured within one year, to marketable securities.

Net property and store facilities decreased by ¥6,348 million to ¥60,090 million (US$509 million), due mainly to depreciation and disposal of store facilities by store closures as well as store renovations.

Total investments and other assets decreased by ¥3,429 million to ¥87,506 million (US$742 million), due mainly to the transfer of marketable securities from long-term held-to-maturity securities which matured within one year.

Total liabilities increased by ¥621 million, or 0.6%, to ¥108,457 million (US$919 million), largely owing to an increase in income tax payable.

Minority interests increased by ¥345 million, or 8.3%, to ¥4,516 million (US$38 million), due primarily to the net income earned by Taiwan FamilyMart.

As a result of the above, shareholders' equity increased by ¥7,126 million, or 5.5%, to ¥137,636 million (US$1,166 million), due to an increase in retained earnings.

Cash Flows

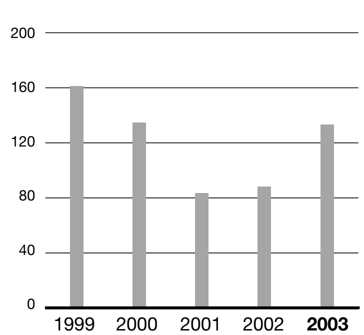
The year-end balance of cash and cash equivalents decreased by ¥353 million, or 0.8%, to ¥46,298 million (US$392 million).

Net cash provided by operating activities decreased by ¥1,525 million to ¥32,694 million (US$277 million), due mainly to an increase in income taxes paid.

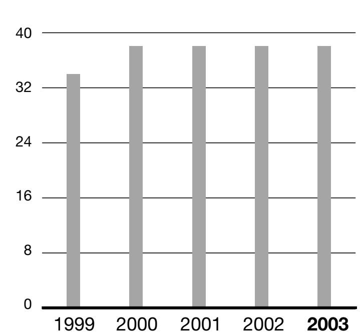
Net cash used in investing activities increased by ¥515 million to ¥29,327 million (US$249 million), due mainly to an increase in leasehold deposits, in contrast to a decrease in payments for purchases of property and store facilities and intangible assets.

Net cash used in financing activities decreased by ¥712 million, to ¥3,626 million (US$31 million), because some consolidated subsidiaries redeemed a large amount of bank loans.

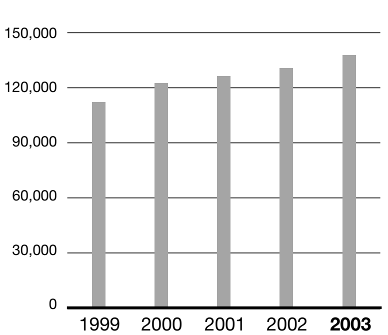
Net Income per Share
(Yen)



Cash Dividends per Share
(Yen)



Total Shareholders' Equity
(Millions of Yen)



Consolidated Balance Sheets

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	**2003**
Assets			
Current assets:			
Cash and cash equivalents	**¥ 46,298**	¥ 46,651	**$ 392,356**
Time deposits	**211**	8	**1,788**
Marketable securities (Note 5)	**13,783**	3,164	**116,805**
Receivables:			
Due from franchised stores (Note 4)	**8,536**	7,847	**72,339**
Short-term loans	**4,766**	849	**40,390**
Other	**12,420**	9,694	**105,254**
Allowance for doubtful receivables	**(1,222)**	(991)	**(10,356)**
Merchandise and supplies	**5,721**	7,417	**48,483**
Deferred tax assets (Note 10)	**1,797**	1,827	**15,229**
Prepaid expenses and other current assets	**10,703**	8,678	**90,704**
Total current assets	**103,013**	85,144	**872,992**
Property and store facilities:			
Land	**14,908**	15,049	**126,339**
Buildings and structures	**48,950**	48,139	**414,831**
Machinery and equipment	**3,466**	3,290	**29,373**
Furniture and fixtures	**43,300**	49,527	**366,949**
Construction in progress	**29**	68	**245**
Total	**110,653**	116,073	**937,737**
Accumulated depreciation	**(50,563)**	(49,635)	**(428,500)**
Net property and store facilities	**60,090**	66,438	**509,237**
Investments and other assets:			
Investment securities (Note 5)	**3,885**	10,018	**32,924**
Investments in and advances to unconsolidated subsidiaries and associated companies (Note 3)	**2,042**	2,353	**17,305**
Software	**8,489**	8,383	**71,941**
Goodwill (Note 6)	**1,498**	2,254	**12,695**
Leasehold deposits	**65,604**	61,416	**555,966**
Deferred tax assets (Note 10)	**2,349**	2,618	**19,907**
Other assets	**3,639**	3,893	**30,838**
Total investments and other assets	**87,506**	90,935	**741,576**
Total	**¥250,609**	¥242,517	**$2,123,805**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	**2003**
Liabilities and shareholders' equity			
Current liabilities:			
Short-term bank loans (Note 7)	**¥ 440**	¥ 320	**$ 3,729**
Payables:			
Trade notes	**2,816**	2,943	**23,864**
Trade for franchised and Company-owned stores	**48,168**	47,329	**408,203**
Due to franchised stores (Note 4)	**2,268**	2,342	**19,220**
Other	**10,749**	12,547	**91,093**
Income taxes payable (Note 10)	**5,589**	4,937	**47,364**
Utility payments received (Note 4)	**18,425**	16,749	**156,144**
Accrued expenses	**2,567**	2,069	**21,755**
Other current liabilities	**2,432**	2,809	**20,611**
Total current liabilities	**93,454**	92,045	**791,983**
Long-term liabilities:			
Liabilities for retirement benefits (Note 8)	**4,360**	5,209	**36,949**
Leasehold deposits from franchised stores	**10,565**	10,502	**89,534**
Other long-term liabilities	**78**	80	**661**
Total long-term liabilities	**15,003**	15,791	**127,144**
Minority interests	**4,516**	4,171	**38,271**
Commitments and contingent liabilities (Notes 11 and 12)			
Shareholders' equity (Notes 9 and 13)**:**			
Common stock no par value—authorized, 250,000,000 shares; issued, 97,683,133 shares	**16,659**	16,659	**141,178**
Capital surplus	**17,057**	17,057	**144,551**
Retained earnings	**106,454**	98,978	**902,153**
Unrealized loss on available-for-sale securities	**(212)**	(20)	**(1,797)**
Foreign currency translation adjustments	**(602)**	(476)	**(5,102)**
Total	**139,356**	132,198	**1,180,983**
Treasury stock—at cost (824,436 shares in 2003 and 810,961 shares in 2002)	**(1,720)**	(1,688)	**(14,576)**
Total shareholders' equity	**137,636**	130,510	**1,166,407**
Total	**¥250,609**	¥242,517	**$2,123,805**

See notes to consolidated financial statements.

Consolidated Statements of Income

Years ended February 28, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	**2003**
Operating revenues:			
Commission from franchised stores (Note 4)	**¥122,738**	¥116,478	**$1,040,153**
Net sales	**80,952**	67,822	**686,034**
Other operating revenues (Notes 3 and 4)	**13,778**	11,305	**116,762**
Total operating revenues	**217,468**	195,605	**1,842,949**
Operating expenses:			
Cost of sales	**64,523**	50,788	**546,805**
Selling, general and administrative expenses (Notes 6, 8 and 11)	**125,024**	121,061	**1,059,525**
Total operating expenses	**189,547**	171,849	**1,606,330**
Operating income	**27,921**	23,756	**236,619**
Other income (expenses):			
Interest and dividend income	**560**	505	**4,746**
Equity in earnings of associated companies	**139**	207	**1,178**
Gain on sales of treasury stock and marketable and investment securities—net	**131**	188	**1,110**
Gain on sales of investment in consolidated subsidiary		369	
Loss on devaluation of marketable and investment securities	**(219)**	(538)	**(1,856)**
Loss on disposals/sales of property and store facilities—net	**(3,258)**	(4,455)	**(27,610)**
Loss on cancellations of lease contracts	**(1,583)**	(3,165)	**(13,415)**
Gain on exemption from future pension obligation (Note 8)	**1,088**		**9,220**
Provision for employees' retirement benefits (Note 8)		(210)	
Other—net	**(758)**	(179)	**(6,424)**
Other expenses—net	**(3,900)**	(7,278)	**(33,051)**
Income before income taxes and minority interests	**¥ 24,021**	¥ 16,478	**$ 203,568**
Income taxes (Note 10)**:**			
Current	**9,801**	8,885	**83,060**
Deferred	**551**	(1,258)	**4,669**
Total income taxes	**10,352**	7,627	**87,729**
Minority interests in net income	**789**	302	**6,686**
Net income	**¥ 12,880**	¥ 8,549	**$ 109,153**
	Yen		U.S. Dollars
Per share of common stock:			
Net income	**¥133.0**	¥88.3	**$1.1**
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, 2003 and 2002

	Thousands	Millions of Yen					
	Issued Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain (Loss) on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
Balance, March 1, 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 increase in unrealized loss on available-for-sale securities					(46)		
Adjustment resulting from application of revised accounting standard for foreign currency transactions (Note 2-m)						¥(476)	
Decrease in treasury stock—net (21,381 shares)							43
Balance, February 28, 2002	97,683	16,659	17,057	98,978	(20)	(476)	(1,688)
Net income				**12,880**			
Cash dividends, ¥38.0 per share				**(3,681)**			
Bonuses to directors and corporate auditors				**(56)**			
Adjustment to retained earnings due to merger (Note 3)				**(1,667)**			
Net increase in unrealized loss on available-for-sale securities					**(192)**		
Net decrease in foreign currency translation adjustments						**(126)**	
Increase in treasury stock (13,475 shares)							**(32)**
Balance, February 28, 2003	**97,683**	**¥16,659**	**¥17,057**	**¥106,454**	**¥(212)**	**¥(602)**	**¥(1,720)**

	Thousands of U.S. Dollars (Note 1)					
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Loss on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
Balance, February 28, 2002	$141,178	$144,551	$838,797	$ (169)	$(4,034)	$(14,305)
Net income			**109,153**			
Cash dividends, $0.3 per share			**(31,195)**			
Bonuses to directors and corporate auditors			**(475)**			
Adjustment to retained earnings due to merger (Note 3)			**(14,127)**			
Net increase in unrealized loss on available-for-sale securities				**(1,628)**		
Net decrease in foreign currency translation adjustments					**(1,068)**	
Increase in treasury stock (13,475 shares)						**(271)**
Balance, February 28, 2003	**$141,178**	**$144,551**	**$902,153**	**$(1,797)**	**$(5,102)**	**$(14,576)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended February 28, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
Operating activities:			
Income before income taxes and minority interests	¥ 24,021	¥16,478	$203,568
Adjustments for:			
Income taxes—paid	(9,135)	(5,863)	(77,415)
Depreciation and amortization	13,895	14,706	117,754
Provision for (reversal of) allowance for doubtful receivables	(228)	699	(1,932)
Equity in earnings of associated companies	(139)	(207)	(1,178)
Loss on devaluation/sale of treasury stock, marketable and investment securities—net	88	350	746
Gain on sales of investment in consolidated subsidiary		(369)	
Loss on disposals/sales of property and store facilities—net	3,258	4,455	27,610
Loss on cancellation of lease contracts	921	2,023	7,805
Gain on exemption from future pension obligation	(1,088)		(9,220)
Bonuses to directors and corporate auditors	(56)	(69)	(475)
Changes in assets and liabilities:			
Increase in due from/to franchised store—net	(746)	(449)	(6,322)
(Increase) decrease in merchandise and supplies	1,471	(1,235)	12,466
Increase (decrease) in payables—trade	(22)	1,933	(186)
Increase in utility payments received	1,676	1,622	14,203
Increase (decrease) in liabilities for retirement benefits	206	(205)	1,746
Other—net	(1,428)	350	(12,102)
Total adjustments	8,673	17,741	73,500
Net cash provided by operating activities	¥ 32,694	¥34,219	$277,068
Investing activities:			
Decrease (increase) in time deposits—net	(203)	3,096	(1,720)
Purchases of marketable and investment securities	(101,266)	(3,100)	(858,186)
Proceeds from sales of marketable and investment securities	95,956	297	813,186
Proceeds from sales of investment in consolidated subsidiary		796	
Increase in receivables—short-term loans—net	(2,712)	(3)	(22,983)
Purchases of property and store facilities, software, goodwill and other intangible assets	(13,315)	(23,218)	(112,839)
Proceeds from sales of property and store facilities, software, goodwill and other intangible assets	1,339	145	11,347
Payments of leasehold deposits	(10,894)	(8,632)	(92,322)
Refunds of leasehold deposits	2,989	3,458	25,331
Receipts of leasehold deposits from franchised stores	1,273	1,917	10,788
Refunds of leasehold deposits from franchised stores	(1,135)	(859)	(9,619)
Payments for acquisition of business		(2,905)	
Payments for purchase of Matsuhaya FamilyMart Co., Ltd. ("MFM"), net of cash acquired (Note 3)	(1,051)		(8,907)
Other—net	(308)	196	(2,610)
Net cash used in investing activities	(29,327)	(28,812)	(248,534)
Financing activities:			
(Decrease) increase in short-term bank loans—net	151	(815)	1,280
(Purchase)/proceeds of treasury stock—net	(32)	52	(271)
Contribution from minority interest shareholders		100	
Dividends paid	(3,679)	(3,675)	(31,178)
Dividends paid to minority interest shareholders	(66)		(560)
Net cash used in financing activities	(3,626)	(4,338)	(30,729)
Foreign currency translation adjustments on cash and cash equivalents	(94)	216	(796)
Net increase (decrease) in cash and cash equivalents	(353)	1,285	(2,991)
Cash and cash equivalents of subsidiaries excluded from consolidation		(440)	
Cash and cash equivalents, beginning of year	46,651	45,806	395,347
Cash and cash equivalents, end of year	¥ 46,298	¥46,651	$392,356
Additional information:			
Purchase of MFM:			
Fair value of assets acquired	¥ 5,697		$ 48,280
Liabilities assumed	(2,767)		(23,449)
Total	2,930		24,831
Carrying amount of investment in MFM	(430)		(3,644)
Cash paid for shares of MFM	2,500		21,187
Cash and cash equivalents held by MFM	(1,449)		(12,280)
Payments for purchase of MFM, net of cash acquired	¥ 1,051		$ 8,907

See notes to consolidated financial statements.

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting 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. In addition, certain reclassifications have been made in the 2002 consolidated financial statements to conform to the classifications used in 2003.

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 ¥118 to $1, the approximate rate of exchange at February 28, 2003. 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, 2003, include the accounts of the Company and its six significant subsidiaries (collectively, the "Group").

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

Investments in six (seven in 2002) associated companies are accounted for by the equity method. MFM, which was previously an associated company and accounted for by the equity method, became a wholly owned subsidiary on June 26, 2002 and was merged with the Company on September 1, 2002. As a result, the consolidated financial statements also include profit of MFM, which was accounted for by the equity method until August 31, 2002.

Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost as 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, while lower of cost method is applied to available-for-sale securities of consolidated foreign subsidiaries.

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

The effect of adopting the new standard was to increase income before income taxes and minority interests by ¥79 million (in 2002).

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

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.

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

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

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

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***—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.

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 annual average exchange 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. The weighted average number of common shares used in the computation was 96,866,815 shares for 2003 and 96,868,092 shares for 2002.

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. Related Parties and Organization

The Company's main shareholder is Family Corporation Inc., which owns 30.97% (30.65% in 2002) of the total outstanding shares of the Company at February 28, 2003. Family Corporation Inc. is 94.99% (30.00% in 2002) owned by ITOCHU Corporation, which distributes merchandise and 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, 2003, are as follows:

Name of Franchisee	Area	The Company's Ownership in Franchisee
Subsidiaries:		
Taiwan FamilyMart Co., Ltd.	Taiwan	40.19%
Siam FamilyMart Co., Ltd.	Thailand	74.00
Associated companies:		
Okinawa FamilyMart Co., Ltd.	Okinawa, Japan	48.98
Minami Kyusyu FamilyMart Co., Ltd.	Kagoshima and Miyazaki, Japan	49.00
Bokwang FamilyMart Co., Ltd.	Korea	20.79

MFM, which was previously an associated company, became a wholly owned subsidiary on June 26, 2002 and was merged with the Company on September 1, 2002.

SFM HOLDING CO., LTD., 87.10% owned subsidiary, 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, 33.40% owned associated company, operates financial services, such as a settlement of credit card service and related services for its customer.

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

Family Chef Co., Ltd., 30% owned associated company, produces and distributes delicatessen items to "FamilyMart" stores.

4. Transactions with Franchised Stores

As discussed in Note 3 under the franchise agreement, each franchisee is provided with a variety of services and advice on the operation of convenience stores by the Company, and, in return, the franchisee is required to pay continuing franchise commissions to the Company based on certain percentages of the respective franchised store's gross margin (net sales less cost of sales). As the franchiser, the Company accounts for such franchise commissions on an accrual basis.

The term of a franchise agreement is generally for 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 franchised stores at the balance sheet date.

5. Marketable and Investment Securities

Marketable and investment securities as of February 28, 2003 and 2002, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Current:			
Government and corporate bonds	**¥ 7,000**		**$ 59,322**
Trust fund investments	**6,783**	¥ 3,164	**57,483**
Total	**¥13,783**	¥ 3,164	**$116,805**
Non-current:			
Marketable equity securities	**¥ 2,593**	¥ 2,663	**$ 21,975**
Government and corporate bonds	**991**	7,000	**8,398**
Non-marketable equity securities	**301**	355	**2,551**
Total	**¥ 3,885**	¥10,018	**$ 32,924**

The carrying amounts and aggregate fair values of marketable and investment securities at February 28, 2003 and 2002, were as follows:

	Millions of Yen			
	February 28, 2003			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**¥2,945**	**¥67**	**¥419**	**¥2,593**
Debt securities	**6,783**			**6,783**
Held-to-maturity	**7,991**	**11**	**1**	**8,001**

	Thousands of U.S. Dollars			
	February 28, 2003			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**$24,958**	**$568**	**$3,551**	**$21,975**
Debt securities	**57,483**			**57,483**
Held-to-maturity	**67,720**	**93**	**8**	**67,805**

	Millions of Yen			
	February 28, 2002			
	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

Available-for-sale securities whose fair value is not readily determinable as of February 28, 2003 and 2002, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Available-for-sale—Equity securities	**¥301**	¥355	**$2,551**

The carrying values of debt securities by contractual maturities for securities classified as held-to-maturity at February 28, 2003, are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due in one year or less	¥7,000	$59,322
Due after one year through five years	991	8,398
Total	¥7,991	$67,720

6. Goodwill

Goodwill as of February 28, 2003 and 2002, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Consolidation goodwill	**¥ 184**	¥ 370	**$ 1,559**
Acquisition goodwill	**1,314**	1,884	**11,136**
Total	**¥1,498**	¥2,254	**$12,695**

Amortization charged to income for the years ended February 28, 2003 and 2002, was ¥898 million ($7,610 thousand) and ¥1,010 million, respectively.

7. Short-Term Bank Loans

Short-term bank loans as of February 28, 2003 and 2002, consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 2.8% to 3%.

8. Retirement and Pension Plans

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

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain consolidated subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age. The liabilities for retirement benefits for directors and corporate auditors at February 28, 2003 and 2002 are ¥259 million ($2,195 thousand) and ¥166 million, respectively. The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

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

As a result of this exemption, the Company and certain subsidiaries recognized a gain on exemption from future pension obligation of the governmental program in the amount of ¥1,088 million ($9,220 thousand) in accordance with a transitional measurement of the accounting standard for employees' retirement benefits for the year ended February 28, 2003.

The liability for employees' retirement benefits as of February 28, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Projected benefit obligation	**¥10,652**	¥16,823	**$90,271**
Fair value of plan assets	**(4,677)**	(8,088)	**(39,636)**
Unrecognized actuarial loss	**(1,841)**	(3,653)	**(15,602)**
Unrecognized transitional obligation	**(33)**	(39)	**(279)**
Net liability	**¥ 4,101**	¥ 5,043	**$34,754**

The components of net periodic benefit costs for the years ended February 28, 2003 and 2002, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Service cost	**¥ 893**	¥ 804	**$7,568**
Interest cost	**298**	455	**2,525**
Expected return on plan assets	**(100)**	(267)	**(847)**
Recognized actuarial loss	**116**	1	**983**
Amortization of transitional obligation	**3**	214	**25**
Gain on exemption from future pension obligation	**(1,088)**		**(9,220)**
Net periodic benefit costs	**¥ 122**	¥1,207	**$1,034**

Assumptions used for the years ended February 28, 2003 and 2002, are set forth as follows:

	2003	2002
Discount rate	**Primarily 2.7%**	Primarily 2.7%
Expected rate of return on plan assets	**Primarily 2.15%**	Primarily 3.5%
Recognition period of actuarial gain/loss	**Primarily 19 years**	Primarily 19 years

Amortization period of transitional obligation

2003

Foreign consolidated subsidiary—15 years

2002

The Company and domestic consolidated subsidiaries—fully charged to income in 2002

Foreign consolidated subsidiary—15 years

The provision for retirement benefits for directors and corporate auditors of the Group was ¥102 million ($864 thousand) and ¥80 million for the years ended February 28, 2003 and 2002, respectively.

Liabilities for retirement benefits to directors and corporate auditors of each company within the Group are paid subject to shareholders' approval pursuant to the Japanese Commercial Code (the "Code").

9. Shareholders' Equity

Japanese companies are subject to the Code to which certain amendments became effective from October 1, 2001.

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

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

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders meeting and dispose of such treasury stock by resolution of the Board of Directors beginning April 1, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

The amount of retained earnings available for dividends under the Code was ¥106,391 million ($901,619 thousand) as of February 28, 2003, based on the amount recorded in the Company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable.

Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

The balance of treasury stock recorded in shareholders' equity as of February 28, 2003, includes treasury stock purchased for the purpose of granting stock options to directors and key employees. As of February 28, 2003, 609,000 shares have been granted for stock options and are exercisable from September 1, 2001 to August 31, 2004.

10. 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, 2003 and 2002.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities as of February 28, 2003 and 2002, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Deferred tax assets:			
Provision for doubtful receivables	**¥ 439**	¥ 611	**$ 3,720**
Accrued bonuses	**288**	254	**2,441**
Provision for retirement benefits—employees	**1,682**	2,023	**14,254**
Provision for retirement benefits—directors and corporate auditors	**107**	70	**907**
Depreciation	**291**	228	**2,466**
Loss on disposals of property and store facilities and cancellations of lease contracts	**267**	359	**2,263**
Enterprise tax payable	**468**	427	**3,966**
Tax loss carryforwards	**2,268**	2,114	**19,220**
Other	**1,020**	844	**8,644**
Less valuation allowance	**(2,389)**	(2,213)	**(20,245)**
Deferred tax assets	**4,441**	4,717	**37,636**
Deferred tax liabilities:			
Special reserve for tax purpose depreciation	**157**	189	**1,331**
Other	**138**	83	**1,169**
Deferred tax liabilities	**295**	272	**2,500**
Net deferred tax assets	**¥4,146**	¥4,445	**$35,136**

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, 2003 and 2002, is as follows:

	2003	2002
Normal effective statutory tax rate	**42%**	42%
Inhabitants taxes	**1**	1
Expiration of tax loss carryforwards	**2**	5
Other—net	**(2)**	(2)
Actual effective tax rate	**43%**	46%

As of February 28, 2003, certain subsidiaries have tax loss carryforwards aggregating approximately ¥5,992 million ($50,780 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
2004	¥ 402	$ 3,407
2005	647	5,483
2006	1,510	12,797
2007	2,049	17,364
2008	1,384	11,729
Total	¥5,992	$50,780

On March 31, 2003, a tax reform law was enacted in Japan which changed the normal effective statutory tax rate from approximately 42% to 40%, effective for years beginning on and after April 1, 2003. The effect of this change on deferred taxes in the consolidated statements of income for the next fiscal year is not material.

11. Leases

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

Total rental expenses for the years ended February 28, 2003 and 2002, were ¥10,414 million ($88,254 thousand) and ¥7,738 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, 2003 and 2002, was as follows:

	February 28, 2003		
	Millions of Yen		
	Furniture and Fixtures	Software	Total
Acquisition cost	**¥56,160**	**¥1,465**	**¥57,625**
Accumulated depreciation	**(24,217)**	**(466)**	**(24,683)**
Net leased property	**¥31,943**	**¥ 999**	**¥32,942**

	February 28, 2003		
	Thousands of U.S. Dollars		
	Furniture and Fixtures	Software	Total
Acquisition cost	**$475,932**	**$12,415**	**$488,347**
Accumulated depreciation	**(205,229)**	**(3,949)**	**(209,178)**
Net leased property	**$270,703**	**$ 8,466**	**$279,169**

	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

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Due within one year	**¥ 8,756**	¥ 6,564	**$ 74,204**
Due after one year	**25,558**	19,967	**216,593**
Total	**¥34,314**	¥26,531	**$290,797**

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

Depreciation expense and interest expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Depreciation expense	**¥8,432**	¥6,667	**$71,458**
Interest expense	**1,141**	845	**9,669**
Total	**¥9,573**	¥7,512	**$81,127**

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, 2003, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥4	$34
Due after one year	2	17
Total	¥6	$51

12. Contingent Liabilities

As of February 28, 2003, the Group had the following contingent liabilities:

	Millions of Yen	Thousands of U.S. Dollars
Guarantee on payment of CAPLAN Corporation	¥2	$17

CAPLAN Corporation supports merchandising activities of all franchisees of "MAIL BOXES ETC." and the franchisees pay supporting fee to CAPLAN Corporation. MBE Japan, Inc. guarantees the franchisees' payment to CAPLAN Corporation.

13. Subsequent Events

At the general shareholders meeting held on May 28, 2003, the Company's shareholders approved the following appropriations of retained earnings and the repurchase of treasury stock:

a. Appropriations of Retained Earnings

Appropriations of retained earnings for the year ended February 28, 2003, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥19 ($0.16) per share	¥1,840	$15,593
Bonuses to directors and corporate auditors	47	398

b. Repurchase of Treasury Stock

The Company is authorized to repurchase up to 4,500 thousand shares of the Company's common stock (aggregate amount of ¥10,000 million ($84,746 thousand)) as treasury stock until the next general shareholders meeting.

14. Related Party Transactions

Transactions of the Company with related parties for the years ended February 28, 2003 and 2002, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Nishino Trading Co., Ltd.:			
Purchases	**¥97,049**	¥102,185	**$822,449**
Payable—trade for franchised and Company-owned stores	**8,879**	10,170	**75,246**
Tadashi Endo (corporate auditor and attorney)—Attorney's fee	**32**		**271**
Famima Credit Corporation (associated company):			
Loan	**3,500**		**29,661**
Receivable—short-term loans	**3,500**		**29,661**

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

In September 2002, Nishino Trading Co., Ltd. sold a nearly all part of shares of Family Corporation Inc. to ITOCHU Corporation, as a result, Nishino Trading Co., Ltd. was not corresponded to related party. The amount of purchases and payable of Nishino Trading Co., Ltd. are stated until and as of September 30, 2002, respectively.

15. Segment Information

The Group operates in the following industries:

Convenience Store Business:	Developing "FamilyMart" chain stores by franchise system and area franchise system
E-commerce Business:	Sales by Famiport Multimedia Kiosks and internet shopping, etc.
Other Businesses:	Leases, operating "MAIL BOXES ETC." franchised stores, financial services, etc.

Information about industry segments, geographic segments and operating revenues from foreign customers of the Company and its subsidiaries for the years ended February 28, 2003 and 2002, was as follows:

(1) Industry Segments

The industry segments of the Company and its subsidiaries for the years ended February 28, 2003 and 2002, are summarized as follows:

a. Operating Revenues and Operating Income (Loss)

	Millions of Yen				
	2003				
	Convenience Store Business	E-commerce Business	Other Businesses	Eliminations/ Corporate	Consolidated
Operating revenues from outside the Group	**¥188,393**	**¥28,678**	**¥ 397**		**¥217,468**
Intersegment operating revenues	**479**	**3,924**	**2,475**	**¥(6,878)**	
Total operating revenues	**188,872**	**32,602**	**2,872**	**(6,878)**	**217,468**
Operating expenses	**156,561**	**33,160**	**2,747**	**(2,921)**	**189,547**
Operating income (loss)	**¥ 32,311**	**¥ (558)**	**¥ 125**	**¥(3,957)**	**¥ 27,921**

b. Total Assets, Depreciation and Expenditures

	Millions of Yen				
	2003				
	Convenience Store Business	E-commerce Business	Other Businesses	Eliminations/ Corporate	Consolidated
Total assets	**¥198,498**	**¥2,495**	**¥5,522**	**¥44,094**	**¥250,609**
Depreciation	**13,360**	**4**	**346**		**13,710**
Capital expenditures	**24,026**	**16**	**145**		**24,187**

a. Operating Revenues and Operating Income (Loss)

	Thousands of U.S. Dollars				
	2003				
	Convenience Store Business	E-commerce Business	Other Businesses	Eliminations/ Corporate	Consolidated
Operating revenues from outside the Group	**$1,596,551**	**$243,034**	**$ 3,364**		**$1,842,949**
Intersegment operating revenues	**4,059**	**33,254**	**20,975**	**$(58,288)**	
Total operating revenues	**1,600,610**	**276,288**	**24,339**	**(58,288)**	**1,842,949**
Operating expenses	**1,326,788**	**281,017**	**23,279**	**(24,754)**	**1,606,330**
Operating income (loss)	**$ 273,822**	**$ (4,729)**	**$ 1,060**	**$(33,534)**	**$ 236,619**

b. Total Assets, Depreciation and Expenditures

	Thousands of U.S. Dollars				
	2003				
	Convenience Store Business	E-commerce Business	Other Businesses	Eliminations/ Corporate	Consolidated
Total assets	**$1,682,186**	**$21,144**	**$46,797**	**$373,678**	**$2,123,805**
Depreciation	**113,220**	**34**	**2,932**		**116,186**
Capital expenditures	**203,610**	**136**	**1,229**		**204,975**

a. Operating Revenues and Operating Income (Loss)

	Millions of Yen				
	2002				
	Convenience Store Business	E-commerce Business	Other Businesses	Eliminations/ Corporate	Consolidated
Operating revenues from outside the Group	¥180,299	¥12,954	¥2,352		¥195,605
Intersegment operating revenues	590	2,350	1,894	¥(4,834)	
Total operating revenues	180,889	15,304	4,246	(4,834)	195,605
Operating expenses	151,939	16,611	4,262	(963)	171,849
Operating income (loss)	¥ 28,950	¥ (1,307)	¥ (16)	¥(3,871)	¥ 23,756

b. Total Assets, Depreciation and Expenditures

	Millions of Yen				
	2002				
	Convenience Store Business	E-commerce Business	Other Businesses	Eliminations/ Corporate	Consolidated
Total assets	¥198,633	¥2,256	¥2,369	¥39,259	¥242,517
Depreciation	13,726	192	467		14,385
Capital expenditures	32,176	362	157		32,695

(2) Geographical Segments

The geographical segments of the Company and its subsidiaries for the years ended February 28, 2003 and 2002, are summarized as follows:

	Millions of Yen			
	2003			
	Japan	Asia	Eliminations/ Corporate	Consolidated
Operating revenues from outside the Group	**¥184,468**	**¥33,000**		**¥217,468**
Interarea transfers	**427**	**39**	**¥ (466)**	
Total operating revenues	**184,895**	**33,039**	**(466)**	**217,468**
Operating expenses	**154,302**	**31,727**	**3,518**	**189,547**
Operating income	**¥ 30,593**	**¥ 1,312**	**¥ (3,984)**	**¥ 27,921**
Assets	**¥180,011**	**¥24,367**	**¥46,231**	**¥250,609**

	Thousands of U.S. Dollars			
	2003			
	Japan	Asia	Eliminations/ Corporate	Consolidated
Operating revenues from outside the Group	**$1,563,288**	**$279,661**		**$1,842,949**
Interarea transfers	**3,619**	**331**	**$ (3,950)**	
Total operating revenues	**1,566,907**	**279,992**	**(3,950)**	**1,842,949**
Operating expenses	**1,307,644**	**268,873**	**29,813**	**1,606,330**
Operating income	**$ 259,263**	**$ 11,119**	**$ (33,763)**	**$ 236,619**
Assets	**$1,525,517**	**$206,500**	**$391,788**	**$2,123,805**

	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	¥ 28,540	¥ 68	¥ (4,852)	¥ 23,756
Assets	¥181,332	¥21,720	¥39,465	¥242,517

(3) Operating Revenues from Foreign Customers

Operating revenues from foreign customers for the years ended February 28, 2003 and 2002, amounted to ¥33,200 million ($281,356 thousand) and ¥28,949 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, 2003 and 2002, 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, 2003 and 2002, 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 applied on a consistent basis.

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.

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 28, 2003

Corporate Data (Non-consolidated)

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Incorporated
September 1, 1981

Paid-in Capital
¥16,659 million

Authorized Shares
250,000,000

Issued Shares
97,683,133

Number of Shareholders
24,263

Number of Full-Time Employees
2,122

Stock Exchange Listing
Tokyo stock exchange

Domestic Area Franchisees
Okinawa 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, 2003)

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