FamilyMart

Annual Report 2004

Profile

The FamilyMart Group comprises 16 companies: FamilyMart Co., Ltd., eight subsidiaries, and seven affiliates. In parallel with its core business of operating convenience stores through a network of 10,326 stores (at the end of February 2004) in Japan and other East Asian countries, the Group engages in business in the sphere of e-commerce and a range of other fields. The FamilyMart Group's corporate philosophy is "Co-Growing," namely the building of mutually beneficial relationships with customers, franchised stores, business partners, employees, and the local communities it serves, and growing and developing in tandem with them. Based on this corporate philosophy, the Group's policy is to conduct convenience store operations in a way that enables franchised stores, business partners, employees, and customers to interact harmoniously, and also to be an innovative corporate group that is the most advanced in its industry. With the goal of achieving a continuous increase in the earnings of both franchised stores and the parent company, emphasis is placed on the key management indicators of daily sales and margins, and priority is also given to return on investment, by increasing the ratio of profit to shareholders' equity.

Contents

Disclaimer concerning 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. Readers should be aware that actual results may differ from the Company's expectations.

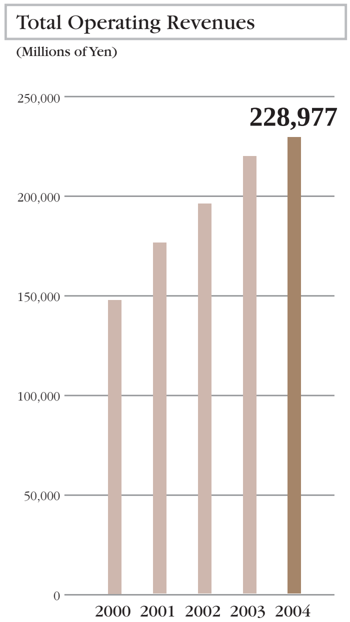
Consolidated Financial Highlights

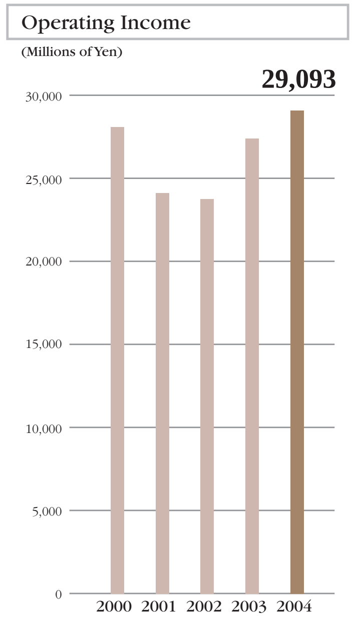
FamilyMart Co., Ltd. and Consolidated Subsidiaries

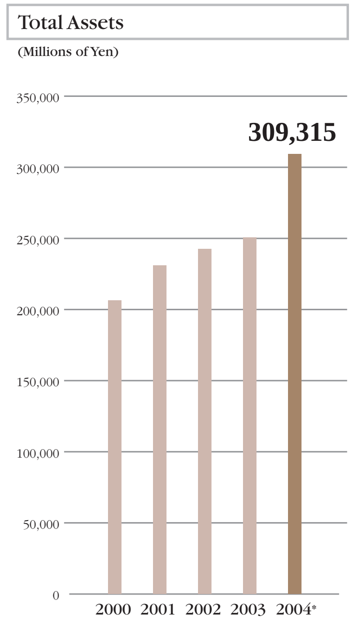
Years Ended February 29, 2004 and February 28, 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	**2004**
Results of Operations:			
Total operating revenues	**¥228,977**	¥217,468	**$2,081,609**
Operating income	**29,093**	27,921	**264,482**
Net income	**13,788**	12,880	**125,345**
Basic net income per share (in yen and U.S. dollars)	**141.5**	132.3	**1.29**
Cash dividends per share (in yen and U.S. dollars)	**38.0**	38.0	**0.35**
Financial Position:			
Total assets	**¥309,315**	¥250,609	**$2,811,955**
Total shareholders' equity	**147,524**	137,636	**1,341,128**
Book value per share (BPS) (in yen and U.S. dollars)	**1,522.3**	1,420.4	**13.84**
Other Data:			
Number of stores (Note 2)	**10,326**	9,123	
Number of shareholders	**21,173**	24,263	
Number of full-time employees	**4,675**	4,466	

Notes: 1. Conversion into U.S. dollars has been made at the exchange rate of ¥110=U.S.$1, the rate prevailing on February 29, 2004.
2. Number of stores includes domestic and overseas area franchised stores.







*The year-end date of February 29, 2004 was a bank holiday, and the unsettled payables, amounting to ¥41,170 million, are included in the amount of total assets as of February 29, 2004.

Speeding up structural reform, improving competitiveness

Highlights of the Year

- Both consolidated and non-consolidated revenues and profits **increased for the second successive year**
- Consolidated operating income reached **a record high of ¥29 billion**
- Average daily sales at new stores rose **for the third year in succession**
- Gross profit margin on products rose from 28.25% to **28.50%**
- Organizational change effected from 9-region system **to 16-district system**
- FamilyMart became the first home-grown Japanese convenience store chain to reach **10,000 stores in East Asia**

We thank all shareholders and other stakeholders for their continuing support for the FamilyMart Group.

Over the year the retailing industry once again experienced a very difficult operating environment, impacted by persistently sluggish consumer spending resulting from long spells of rainy weather, a cold summer, and a protracted deflationary trend. In spite of these circumstances, in the year ended February 2004 the FamilyMart Group achieved increases in consolidated revenue and profit for the second year in succession. Total operating revenues were ¥228,977 million (up by 5.3% year-on-year), and net income totaled ¥13,788 million (up by 7.0%).

In the sphere of management policy, structural reform to strengthen the fabric of the Group continued to be implemented forcefully, and energy was devoted to developing the store network from the standpoint of our customers. A milestone was achieved on December 18, 2003, when FamilyMart became the first home-grown Japanese convenience store chain with 10,000 stores in East Asia.

During the current fiscal year, together with our franchised stores, we will continue to devote all our energies to improving business performance still further, building a truly pleasant and lively FamilyMart that earns the support of its customers.

Chairman, Representative Director
and Chief Executive Officer

President, Representative Director
and Chief Operating Officer

Message from the President

I remain committed to ongoing vigorous reforms aimed at maximizing corporate value

I am continuing resolutely to pursue the structural reform required to strengthen the fabric of the Group, with the aim of ensuring the FamilyMart Group is No. 1 in the industry in terms of quality. This is a vision that will not simply remain a goal and an ideal. It will be put into practice by means of reforms designed to shape a fighting unit that, together with our franchised stores, achieves even greater capacity for growth and profitability.

Two years of efforts and results

■ Implementing thorough structural reform, and strengthening the support structure for franchised stores

Two years have now elapsed since I became President in March 2002. During that period I have sensed steady change as regards the strong commitment to reform and the moves toward change that have emerged within the Company.

I started by implementing institutional reform, so as to create a corporate culture in which capable employees are free to use their capabilities to the best advantage. For example, I selected young people in their thirties and early forties – people able to change the Company – for appointment as executive officers or general managers. I also gave opportunities to capable veteran employees whose capabilities had not previously been appreciated, as part of my efforts to create a personnel system that rewards people for acting in a competent manner.

In addition, through forums such as special "president's tutorials" for exchanges of opinions with supervisors and store development staff in the front line of Company activity, training sessions, and meetings, I have sought to change their perceptions by explaining that we have an opportunity to transform ourselves into an organization that will triumph in today's era of intense competition. The business-execution structure and the attitudes of employees have been modified through a series of reforms, including the introduction of the district system and the strengthening of the head office support structure for franchised stores. Through these, vigorous steps have been taken to enhance the competitiveness of each individual store.

I am sure that there is no magic formula for the retailing industry. The only retail chain that will win the day is the one that pays thorough attention to the basics, which simply means ensuring that it provides sales areas that give true customer satisfaction, and makes tireless and repeated efforts to achieve that. With this common understanding shared by us at headquarters and our franchised stores, we are determined to continue to channel our full energies into being the No. 1 chain for quality.

Business performance for the term under review, and measures for the future

■ Inauguration of the new 19-district structure

The term ended February 2004 was a period of intense competition. Against a backdrop of persistently cool consumer sentiment, our stores battled against competing convenience stores and also against competition from other industries, for example supermarkets that extended their opening hours late into the night.

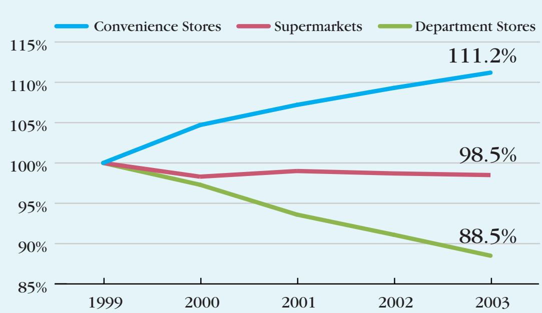
Based on our 16-district operating structure, controlled directly by the President since the beginning of the reporting term, we worked hard to improve our capabilities as franchiser, and implemented priority measures based on the cornerstones of enhancing the competitiveness of individual stores, strengthening merchanding, and opening high-quality stores. As a result, consolidated operating income rose from ¥27,921 million in the previous year, to ¥29,093 million. That was not only the second successive year of growth, but also marked an all-time high.

Beginning with the current term, this structure has evolved further, as a reorganization of the 16-district operating structure has led to the creation of a new 19-district structure. As a result of this we are able to devote greater strength to an aggressive store-opening program to reinforce our dominant position in the regions, particularly in major urban areas, and also to support our existing stores. To enhance our capacity for store development, the people placed in charge of each district are experts with extensive experience of store development.

Under this structure, during the current term, we will pay even more thorough attention to SQ&C (service, quality and cleanliness) – one of the fundamentals of the retailing industry – and strive to boost the competitiveness of each individual store. Through these efforts I want to ensure that we not only increase the growth capacity and profitability of all our stores, but also build a solid structure for assuring sales and profit growth.

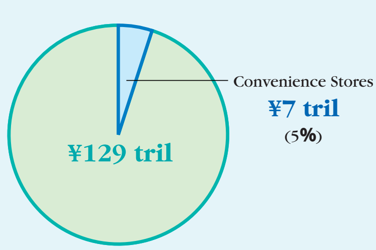
■Convenience Stores Lead the Retail Sector

Sales Growth Comparison of Major Retail Categories



Note: Based on figures released by METI (1999=100%)

2003 Total Retail Sales



Sales of convenience stores have been growing continuously over the past five years, but as convenience stores still account for only about 5% of total retail sales, plenty of room for further growth remains.

Overview of three priority measures

Enhancing the competitiveness of individual stores

There are two priority issues here: giving thorough attention to SQ&C, so as to guarantee customer satisfaction, and increasing the accuracy of ordering, so that shelves are always stocked with every item of merchandise that customers want to buy.

As regards giving thorough attention to SQ&C, franchised stores and head office supervisors worked in unison to focus on specific issues affecting individual stores, and to make improvements. Combined with assistance from the Supervisor Support Group, set up in 2003, this approach is proving remarkably effective. We have also been working in other ways to strengthen the resilience of store staff and to raise the level of SQ&C. For example, courses for staff instructors have been held throughout Japan, and in January 2004 we introduced a mobile training vehicle for use at stores located far away from training facilities. With respect to increasing the accuracy of ordering on an item-by-item basis, we have implemented a large-scale measure to boost sales targeting the ordering of ready-to-eat foods through closer cooperation between store managers and supervisors. From October 2003 we have been giving all stores pictures of suggested display layouts for new and original merchandise, to help increase the accuracy of ordering and ensure that sales areas in stores are laid out in the most attractive way.

Strengthening of merchandising

We conducted a vigorous program of product development, centering on our mainstay delicatessen products. In our marketing strategy we undertook the 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. Specific examples of products that proved highly popular are the *Irodorizen* range of high-quality boxed lunches, the *Shugawari* range of boxed lunches, which offer a different taste every week, and the *Otona no ippin* range, tailored to discriminating adult tastes by using selected ingredients and production methods.

Opening of high-quality stores

We continued our development of high-quality stores in regions in which we already operate, focusing on the three major metropolitan areas – Tokyo, Osaka and Nagoya, and also in new territory, starting with a store-opening in Ehime Prefecture in December 2003. We also took vigorous steps to create new markets, being the first in our industry to open stores for limited periods at venues for major events, and opening in places such as commercial buildings and expressway service areas. Forming part of this approach was the opening of stores specially designed to blend in a harmonious way with the surrounding environment. As of the end of February 2004, the number of our stores in Japan totaled 6,199, including those of two domestic area franchisers, and the number of stores of our three overseas area franchisers in Taiwan, South Korea and Thailand stood at 4,127, making a total Group chain of 10,326 stores.

Achieving a 10,000-store network in East Asia, and our overseas strategy

Start of our Pan-Pacific Plan

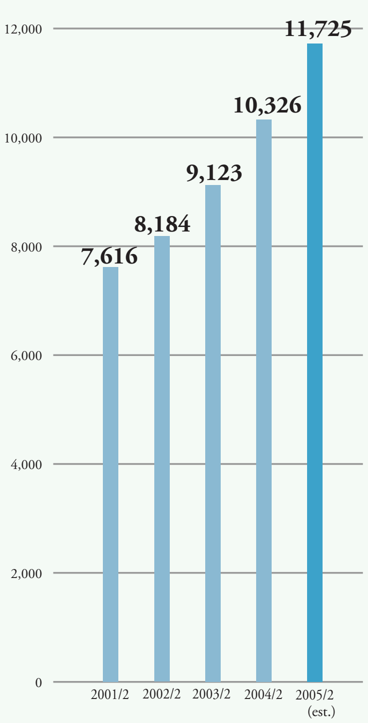
In December 2003, FamilyMart became the first convenience store chain of Japanese origin to build a network in East Asia totaling 10,000 stores. Taiwan FamilyMart Co., Ltd., whose shares have already been offered to the public in Taiwan, is performing increasingly well, while in South Korea, Bokwang FamilyMart Co., Ltd. has become the industry leader. At Siam FamilyMart Co., Ltd., in Thailand, a local staff member was appointed as CEO, and the speed of openings of high-quality stores is being increased.

A network of 10,000 stores in East Asia is an important milestone, and as the next stage we are targeting a total of 20,000 stores by fiscal 2008. To achieve that, our dual approach is to expedite expansion of the network overseas while at the same time opening more stores within Japan in regions in which we do not yet operate.

During 2004, our Pan-Pacific Plan includes the opening of stores in Shanghai and on the U.S. West Coast. The Chinese government has stated its intention of opening up the distribution market at the end of 2004, and we plan to expand our store network in China by making use of our know-how and successful track record in Taiwan.

My intention is that FamilyMart, as a Japan-based convenience store chain, will put into practice its thorough emphasis on SQ&C and its provision of a lineup of fast-selling products in China and the United States. Ticket sales and agency business through Famiport Multimedia Kiosks, which are generating increasing revenues in Japan, will provide us with a major weapon for our future overseas expansion. In the future it should be possible to pick up and settle payments locally for tickets bought in Japan for overseas events. By expanding service capabilities based on stores such as these, we will throw our full energies into realizing our dream of making FamilyMart the global standard for convenience store chains.

Number of stores
(Japan & overseas)



Strengthening corporate governance and compliance

Enhancing business execution oversight and auditing capabilities

In order to adjust the board of directors to the appropriate size, in May 2000 the Company reduced the number of directors and instituted a system of executive officers. This established the board of directors as the Company's decision-making and supervisory body for the execution of business, separating it from the actual business execution functions, thereby strengthening management and accelerating both decision-making and the conduct of business.

The board of corporate auditors, which has four members, one of whom is an external auditor, conducts strict supervision of the board of directors and the execution of business by the executive officers. Of particular note is that there is close liaison between corporate auditors, the internal auditing departments, and certified public accountants, so as to add further strength to the overall oversight functions. Additionally, we work constantly to increase the awareness of management with respect to corporate governance, to ensure more transparent and highly trustworthy management.

Attaching importance to corporate social responsibility

To improve compliance, in September 2003 the Compliance Committee was established under the direct control of the President, demonstrating, both within and outside the Group, the top management's commitment to strengthening compliance.

In March 2004, the Legal and Compliance Department was established within the General Affairs and Personnel Division as a unit dedicated to implementing our compliance program. In May of the same year, the FamilyMart Basic Compliance Policy was drawn up, with copies being distributed to our employees and made available to the general public. Simultaneously, we drew up the FamilyMart Compliance Guidelines: The Three Major Issues, and set up an internal reporting system enabling our employees to inform management of illegal or unethical practices within the Company. These are some examples of our commitment to the ongoing development of conditions conducive to effective corporate governance.

Enhancing investor relations

At FamilyMart we believe that the senior managers should themselves play the central role in investor relations (IR), so we have established a dedicated IR team within the Corporate Communications Department, which reports directly to the President. This is part of our efforts to strengthen and increase IR activity, so as to ensure the disclosure of management information in a transparent and timely manner. In addition to disclosing information through our Web site we are active in other ways, including through the holding of meetings and interviews with analysts and institutional investors to explain our statements of accounts. During 2003, overseas activities included individual visits to 35 institutional investors in seven cities in the U.S., the United Kingdom, Italy, and Germany, to give them a better understanding of the Company through face-to-face meetings. We will continue to enhance our IR activity, which has already won high regard in the stock markets.

For the

Aiming to increase shareholder value

Having achieved our target of topping 10,000 stores in East Asia and having embarked on our new growth strategy through entry into the Chinese and U.S. markets, morale and motivation both in-house and at franchised stores is increasing palpably.

Our forecasts for consolidated results in the year to February 2005 are for total operating revenues of ¥244 billion (up by 6.6% year-on-year), and net income totaling ¥14.6 billion (up by 5.9%).

In pursuit of the goal translating its aspirations into reality, FamilyMart is at one with its franchisees in striving to improve performance still further and to maximize shareholder value.

I hope that our shareholders and all other stakeholders will continue to give us their full support.

Customers

FamilyMart and all its franchised stores are unanimous in their dedication to maximizing quality in all aspects of the business, from store management to merchandise and services. In this section we introduce you to the business activities of the FamilyMart Group as it enhances the competitiveness of its stores, always adopting "the perspective of the customer" and approaching the task by devoting strict attention to service, quality and cleanliness (SQ&C), thereby giving customers wholehearted satisfaction and converting them into FamilyMart devotees, by increasing the accuracy of ordering, so that people can be assured of finding the merchandise they want whenever they visit a store, and by strengthening merchandising in a way that meets a broad range of needs.

Thorough adherence to the fundamentals of retailing, aiming to be the leading company in its industry for quality

Service

Quality

Cleanliness

In an era of intense competition fueled by companies both within and outside the industry, FamilyMart gives maximum priority to improving the competitiveness of each of its stores. By ensuring ever-stricter attention to SQ&C, increasing the accuracy of ordering, and strengthening merchandising, it continues to step up its support for its franchised stores. For the development of stores it is both establishing high-quality outlets in regions in which it is already operating, and also devoting attention to opening up new markets, for example in commercial buildings and expressway service areas, where it can give greater convenience to the public and cater to latent needs. It also continues to improve its unique E-Retail services, for example through Internet shopping and Famiport Multimedia Kiosks, transforming real (bricks-and-mortar) stores into high-value-added outlets. Also, as part of its duties as a corporate citizen, the Company takes an active part in environmental conservation activities and corporate philanthropy. By maintaining and stepping up these efforts, FamilyMart is building the strongest possible retail chain; one that is regarded as being second to none in terms of quality.

The Industry-Leader for Quality

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Enhancing the competitiveness of stores

Raising customer satisfaction and minimizing lost sales opportunities through vigorous SQ&C and higher ordering accuracy

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Strengthening merchandising

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

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Expanding the store network

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

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E-Retail services

Raising the value-added of conventional stores through the extra convenience provided by our proprietary E-Retail services

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Contributing to environment and community

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

Enhancing the competitiveness of stores

Achieving maximum customer satisfaction, aiming to be the chain that customers trust the most

Strict Attention to SQ&C

Everything we do is for the customer

For FamilyMart, thorough devotion to service, quality and cleanliness (SQ&C) is the most important issue. By applying our full energies to raising the level of SQ&C, we strengthen the competitiveness of every one of our stores.

In the reporting term, we laid down the “FamilyMart 13 Fundamentals of SQ&C,” which cover the most important aspects of interacting with customers, for example how to greet and thank them when they enter and leave our stores, and the importance of serving customers without delay. Head office and franchised stores are working in unison to ensure that these fundamentals of retailing are applied and put into practice at a high level in every store. Our goal is to make it a pleasure for people to shop daily at a FamilyMart store.

We will never waver from our stance of seeing everything from the perspective of our customers, engaging in store operations that give them wholehearted satisfaction, and further strengthening our business support structure finely tuned to the market characteristics of each store.

FamilyMart 13 Fundamentals of SQ&C
1. Greeting and thanking customers when they enter and leave stores
2. Greeting customers when they come to check out their purchases
3. Providing speedy customer service
4. Giving of change and receipts
5. Front shelf-filling (bringing merchandise at the rear of shelves to the front, to make the products more visible to customers)
6. Face-front shelving (placing merchandise so that product names are visible)
7. Arrangement of magazines and gondolas
8. Management of sell-by dates
9. State of store cleaning and waste disposal
10. Cleaning of waste bins, and waste disposal
11. Floor cleaning
12. Cleaning of gondola shelves and merchandise
13. Arrangement and cleaning of counter areas

Raising operation level through SQ&C checks and assessments

Together with the district organizations nationwide, the Supervisor Support Group in the Operation Division provides powerful support for the improvement of store management. Staff of the Supervisor Support Group go directly to stores and work with franchisees to resolve any issue affecting an individual store. In March 2004 the Supervisor Support Group was upgraded to the status of Supervisor Support Department, and an East Japan Group and a West Japan Group were newly formed, creating a store support structure able to give support more finely tuned to individual circumstances.

To make objective judgments about store management from a customer standpoint, FamilyMart commissions specialist outside firms to check and evaluate the degree of SQ&C at each store, and also has an in-house system of staff monitors who check the state of implementation of SQ&C at stores. Issues at individual stores that emerge from these checks are fed back to the franchise owners, and district managements and supervisors then give full assistance with improvement measures, so that the stores concerned achieve increases in customer numbers.

Improving the education of store staff

The education of the store staff who actually interact with customers is of key importance to the thorough application of SQ&C. For that purpose, since April 2003 FamilyMart has been operating a continuous program of store staff trainer instruction sessions throughout Japan, at which specialist store instructors give guidance on improving techniques of customer care, and convey know-how to trainers (store personnel responsible for staff training).

The training of store staff has traditionally been conducted at area offices and Company-owned stores, but since January 2004 it has also been provided by an “SQ&C mobile training vehicle” used principally for stores in remote locations and new operating areas.

Since the reporting term, the Company has also been introducing a full-scale system of store staff qualifications, in order to raise their skills and motivation. Through such means as tests and interviews, the Company awards three levels of qualification: primary, intermediate, and advanced.

We apply the basic principles of staff training – finding the right personnel; teaching them the expertise they require; rewarding them adequately; and making the whole process interesting and enjoyable. In this way, we are increasing the working efficiency of store staff, and thereby gaining a degree of customer support that far outclasses the support given to rival stores.

Increasing the accuracy of ordering

Accurate product lineups to ensure sales opportunities are never lost

Another key element of enhancing store competitiveness is that of increasing the accuracy of ordering. This is because a priority issue for every store is the complete elimination of lost sales opportunities by ensuring that it stocks and displays the merchandise that customers want to buy, particularly fast-selling items. To achieve that, sales trends are monitored on a meticulous product-by-product basis, to ensure that fast-selling items do not run out at any time of day or night. What is more, responsibility for ordering is not left solely to the person in charge of a store and other managers, but is allocated among store staff, a characteristic that helps to invigorate FamilyMart sales areas.

The full-scale computerization of the provision of information to franchised stores began in 2003 with the start of electronic transmissions – through handheld Store Activation Terminals (SATs) – of product information and other data for developing in-store sales areas. As a result, information necessary for the placement of orders and the configuration of store displays is accessible at all times on the SAT monitors, providing a useful tool for improving store operation still further.

Skill Enhancement through the Store Staff Total System

Strengthening the total store support structure

We have been devoting continuous efforts to strengthening our store support structure, so that franchisees never cease to be glad that they signed 10-year franchise agreements with FamilyMart. Backed by the assistance in store management provided by the Supervisor Support Department, under the store monitor system inaugurated last year, we have received at Head Office around 5,300 SQ&C confirmation postcards. In addition, our SQ&C mobile training vehicle – another industry first by FamilyMart – has been well received in regions throughout Japan. In personnel development, store staff leaders from some 1,900 stores nationwide have received training. We have also completed the full-scale introduction of our qualification system, under which motivation is being raised by such means as giving special benefits to people who gain the Advanced qualification when they open their own stores independently. We will continue to give even more active support to our franchised stores, as members of our "Family."

Inside the SQ&C training vehicle

Shisaburo Ueda

Senior Managing Director,
Operation Division

Strengthening merchandising

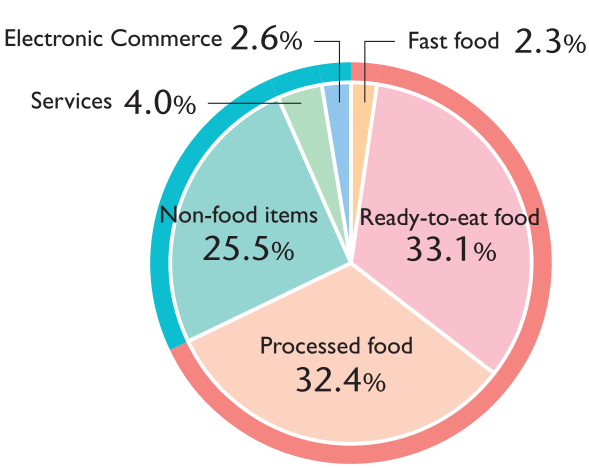
Creating a lineup of original merchandise to delight our customers

Expanding the lineup of distinctive merchandise

FamilyMart continues to enhance its development structure in a way that enables it to produce a stream of competitive new merchandise that meets changing customer needs rapidly, ranging from foods to daily necessities. Particularly popular are our delicatessen dishes such as rice balls and boxed lunches, which are among our core products, and which offer delicious flavors and originality. For example, as part of our campaign to mark the achievement of an Asian network of 10,000 stores, in December 2003 the Company launched a hit range of distinctive products marketed for their uniqueness to FamilyMart, and grouped into Korean, Taiwanese, Shanghai, and Thai themes.

In the field of e-retail services, meanwhile, we are developing a range of distinctively FamilyMart new products and services, primarily through famima.com.

Breakdown of Sales by Merchandise Category



Ensuring displays are always sparkling fresh

Product development

A FamilyMart store has an average of 2,600 items of merchandise. Around 100 items are replaced by new ones each week, with approximately 70% of the total lineup changing every year, thereby ensuring constant freshness and new discoveries. As well as strengthening its merchandising to cater meticulously to every conceivable customer need, FamilyMart also actively develops original products as deregulation and other changes permit it to do so.

Building loyalty from an extensive customer base by strengthening three types of marketing

Aiming to be a convenience store chain popular with every age-group

Generation marketing

FamilyMart is seeking to expand its lineup of merchandise to match the needs of the customers in the wide range of age-groups that visit its stores. To that end, it is boosting its customer pulling power by developing products that cater to the requirements of the large numbers of people in each of these age-groups, including not only people in their forties and baby boomers, who will constitute the biggest group, but also people such as working women and people in their twenties and thirties, currently the main customer group.

Meeting diverse pricing requirements

Price marketing

Consumption is become increasingly diverse in character. On the one hand, the mood of deflation in Japan is generating more price-consciousness, while on the other hand people are still looking for value for money, even at high prices, as evidenced by the brisk business being done in food halls at department stores. In response to this trend, FamilyMart is offering a well-balanced merchandise range tailored to meet the needs of customers to whom value is more important than price, ranging from products that offer good value even at low prices, to high-value-added products for people who are selective as to seasonal ingredients and region of origin.

Stepping up product development in tune with local needs

Regional marketing

For product development to match the needs of the various regions throughout Japan, FamilyMart is strengthening its program in a way that does not create standardized products, but products that match the tastes and preferences of each region. The marketing approach is also molded to fit closely with the characteristics of regions throughout the country, including by providing boxed lunches, rice balls, *oden* (stewed hotchpotch), noodle sauces, and other dishes that use distinctive local ingredients and have flavors that match local tastes and preferences. Another component of this approach is to offer merchandise in collaboration with local television stations and well-known local stores.

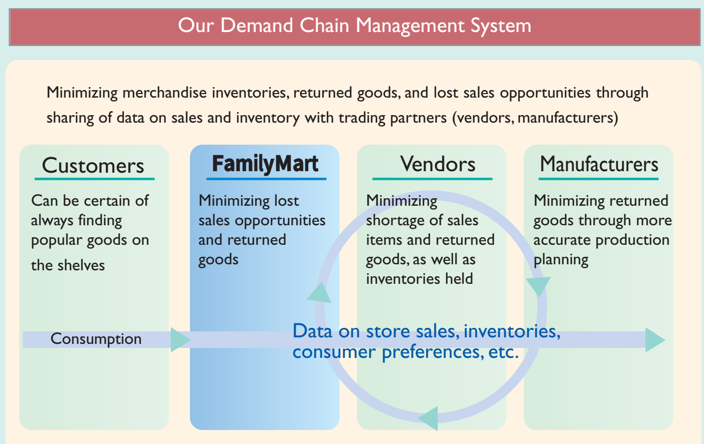
The FamilyMart DCM strategy

Sharing information in which customer needs constitute the starting point, achieving overall optimization of production, distribution, and sales

Since April 2003, FamilyMart has been operating full-scale demand-chain management (DCM), which is based on sales information and other data at stores, and which is aimed at product development tailored to customer needs and the optimization of production, goods distribution, and sales.

Specifically, FamilyMart has begun to provide its major business partners (manufacturers and vendors) with information on demand and inventories via the Internet. Through this the Company is enhancing its cooperative structures with business partners, and is able to quickly assemble product lineups that match customer needs.

In addition, in November 2003 the Company reorganized its distribution centers in the Kansai region by amalgamating five existing distribution centers into the Kyoto Yawata Integrated Center, and started operations there. This has achieved both greater stability of supply and cost reductions.



How to create stores that win the loyalty of customers of all types

People's needs are changing substantially amid trends such as the aging of society and the fall in the birth rate, the increase in the number of working women, and the growth in health-consciousness. At the same time, new business opportunities are being opened up by developments that include deregulation affecting licensed goods such as alcoholic drinks and cigarettes, and sales of non-prescription drugs. FamilyMart is seeking to grow sales through product differentiation and also to increase its margins by increasing the proportion of original merchandise it sells, including menus unique to each region, by means of e-retailing, and by pursuing a sales strategy that blends services and sales of goods.

As for marketing, the three planks of our platform, namely generation, price, and regional marketing, are not independent of each other. We regard them as being overlapping, so we are strengthening product development to satisfy customer needs from a variety of angles. As for our mainstay food products, we devote considerable energy to invigorating the range by reinforcing aspects such how we respond to market trends, and how we tailor our product strategies to targeted customer groups.

Takayuki Yokota

Managing Director,
Merchandising Division

Expanding the store network

Building the most dominant force in the industry through the development of high-quality stores based on a regional strategy

Three views of the interior of our store at Namba Parks, in Osaka

Building a profitable chain network

FamilyMart gives priority to the three principal metropolitan areas of Tokyo, Osaka, and Nagoya in its store-opening strategy, placing emphasis on the development of high-quality stores in regions in which it is already operating. From the current term, the Company is taking steps aimed at strengthening its regional dominance centered on the metropolitan areas, and also increasing its flexibility. The moves entail increasing the number of development sections from 27 to 34, and increasing the number of development staff, so as to ensure more meticulous store development closely attuned to each region.

In the reporting term, the Company opened 456 new high-quality stores and closed 279, leaving a total of 5,770 stores at the end of February 2004. Including the stores of the two domestic area franchisers, the total number of FamilyMart stores in Japan stood at 6,199.

The average daily sales of newly established stores have increased for three consecutive years, to ¥448,000. In the current term, the accuracy of decision-making on store-openings will be honed to a higher degree, the opening of high-quality stores will be accelerated, and the support structure for new stores will be strengthened.

Boosting the development of new markets

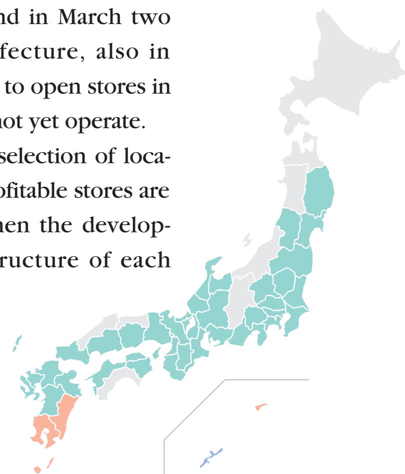
The Company is making a steady success of its pioneering development of new markets. During the year under review, it opened stores in locations such as commercial buildings, hospitals, university campuses, and expressway service areas, and also for limited periods at venues for major events. The Company also scored an industry first by converting a store within a car-manufacturing plant into a convenience store.

In October 2003 FamilyMart opened a new-concept shop in Namba Parks, the new landmark development in south Osaka resulting from the redevelopment of the site of the former Osaka Baseball Stadium. The new store has been attracting considerable comment because, to match the concept of Namba Parks, it uses an original logo, external appearance, and store design that differ from those of existing stores, and the staff have different uniforms. FamilyMart will maintain this stance of not being tied to conventional ways of doing things, stepping up its cultivation of new markets to attract more customers.

Expanding our total operating area

FamilyMart is also undertaking the full-scale development of stores in promising new regions throughout Japan, and during the reporting term opened a store in Ehime Prefecture in Shikoku. As of the end of February 2004, the Company and its domestic area franchisers were operating stores in 38 out of the total of 47 prefectures in Japan, and in March two stores were opened in Tokushima Prefecture, also in Shikoku. We will be stepping up our efforts to open stores in the remaining prefectures in which we do not yet operate.

Our policy is to be very careful in the selection of locations for new stores, to ensure that only profitable stores are opened. Guided by this, we will strengthen the development capabilities and administrative structure of each district, and in tandem with the store-opening strategy for each region, we will enhance our competitiveness in each of them by constructing production plants and distribution centers.



6,199 stores in Japan
(as of Feb. 29, 2004)

Regional breakdown of store numbers (as of Feb. 29, 2004)

Tohoku Area	
Iwate	29
Miyagi	182
Yamagata	89
Fukushima	133

Kanto Area	
Ibaraki	111
Tochigi	107
Gunma	83
Saitama	338
Chiba	229
Tokyo	957
Kanagawa	497
Yamanashi	59

Tokai Area	
Shizuoka	197
Aichi	404
Gifu	80
Mie	112

Hokuriku Area	
Toyama	51
Ishikawa	57
Fukui	92

Kansai Area	
Shiga	93
Kyoto	141
Osaka	601
Hyogo	256
Nara	47
Wakayama	54

Chugoku • Shikoku Area	
Okayama	82
Hiroshima	93
Yamaguchi	9
Kagawa	30
Ehime	7

Kyushu Area	
Fukuoka	217
Saga	42
Nagasaki	144
Kumamoto	84
Oita	63

Minami Kyushu FamilyMart Co., Ltd.	
Miyazaki	73
Kagoshima	195

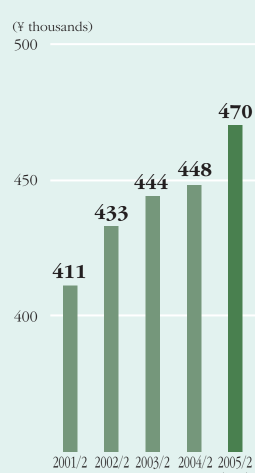
Okinawa FamilyMart Co., Ltd.	
Okinawa	161

Pressing ahead with store-openings based on a regional strategy

FamilyMart will strengthen its development of high-quality stores from three perspectives. First, we aim to become a truly national chain through a vigorous program of store-openings in regions we have not yet moved into throughout Japan. Second, we will reinforce our dominance in the regions in which we are already operating, particularly the three major metropolitan areas. Third, we will continue our development of previously untapped new markets from the standpoint of seeking true "convenience."

In the current term, we will be taking further measures to strengthen our development structure at the national level. We will assign highly motivated young staff to take responsibility for each district, appoint dedicated staff to handle the recruitment of new franchisees in all 19 districts, and throw our full energies into the development of high-quality stores that integrate closely into the communities they serve, with the aim of opening a record-high number of 600 new stores.

Daily sales of new stores



Shota Takahashi
Director,
Store Development Division

Achieving 10,000 stores in East Asia

On December 18, 2003, FamilyMart made history by building a network in Asia totaling 10,000 stores. As of the end of February 2004, the number of stores totaled 6,199 in Japan and 4,127 overseas, the latter comprising 1,539 in Taiwan, 2,251 in South Korea, and 337 in Thailand. In each case, the number of stores has been increasing steadily.

In addition to these three countries overseas, it has been decided to open stores in Shanghai during the current term, in a Chinese economy undergoing strong economic growth. In line with our Pan-Pacific Plan, China will be the pivotal region, and FamilyMart will also launch into the U.S. market.

Taiwan 1,539 stores

South Korea 2,251 stores

Thailand 337 stores

(as of Feb. 29, 2004)

Taiwan

Taiwan FamilyMart Co., Ltd.

Taiwan FamilyMart listed its shares on the Taiwan stock market in 2002, and is currently the second-largest company in the industry there. Its network reached 1,500 stores in December 2003. It has already established plants for the manufacture of ready-to-eat foods such as rice balls and bread, and over the past three years its bread sales have recorded a threefold increase. In the current term, we will be opening a new plant for the production of desserts and enhancing our lineup of original products, and are expanding our store network to encompass the island's east coast.

South Korea

Bokwang FamilyMart Co., Ltd.

Following a burst of business development from the term ended December 2002, Bokwang FamilyMart Co., Ltd. topped the 2,000-store mark in October 2003, becoming the largest chain in South Korea. In the term under review, there was a surging net increase of 723 in the number of stores, and high-quality stores are continuing to be added towards the goal of building a network of 5,000 stores.

Thailand Siam FamilyMart Co., Ltd.

In Thailand, our third store development area in East Asia after Taiwan and South Korea, we currently have 300 stores, which we plan to expand to 1,000 by 2006. During the current term, we plan to complete construction of a center for the preparation and distribution of delicatessen dishes. We are also pursuing a policy of designing our stores and their product lineups to clearly differentiate them from those of our rivals, which will enable us to draw ahead of our rivals through clear product lineup differentiation.

Having reached 10,000 stores in Asia, on to the next stage

FamilyMart's area franchisers comprise two companies in Japan – Okinawa FamilyMart Co., Ltd. and Minami Kyushu FamilyMart Co., Ltd. – and three companies overseas in Taiwan, South Korea, and Thailand, for a total of five area franchisers. This provided the driving force behind our achievement of a network of 10,000 stores in East Asia.

In September 2003, the heads of the area franchise companies (AFCs) gathered in Kagoshima to hold the first "AFC Summit," issuing a joint statement pledging to hold an annual summit and to engage actively in joint plans, undertakings, and information exchanges from an "Asia as One" standpoint. The number of stores in Asia outside Japan was 4,127 at the end of the reporting term, but the 5,000 total is approaching rapidly. For the current term, it has been decided to open a store in Shanghai and a pilot store at an as-yet undecided location on the U.S. West Coast, two approaches that will form part of the powerful unfolding of our Pan-Pacific Plan. We plan to leverage the experience and know-how acquired through our operations in these countries to power the Group's rapid advance toward becoming a global chain.

The first AFC Summit

Gonjiro Minamimoto

Managing Director,
Area Franchising Division

Unique E-Retail services in conjunction with real stores creating increased pulling power and profitability

Providing new high-value-added that transcends the bounds of real stores

FamilyMart's E-Retail services are diverse in character, providing extra convenience in various aspects of people's lives. They include Net shopping, provided through famima.com but based on real stores, agency services for the payment of public-utility bills, and ATM services.

Famima.com uses the unique FamilyMart EC Franchise System, in which each store has its own on-site virtual store linked to the Internet, and as of the end of February 2004, the number of registered members of the Famima Club had reached approximately 1.48 million. At present it operates three sales channels: (1) Internet shopping through personal computers and mobile phones, (2) Famiport Multimedia Kiosks, for sales of tickets, travel goods, prepaid cards, and other digital content, and (3) printed material such as the *Famikore pia* (FamilyMart Collection + PIA) entertainment-oriented mail-order catalogue and the *Livin' Mart* store catalogue targeted at middle to upper age-groups. These have proved highly effective sales channels for linking FamilyMart and its customers not only in stores, but also when they are at home or out and about.

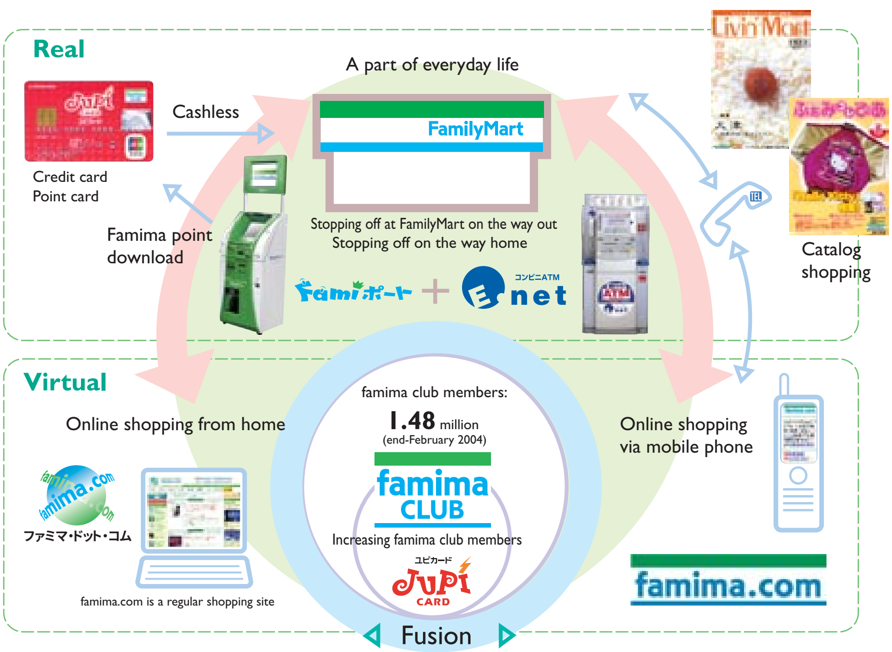
Among these, Famiport functions have mushroomed from the original services focusing on ticket sales and content downloads, and today encompass tasks previously handled by store staff, thereby facilitating labor-saving in store management. These include the receipt of orders for developing and printing photographs, the receipt of loan payments, and catalogue agency business.

Other services to increase customer convenience are also being added, such as for the settlement and delivery of merchandise purchased through partner companies' Web sites, and cleaning services. These are also playing a big part in attracting more customers to stores.

The JUPI Card helps solidify customer loyalty

May 2002 brought the introduction of the JUPI Card, a credit card that gives people even greater comfort and convenience when they shop at FamilyMart stores, by enabling them to do so on a no-cash, no-signature basis. The points awarded for each purchase can be used for shopping at FamilyMart stores, and as Famima Club members they are eligible for a preferential reservation service for Net shopping and ticket purchases. The number of cardholders at the end of February 2004 stood at around 200,000.

By further expanding these E-Retail services and giving high-value-added to real stores, FamilyMart will continue to enhance the profitability of its outlets.




Printing out digital photographs at a Famiport Multimedia Kiosk

Providing one-stop solutions

Quite a number of companies are devoting energy to e-business, but it is a fine art at FamilyMart, one of whose strong points is the skillful combination of multiple channels, such as the Net and catalogues, as cornerstones of each store, enabling them to provide a diversity of merchandise and services not seen at rival stores. Now that we have finished our period of initial investment, we are armed with advanced real and virtual infrastructure that enable us to provide an even more convenient one-stop service, to enhance our ability to attract customers, and to nurture profit-oriented businesses.

New services started in 2004 include a printing service at our stores for the output and copying of data prepared on personal computers and similar devices. In addition, we are expanding services for the payment of utility bills, including through settlements with the JUPI Card, and enhancing other services such as for printing from digital cameras, prepaid services, and ticket sales.

Shiro Inoue

Managing Director,
E-Retail Business Department,
E-Retail Planning and Financial Department
President of Famima.com Co., Ltd.

Contributing to environment and community

FamilyMart is actively fulfilling its social responsibilities by stepping up activities to conserve the environment and contribute to society.

Aiming to be an environmentally friendly convenience store chain

Environmental conservation is one of the missions of FamilyMart's management, which conducts business activities with the aim of maintaining an environmentally friendly chain. One of its principal undertakings in the reporting term was to install its Integrated Heat Use System in 530 stores nationwide. This system is a means of saving energy in the operation of store facilities by integrating their air-conditioning, refrigeration, and freezing systems, reducing annual electricity use. In addition, we are installing organic garbage treatment equipment at Company-owned stores, and are expanding the number of stores employing the services of outside contractors for organic waste disposal as well as the collection and recycling of other waste materials. Other measures that are steadily proving effective include the development of merchandise designed to reduce the burden on the environment, the introduction of environmentally friendly delivery vehicles powered by compressed natural gas (CNG), and the reduction of electricity use and the quantity of copying paper used in offices.

String of awards won by environment-related Web sites

Every year FamilyMart issues its Environmental Sustainability Report to describe its environmental activities to as wide an audience as possible, and discloses information over the Internet. In December 2003 the Company won the "Environment Good Prize 2003" Selection Committee Special Prize both for its environment Web site and for its FamilyMart-Ecokids environment-education site for children. Then in March 2004 FamilyMart became the first convenience store operator to be placed in the top 10 in the fourth "*Minna de Erabu* Ecoweb" prize awards, its environment Web site winning the special encouragement award, and FamilyMart-Ecokids winning the "KIDS" prize.

http://www.family.co.jp/eco
http://www.family.co.jp/eco/ecokids

Introduction of hybrid truck to prevent air and noise pollution

In February 2004, FamilyMart introduced the world's first hybrid truck to serve as a compact truck for deliveries to its stores. The special specifications of these vehicles mean not only that they reduce carbon dioxide emissions, but also that they have temperature-control capabilities owing to a two-compartment refrigerator, plus noise-suppressors for use late at night and in the early morning. It is planned that, after confirming their effectiveness through trials, 100 will be introduced in 2004, and 250–300 per year from 2005 onward.

ISO 14001 external inspection gains an "improved" assessment

In March 1999, FamilyMart was granted ISO 14001 certification for its environmental management system covering all its stores and other places of business. Since then it has received annual inspections by external assessment institutions. At the inspection in January 2004, the assessment grade received by the Company was "improved," the highest of the four assessment grades: improved, unchanged, deteriorated, and failed.

FamilyMart Environmental Sustainability Report

Assistance for Save the Children fund-raising

Since 1993, FamilyMart has been engaging in fund-raising activities through its stores nationwide for the Japanese arm of Save the Children, an international nongovernmental organization recognized by the United Nations. During 2003, four popular Japanese stars – hiro, Eriko Imai, Takako Uehara, and HITOE – acted as goodwill ambassadors in activities arranged by FamilyMart, including in-store publicity campaigns and live concert appearances, and donations and a percentage of Company profits were used to finance activities to help the children of the world.

We have put out collection boxes on the counters of all our stores.

Pursuing environmental management by working closely with franchised stores

I am calling strongly for environmentally minded business practice in all aspects of our activities, for example merchandise, store facilities, Head Office and other offices, and goods distribution. To raise environmental awareness among Company employees, in 2003 I introduced an environment education system using Internet-based e-learning technology. In May last year, we held a "FamilyMart Zero-Trash Day" at 39 locations around Japan, during which the areas around stores and offices were cleaned of litter, and we continued these activities in November.

Serious efforts such as these earned high praise, reflected in the fact that the Nihon Keizai Shimbun, Japan's premier business newspaper, gave FamilyMart high rankings in its 2003 Environmental Management Survey: 11th place in the nonmanufacturing industry category, 3rd in the retail industry category, and 1st in the convenience store category. We will not rest on our laurels, but will continue to step up our environmental activities, including by achieving ongoing improvements under the ISO 14001 standard, and developing the ability to collect and re-use waste cooking oil.

Staff neighborhood cleanup activity

Kagao Okada

Director,
Environmental Management Department

Board of Directors, Executive Officers, and Corporate Auditors

Chairman, Representative Director

Michio Tanabe

President, Representative Director

Junji Ueda

Executive Vice President,
Representative Director

Hiroyoshi Yada

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

Directors and Executive Officers

Kagao Okada
Masatsuna Seki
Shota Takahashi

Executive Officers

Noboru Kanazawa
Toshio Anazawa
Masaharu Ishiguro
Hidemitsu Ozawa
Kenichi Hatta
Kunio Idei
Kazushige Ueno
Toshio Kato
Masaaki Kosaka
Akinori Wada
Kimichika Iwakiri
Yasuhiro Kobe
Hisashi Suzuki
Motoo Takada
Masami Fujimori
Takeshi Takasugi

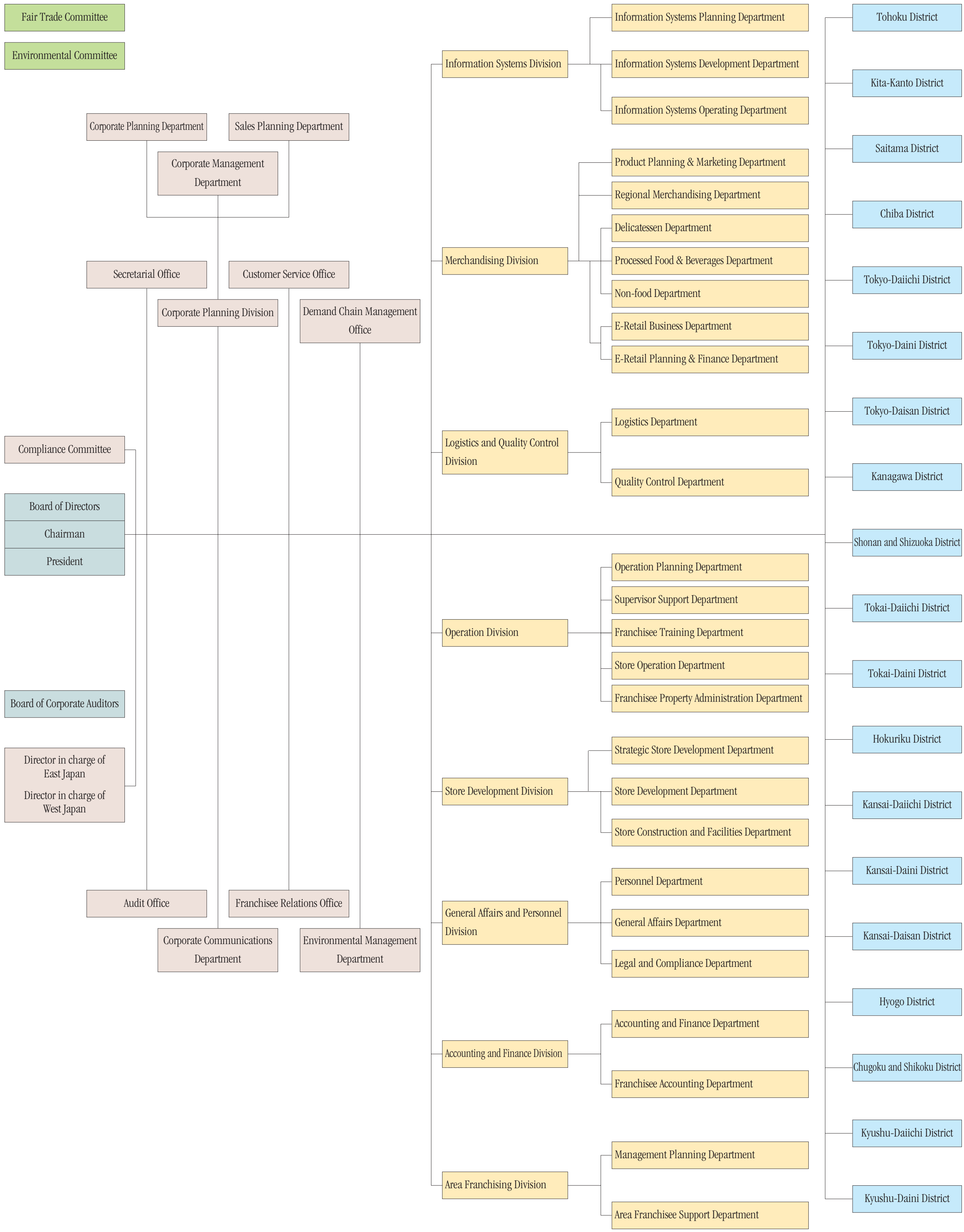
Standing Corporate Auditors

Yukinobu Maeda
Naoji Ishizu
Noboru Nishioka

Corporate Auditor

Takashi Endo

Organization



Corporate History

1972	Sep:	Small Store Section set up within Planning Office of The Seiyu Stores, Ltd.
1973	Sep:	Opening of first convenience store on a trial basis in Sayama, Saitama prefecture.
1978	Mar:	The Seiyu Stores, Ltd. established FamilyMart Department; 4 stores operating.
1981	Sep:	FamilyMart Co., Ltd. was established and business and property were transferred from The Seiyu Stores, Ltd.: 89 stores operating.
1987	Feb:	The number of stores reached 1,000.
	Oct:	FamilyMart and RYUBO CO., LTD. in Naha, Okinawa prefecture jointly established Okinawa FamilyMart Co., Ltd.
	Dec:	Stocks of FamilyMart were listed on the second section of the Tokyo Stock Exchange.
1988	Aug:	FamilyMart and partner companies in Taiwan jointly established Taiwan FamilyMart Co., Ltd.
1989	Aug:	Stocks of FamilyMart were listed on the first section of the Tokyo Stock Exchange.
1990	Jul:	FamilyMart concluded a contract with Bokwang FamilyMart Co., Ltd. of Seoul, South Korea for transfer of convenience store operational know-how and the use of the FamilyMart service logo under license: under this contract, franchising operations for FamilyMart stores in South Korea were commenced.
1992	Sep:	Siam FamilyMart Co., Ltd. was jointly established by FamilyMart, Robinson Department Store Public Co., Ltd., Saha Pathanapibul Public Co., Ltd. and ITOCHU (THAILAND) LTD.
1993	Apr:	Minami Kyushu FamilyMart Co., Ltd. was jointly established by FamilyMart and HOMBO SYOTEN Co., Ltd. in Kagoshima. FamilyMart Co., Ltd. concluded an area franchiser contract with the Company, and commenced franchising operations for FamilyMart stores in Kagoshima and Miyazaki prefectures.
1998	Feb:	The total number of stores reached 6,000 including 1,000 overseas.
	Feb:	The ITOCHU Group bought stocks of FamilyMart from The Seiyu, Ltd. and other companies, becoming the largest shareholder.
	Aug:	Wholly owned subsidiary MBE Japan, Inc. established.
1999	Mar:	All offices and stores of FamilyMart were awarded blanket certification under ISO 14001, the international standard for environmental management systems.
	Sep:	FamilyMart and 25 other companies (including 4 convenience store chains and 10 financial institutions) jointly established E-net Co., Ltd. to install ATM machines in stores.
2000	May:	To promote electronic commerce, FamilyMart and top companies in each industry – including ITOCHU Corporation, NTT DATA Corporation and Toyota Motor Corporation – jointly established famima.com Co., Ltd.
	Oct:	FamilyMart experimentally introduced Famiport Multimedia Kiosks in some stores (full-scale introduction in Feb. 2001).
	Dec:	The number of franchised stores under the control of Taiwan FamilyMart Co., Ltd. reached 1,000.
2001	Nov:	FamilyMart established IFJ Co., Ltd. (Currently Famima Credit Corporation), a credit card company.
2002	Feb:	Taiwan FamilyMart Co., Ltd. was listed on GreTai Securities Market, over-the-counter stock market in Taiwan.
	Apr:	The number of franchised stores under the control of Bokwang FamilyMart Co., Ltd. in South Korea reached 1,000.
	May:	IC card (JUPI card) introduced.
2003	Dec:	FamilyMart became the first convenience store chain of Japanese origin to reach 10,000 outlets in Asia.

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)
	2004	2003	2002	2001	2000	**2004**
Results of operations:						
Operating revenues:						
Commission from franchised stores	**¥127,164**	¥122,738	¥116,478	¥111,729	¥ 96,570	**$1,156,036**
Net sales	**87,083**	80,952	67,822	54,122	34,016	**791,664**
Total operating revenues	**228,977**	217,468	195,605	176,099	147,295	**2,081,609**
Operating income	**29,093**	27,921	23,756	24,123	28,098	**264,482**
Net income	**13,788**	12,880	8,549	8,112	12,960	**125,345**
Per share of common stock						
Basic net income (in yen and U.S. dollars)	**141.5**	132.3	87.6	82.8	133.6	**1.29**
Cash dividends applicable to the year (in yen and U.S. dollars)	**38.0**	38.0	38.0	38.0	38.0	**0.35**
Financial position:						
Total assets	**309,315**	¥250,609	¥242,517	¥230,883	¥206,492	**2,811,955**
Total shareholders' equity	**147,524**	137,636	130,510	126,190	122,555	**1,341,128**
Other data:						
Number of franchised stores and Company-owned stores	**5,770**	5,593	5,287	5,275	4,555	
Number of area franchised stores (including overseas area franchised stores)	**4,556**	3,530	2,897	2,341	2,455	
Number of stores	**10,326**	9,123	8,184	7,616	7,010	
Number of shareholders	**21,173**	24,263	28,088	31,429	16,364	
Number of full-time employees (Note 2)	**4,675**	4,466	4,205	3,917	—	
Weighted average number of shares (thousands)	**96,857**	96,867	96,868	97,107	96,312	

Notes: 1. Conversion into U.S. dollars has been made at the exchange rate of ¥110=U.S.$1, the rate prevailing on February 29, 2004.
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, 8 subsidiaries (of which 6 are consolidated subsidiaries), and 7 affiliated companies (of which 6 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 ¥11,509 million, or 5.3%, to ¥228,977 million (US$2,082 million).

Looking at individual revenues, commissions from franchised stores increased by ¥4,426 million, or 3.6%, to ¥127,164 million (US$1,156 million), due mainly to an increase in sales of franchised stores. Commissions from franchised stores accounted for 55.5% of total operating revenues.

Net sales increased by ¥6,131 million, or 7.6%, to ¥87,083 million (US$792 million), due mainly to increases in sales at the Company-owned stores and sales by Famiport Multimedia Kiosks in the e-commerce business.

Operating revenues from overseas operations accounted for ¥32,820 million (US$298 million), or 14.3% 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 ¥10,337 million, or 5.5%, to ¥199,884 million (US$1,817 million), due primarily to increases in e-commerce service-related cost of sales, as well as 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 ¥1,172 million, or 4.2%, to ¥29,093 million (US$264 million).

During the year under review, net other expenses increased by ¥267 million, or 6.8%, to ¥4,167 million (US$38 million), due primarily to a decrease in loss on store closures as well as a recognition of a gain on exemption from future pension obligations in the previous year.

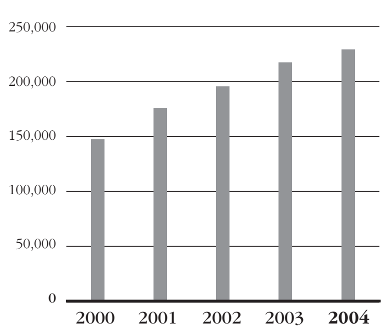
As a result of the above, income before income taxes and minority interests and net income increased by ¥905 million, or 3.8%, to ¥24,926 million (US$227 million) and ¥908 million, or 7.0%, to ¥13,788 million (US$125 million), respectively.

As a consequence, net income per share increased by ¥9.2, to ¥141.5 (US$1.29).

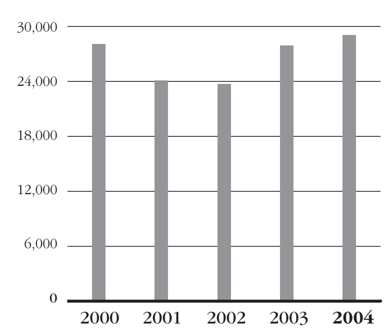
Dividend Policy

In accordance with the Company's policy of the stable distribution of dividends to shareholders in line with the growth of operations, the Company announced dividends of ¥38.0 (US$0.35) per share, the same as in the previous fiscal year.

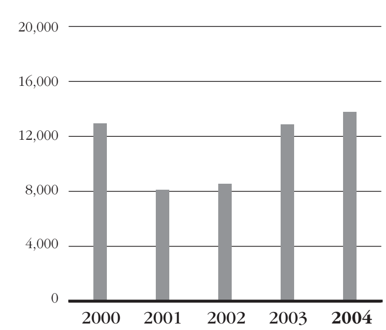
Total Operating Revenues
(Millions of Yen)



Operating Income
(Millions of Yen)



Net Income
(Millions of Yen)



Financial Position

Total assets increased by ¥58,706 million, or 23.4% during the year, to ¥309,315 million (US$2,812 million).

Current assets increased by ¥57,968 million to ¥160,981 million (US$1,463 million), due mainly to an increase in cash and cash equivalents, because the year-end date of February 29, 2004 was a bank holiday and bank clearances of payables were not settled until March 1, 2004.

Net property and store facilities decreased by ¥4,751 million to ¥55,339 million (US$503 million), due mainly to depreciation and disposal by store closures and store renewals.

Total investments and other assets increased by ¥5,489 million to ¥92,995 million (US$845 million), due mainly to an increase in leasehold deposits in proportion to the opening of new leased stores.

Total liabilities increased by ¥48,605 million, or 44.8%, to ¥157,062 million (US$1,428 million). Because the year-end date of February 29, 2004 was a bank holiday, the payables remained unsettled until March 1, 2004.

Minority interests increased by ¥213 million, or 4.7%, to ¥4,729 million (US$43 million), due primarily to an increase in net income earned by Taiwan FamilyMart.

As a result of the above, shareholders' equity increased by ¥9,888 million, or 7.2%, to ¥147,524 million (US$1,341 million), due to an increase in retained earnings.

Cash Flows

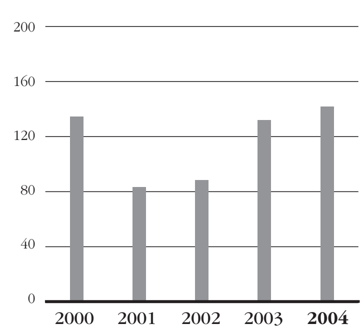
The year-end balance of cash and cash equivalents increased by ¥58,905 million, or 127.2%, to ¥105,203 million (US$956 million).

Net cash provided by operating activities increased by ¥40,899 million to ¥73,593 million (US$669 million), due mainly to an increase in payables-trade caused by the bank holiday.

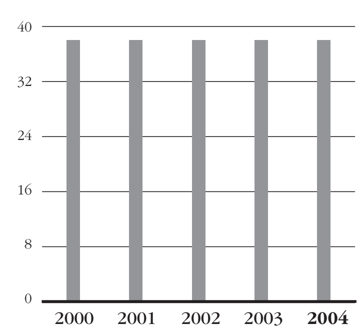
Net cash used in investing activities decreased by ¥18,608 million to ¥10,719 million (US$97 million), due mainly to an increase in purchases of marketable and investment securities, as opposed to an increase in proceeds from sales and redemption at maturity of marketable and investment securities.

Net cash used in financing activities increased by ¥266 million, to ¥3,892 million (US$35 million), due mainly to an increase in dividends paid to minority interest shareholders.

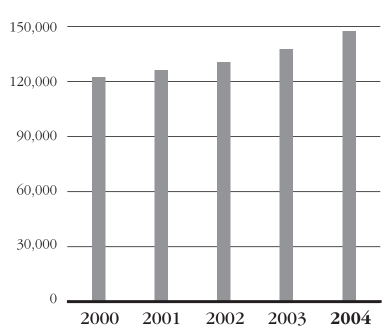
Basic Net Income per Share
(Yen)



Cash Dividends per Share
(Yen)



Total Shareholders' Equity
(Millions of Yen)



Consolidated Balance Sheets

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	**2004**
Assets			
Current assets:			
Cash and cash equivalents	**¥105,203**	¥ 46,298	**$ 956,391**
Time deposits	**10**	211	**91**
Marketable securities (Note 5)	**8,129**	13,783	**73,900**
Receivables:			
Due from franchised stores (Note 4)	**16,553**	8,536	**150,482**
Short-term loans (Note 15)	**1,784**	4,766	**16,218**
Other	**12,793**	12,420	**116,300**
Allowance for doubtful receivables	**(1,254)**	(1,222)	**(11,400)**
Merchandise and supplies	**6,092**	5,721	**55,382**
Deferred tax assets (Note 10)	**2,007**	1,797	**18,245**
Prepaid expenses and other current assets	**9,664**	10,703	**87,855**
Total current assets	**160,981**	103,013	**1,463,464**
Property and store facilities:			
Land	**14,260**	14,908	**129,636**
Buildings and structures	**49,184**	48,950	**447,127**
Machinery and equipment	**3,606**	3,466	**32,782**
Furniture and fixtures	**35,044**	43,300	**318,582**
Construction in progress	**742**	29	**6,746**
Total	**102,836**	110,653	**934,873**
Accumulated depreciation	**(47,497)**	(50,563)	**(431,791)**
Net property and store facilities	**55,339**	60,090	**503,082**
Investments and other assets:			
Investment securities (Note 5)	**1,824**	3,885	**16,582**
Investments in and advances to unconsolidated subsidiaries and associated companies (Notes 3 and 15)	**6,286**	2,042	**57,145**
Software	**7,828**	8,489	**71,164**
Goodwill (Note 6)	**1,852**	1,498	**16,836**
Leasehold deposits	**69,936**	65,604	**635,782**
Deferred tax assets (Note 10)	**1,755**	2,349	**15,955**
Other assets	**3,514**	3,639	**31,945**
Total investments and other assets	**92,995**	87,506	**845,409**
Total	**¥309,315**	¥250,609	**$2,811,955**

February 29, 2004 and February 28, 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	**2004**
Liabilities and shareholders' equity			
Current liabilities:			
Short-term bank loans (Note 7)	**¥ 488**	¥ 440	**$ 4,436**
Payables:			
Trade notes	**3,088**	2,816	**28,073**
Trade for franchised and Company-owned stores (Note 15)	**89,524**	48,168	**813,855**
Due to franchised stores (Note 4)	**526**	2,268	**4,782**
Other	**15,258**	10,749	**138,709**
Income taxes payable (Note 10)	**5,570**	5,589	**50,636**
Utility payments received (Note 4)	**22,141**	18,425	**201,282**
Accrued expenses	**2,890**	2,567	**26,273**
Other current liabilities	**2,831**	2,432	**25,736**
Total current liabilities	**142,316**	93,454	**1,293,782**
Long-term liabilities:			
Liability for retirement benefits (Note 8)	**4,551**	4,360	**41,373**
Leasehold deposits from franchised stores	**10,143**	10,565	**92,209**
Other long-term liabilities	**52**	78	**473**
Total long-term liabilities	**14,746**	15,003	**134,055**
Minority interests	**4,729**	4,516	**42,990**
Commitments and contingent liabilities (Notes 11 and 12)			
Shareholders' equity (Notes 9 and 14)**:**			
Common stock—authorized, 250,000,000 shares; issued, 97,683,133 shares	**16,659**	16,659	**151,445**
Capital surplus	**17,057**	17,057	**155,064**
Retained earnings	**116,504**	106,454	**1,059,127**
Unrealized gain (loss) on available-for-sale securities (Note 5)	**102**	(212)	**927**
Foreign currency translation adjustments	**(1,068)**	(602)	**(9,708)**
Total	**149,254**	139,356	**1,356,855**
Treasury stock—at cost (828,369 shares in 2004 and 824,436 shares in 2003)	**(1,730)**	(1,720)	**(15,727)**
Total shareholders' equity	**147,524**	137,636	**1,341,128**
Total	**¥309,315**	¥250,609	**$2,811,955**

See notes to consolidated financial statements.

Consolidated Statements of Income

Years Ended February 29, 2004 and February 28, 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	**2004**
Operating revenues:			
Commission from franchised stores (Note 4)	**¥127,164**	¥122,738	**$1,156,036**
Net sales	**87,083**	80,952	**791,664**
Other operating revenues (Notes 3 and 4)	**14,730**	13,778	**133,909**
Total operating revenues	**228,977**	217,468	**2,081,609**
Operating expenses:			
Cost of sales (Note 15)	**69,809**	64,523	**634,627**
Selling, general and administrative expenses (Notes 6, 8, 11 and 15)	**130,075**	125,024	**1,182,500**
Total operating expenses	**199,884**	189,547	**1,817,127**
Operating income	**29,093**	27,921	**264,482**
Other income (expenses):			
Interest and dividend income	**642**	560	**5,836**
Equity in earnings of associated companies	**61**	139	**555**
Gain on sales of marketable and investment securities—net	**272**	131	**2,473**
Loss on devaluation of marketable and investment securities	**(3)**	(219)	**(27)**
Loss on disposals/sales of property and store facilities—net	**(3,345)**	(3,258)	**(30,409)**
Loss on cancellations of lease contracts	**(1,001)**	(1,583)	**(9,100)**
Gain on exemption from future pension obligation (Note 8)		1,088	
Other—net	**(793)**	(758)	**(7,210)**
Other expenses—net	**(4,167)**	(3,900)	**(37,882)**
Income before income taxes and minority interests	**24,926**	24,021	**226,600**
Income taxes (Note 10)**:**			
Current	**9,965**	9,801	**90,591**
Deferred	**154**	551	**1,400**
Total income taxes	**10,119**	10,352	**91,991**
Minority interests in net income	**1,019**	789	**9,264**
Net income	**¥ 13,788**	¥ 12,880	**$ 125,345**

	Yen		U.S. Dollars
Per share of common stock:			
Basic net income (Note 13)	**¥141.5**	¥132.3	**$1.29**
Cash dividends applicable to the year	**38.0**	38.0	**0.35**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Years Ended February 29, 2004 and February 28, 2003

	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, 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				(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)
Net income				**13,788**			
Cash dividends, ¥38.0 per share				**(3,680)**			
Bonuses to directors and corporate auditors				**(58)**			
Net increase in unrealized gain on available-for-sale securities					**314**		
Net decrease in foreign currency translation adjustments						**(466)**	
Net increase in treasury stock—net (3,933 shares)							**(10)**
Balance, February 29, 2004	**97,683**	**¥16,659**	**¥17,057**	**¥116,504**	**¥102**	**¥(1,068)**	**¥(1,730)**

	Thousands of U.S. Dollars (Note 1)					
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain (Loss) on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
Balance, February 28, 2003	$151,445	$155,064	$ 967,764	$(1,927)	$(5,473)	$(15,636)
Net income			**125,345**			
Cash dividends, $0.35 per share			**(33,455)**			
Bonuses to directors and corporate auditors			**(527)**			
Net increase in unrealized gain on available-for-sale securities				**2,854**		
Net decrease in foreign currency translation adjustments					**(4,235)**	
Net increase in treasury stock—net (3,933 shares)						**(91)**
Balance, February 29, 2004	**$151,445**	**$155,064**	**$1,059,127**	**$ 927**	**$(9,708)**	**$(15,727)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended February 29, 2004 and February 28, 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	**2004**
Operating activities:			
Income before income taxes and minority interests	**¥ 24,926**	¥ 24,021	**$ 226,600**
Adjustments for:			
Income taxes—paid	**(9,967)**	(9,135)	**(90,609)**
Depreciation and amortization	**11,881**	13,895	**108,009**
Provision for (reversal of) allowance for doubtful receivables	**70**	(228)	**636**
Equity in earnings of associated companies	**(61)**	(139)	**(555)**
(Gain) loss on devaluation/sale of marketable and investment securities—net	**(269)**	88	**(2,446)**
Loss on disposals/sales of property and store facilities—net	**3,345**	3,258	**30,409**
Loss on cancellations of lease contracts	**571**	921	**5,191**
Gain on exemption from future pension obligation		(1,088)	
Bonuses to directors and corporate auditors	**(58)**	(56)	**(527)**
Changes in assets and liabilities:			
Increase in due from/to franchised stores—net	**(9,759)**	(746)	**(88,718)**
(Increase) decrease in merchandise and supplies	**(631)**	1,471	**(5,736)**
Increase (decrease) in payables—trade	**42,405**	(22)	**385,500**
Increase in utility payments received	**3,716**	1,676	**33,782**
Increase in liability for retirement benefits	**190**	206	**1,727**
Other—net	**7,234**	(1,428)	**65,764**
Total adjustments	**48,667**	8,673	**442,427**
Net cash provided by operating activities	**73,593**	32,694	**669,027**
Investing activities:			
Decrease (increase) in time deposits—net	**201**	(203)	**1,827**
Purchases of marketable and investment securities	**(127,104)**	(101,266)	**(1,155,491)**
Purchases of investment in subsidiaries and associated companies	**(1,231)**	(375)	**(11,191)**
Proceeds from sales and redemption at maturity of marketable and investment securities	**134,988**	95,956	**1,227,164**
Increase in receivables—short-term loans—net	**(315)**	(2,712)	**(2,864)**
Purchases of property and store facilities, software, goodwill and other intangible assets	**(12,794)**	(13,315)	**(116,309)**
Proceeds from sales of property and store facilities, software, goodwill and other intangible assets	**5,173**	1,339	**47,027**
Payments of leasehold deposits	**(10,612)**	(10,894)	**(96,473)**
Refunds of leasehold deposits	**1,801**	2,989	**16,373**
Receipts of leasehold deposits from franchised stores	**672**	1,273	**6,109**
Refunds of leasehold deposits from franchised stores	**(689)**	(1,135)	**(6,264)**
Payments for acquisition of business	**(621)**		**(5,645)**
Payments for purchase of Matsuhaya FamilyMart Co., Ltd. ("MFM"), net of cash acquired		(1,051)	
Other—net	**(188)**	67	**(1,708)**
Net cash used in investing activities	**(10,719)**	(29,327)	**(97,445)**
Financing activities:			
Increase in short-term bank loans—net	**59**	151	**536**
Purchase of treasury stock—net	**(10)**	(32)	**(91)**
Dividends paid	**(3,682)**	(3,679)	**(33,472)**
Dividends paid to minority interest shareholders	**(259)**	(66)	**(2,355)**
Net cash used in financing activities	**(3,892)**	(3,626)	**(35,382)**
Foreign currency translation adjustments on cash and cash equivalents	**(77)**	(94)	**(700)**
Net increase (decrease) in cash and cash equivalents	**58,905**	(353)	**535,500**
Cash and cash equivalents, beginning of year	**46,298**	46,651	**420,891**
Cash and cash equivalents, end of year	**¥105,203**	¥ 46,298	**$ 956,391**
Additional information:			
Purchase of MFM:			
Fair value of assets acquired		¥ 5,697	
Liabilities assumed		(2,767)	
Total		2,930	
Carrying amount of investment in MFM		(430)	
Cash paid for shares of MFM		2,500	
Cash and cash equivalents held by MFM		(1,449)	
Payments for purchase of MFM, net of cash acquired		¥ 1,051	

See notes to consolidated financial statements.

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 2003 consolidated financial statements to conform to the classifications used in 2004.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which FamilyMart Co., Ltd. (the “Company”) is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥110 to $1, the approximate rate of exchange at February 29, 2004. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. Summary of Significant Accounting Policies

a. *Consolidation*—The consolidated financial statements include the accounts of the Company and its six significant subsidiaries (together, the “Group”).

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

Investments in six 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. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The excess of the cost of the Company’s investments in consolidated subsidiaries over its equity in the net assets at the respective date of acquisition is being amortized over a period of five years.

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

b. *Cash Equivalents*—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificate of deposits, commercial paper and bond funds, all of which mature or become due within three months of the date of acquisition.

c. *Merchandise and Supplies*—Most merchandise is primarily valued at cost determined by the retail method. Supplies are stated at cost determined by the last purchase price method.

d. *Marketable and Investment Securities*—Marketable and investment securities are classified and accounted for, depending on management’s intent, as follows: (1) held-to-maturity debt securities, which are expected to be held-to-maturity with the positive intent and ability to hold to maturity, are reported at amortized cost and (2) available-for-sale securities, other than (1), are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of 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.

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 (five years).

g. *Goodwill*—Goodwill is stated at cost less accumulated amortization, which is calculated by the straight-line method over the estimated useful lives (five 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 pension plans with an outside trustee.

The Company and its consolidated domestic subsidiaries accounted for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date.

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

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

i. *Leases*—All leases of the Company and its consolidated domestic subsidiaries 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 statements 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.

Differences arising from such translation were shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity.

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

n. *Per Share Information*—Effective March 1, 2003, the Company adopted a new accounting standard for earnings per share of common stock issued by the Accounting Standards Board of Japan. Under the new standard, basic net income per share is computed by dividing net income available to common shareholders, which is more precisely computed than under previous practices, by the weighted-average number of common shares outstanding for the period.

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

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

3. Related Parties and Organization

The Company's main shareholder is Family Corporation Inc., which owns 30.97% of the total outstanding shares of the Company. Family Corporation Inc. is 94.99% owned by ITOCHU Corporation, which distributes merchandise and supplies for "FamilyMart" stores.

The Company is a franchiser of "FamilyMart" stores for retail sales of daily necessities to consumers. The Company allows each independent franchisee to operate convenience stores using the specific designs and name of "FamilyMart" and provides them with related managerial and technical know-how under a franchise agreement. Under the agreement, each franchisee is provided with a variety of services and advice on the operation of convenience stores from the Company. In return, the franchisee is required to pay continuing franchise commissions to the Company based on certain percentages of the respective franchised store's gross margin (net sales less cost of sales).

The Company allows area franchised companies to be franchisers of "FamilyMart" stores in each area, including outside Japan. Area franchised companies are required to pay continuing royalty fees to the Company and the Company records this as "Other operating revenues." Area franchised companies as of February 29, 2004, are as follows:

Name of Franchisee	Area	The Company's Ownership in Franchisee
Subsidiaries:		
Taiwan FamilyMart Co., Ltd.	Taiwan	41.36%
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

SFM HOLDING CO., LTD., an 87.10% owned subsidiary, is a holding company of Siam FamilyMart Co., Ltd.

In addition to the aforementioned, there are a number of subsidiaries and associated companies whose principal businesses are other than operating convenience stores.

MBE Japan, Inc., an 82.76% owned subsidiary, is operating "MAIL BOXES ETC." franchised stores.

Famima.com Co., Ltd., a 50.50% owned subsidiary, and e-PLAT JAPAN. CO., LTD., a 36.36% owned associated company, both support E-commerce operations.

Famima Credit Corporation, a 33.34% 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., a 30.00% 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 Expanding the store network 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 29, 2004 and February 28, 2003, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Current:			
Government and corporate bonds	**¥ 998**	¥ 7,000	**$ 9,073**
Trust fund investments	**7,131**	6,783	**64,827**
Total	**¥8,129**	¥13,783	**$73,900**
Non-current:			
Marketable equity securities	**¥1,438**	¥2,593	**$13,073**
Government and corporate bonds		991	
Non-marketable equity securities	**386**	301	**3,509**
Total	**¥1,824**	¥3,885	**$16,582**

The carrying amounts and aggregate fair values of marketable and investment securities at February 29, 2004 and February 28, 2003, were as follows:

	Millions of Yen			
	February 29, 2004			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**¥1,240**	**¥307**	**¥109**	**¥1,438**
Debt securities	**7,131**			**7,131**
Held-to-maturity	**998**	**1**		**999**

	Thousands of U.S. Dollars			
	February 29, 2004			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**$11,273**	**$2,791**	**$991**	**$13,073**
Debt securities	**64,827**			**64,827**
Held-to-maturity	**9,073**	**9**		**9,082**

	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

Available-for-sale securities whose fair value is not readily determinable as of February 29, 2004 and February 28, 2003, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Available-for-sale—Equity securities	**¥386**	¥301	**$3,509**

The carrying values of debt securities by contractual maturities for securities classified as held-to-maturity at February 29, 2004, are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due in one year or less	¥998	$9,073

6. Goodwill

Goodwill as of February 29, 2004 and February 28, 2003, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Consolidation goodwill	**¥ 284**	¥ 184	**$ 2,582**
Acquisition goodwill	**1,568**	1,314	**14,254**
Total	**¥1,852**	¥1,498	**$16,836**

Amortization charged to selling, general and administrative expenses for the years ended February 29, 2004 and February 28, 2003, was ¥888 million ($8,073 thousand) and ¥898 million, respectively.

7. Short-Term Bank Loans

Short-term bank loans as of February 29, 2004 and February 28, 2003, consisted of bank overdrafts. The annual interest rate applicable to the short-term bank loan at February 29, 2004 was 2.4%.

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 liability for retirement benefits for directors and corporate auditors at February 29, 2004 and February 28, 2003 is ¥305 million ($2,773 thousand) and ¥259 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 in accordance with a transitional measurement of the accounting standard for employees' retirement benefits for the year ended February 28, 2003.

In the current year, the Company applied for transfer of the substitutional portion of past pension obligations to the government and obtained an approval by the Ministry of Health, Labour and Welfare on October 1, 2003. The Company thereafter transferred the substitutional portion of the pension obligations and related assets to the government on March 19, 2004. This transfer will not have an effect to the income for the year ending February 28, 2005.

The liability for employees' retirement benefits as of February 29, 2004 and February 28, 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Projected benefit obligation	**¥11,763**	¥10,652	**$106,936**
Fair value of plan assets	**(5,195)**	(4,677)	**(47,227)**
Unrecognized actuarial loss	**(2,297)**	(1,841)	**(20,882)**
Unrecognized transitional obligation	**(25)**	(33)	**(227)**
Net liability	**¥ 4,246**	¥ 4,101	**$ 38,600**

The components of net periodic benefit costs for the years ended February 29, 2004 and February 28, 2003, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Service cost	**¥ 869**	¥ 893	**$ 7,900**
Interest cost	**290**	298	**2,636**
Expected return on plan assets	**(4)**	(100)	**(36)**
Recognized actuarial loss	**102**	116	**928**
Amortization of transitional obligation	**4**	3	**36**
Gain on exemption from future pension obligation		(1,088)	
Net periodic benefit costs	**¥1,261**	¥ 122	**$11,464**

Assumptions used for the years ended February 29, 2004 and February 28, 2003, are set forth as follows:

	2004	2003
Discount rate	**Primarily 2.7%**	Primarily 2.7%
Expected rate of return on plan assets	**Primarily 0%**	Primarily 2.15%
Recognition period of actuarial gain/loss	**Primarily 19 years**	Primarily 19 years
Amortization period of transitional obligation	**Foreign consolidated subsidiary—15 years**	Foreign consolidated subsidiary—15 years

Retirement benefits for directors and corporate auditors are paid subject to approval of the shareholders in accordance with the Japanese Commercial Code (the "Code").

The Company recorded a liability for its unfunded retirement benefits plan covering all of its directors and corporate auditors. The annual provisions for retirement benefits for directors and corporate auditors for the years ended February 29, 2004 and February 28, 2003 were ¥100 million ($909 thousand) and ¥102 million, respectively.

9. Shareholders' Equity

Japanese companies are subject to the Code to which various amendments have become effective since 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 ¥116,574 million ($1,059,764 thousand) as of February 29, 2004, 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 29, 2004, includes treasury stock purchased for the purpose of granting stock options to directors and key employees. As of February 29, 2004, 585,000 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 41% and 42% for the years ended February 29, 2004 and February 28, 2003, respectively.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities as of February 29, 2004 and February 28, 2003, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Deferred tax assets:			
Provision for doubtful receivables	**¥ 369**	¥ 439	**$ 3,355**
Accrued bonuses	**355**	288	**3,227**
Provision for retirement benefits—employees	**1,694**	1,682	**15,400**
Provision for retirement benefits—directors and corporate auditors	**126**	107	**1,145**
Depreciation	**145**	291	**1,318**
Loss on disposals of property and store facilities and cancellations of lease contracts	**112**	267	**1,018**
Enterprise tax payable	**526**	468	**4,782**
Tax loss carryforwards	**2,237**	2,268	**20,336**
Other	**855**	1,020	**7,773**
Less valuation allowance	**(2,269)**	(2,389)	**(20,627)**
Total	**4,150**	4,441	**37,727**
Deferred tax liabilities:			
Special reserve for tax purpose depreciation	**124**	157	**1,127**
Other	**264**	138	**2,400**
Total	**388**	295	**3,527**
Net deferred tax assets	**¥3,762**	¥4,146	**$34,200**

A difference 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 29, 2004 and February 28, 2003 would not be material.

As of February 29, 2004, certain subsidiaries have tax loss carryforwards aggregating approximately ¥6,083 million ($55,300 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
2005	¥ 638	$ 5,800
2006	1,289	11,718
2007	2,039	18,536
2008	1,367	12,427
2009	750	6,819
Total	¥6,083	$55,300

On March 31, 2003, a tax reform law was enacted in Japan which changed the normal effective statutory tax rate from approximately 42% to 41%, effective for years beginning on and after March 1, 2005. The effect of this change on deferred taxes in the consolidated statements of income for the year ended February 29, 2004 is not material.

11. Leases

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

Total rental expenses for the years ended February 29, 2004 and February 28, 2003, were ¥11,960 million ($108,727 thousand) and ¥10,414 million, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance lease, depreciation expense, interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended February 29, 2004 and February 28, 2003, was as follows:

	Millions of Yen		
	February 29, 2004		
	Furniture and Fixtures	Software	Total
Acquisition cost	**¥62,003**	**¥1,545**	**¥63,548**
Accumulated depreciation	**(29,604)**	**(843)**	**(30,447)**
Net leased property	**¥32,399**	**¥ 702**	**¥33,101**

	Thousands of U.S. Dollars		
	February 29, 2004		
	Furniture and Fixtures	Software	Total
Acquisition cost	**$563,663**	**$14,046**	**$577,709**
Accumulated depreciation	**(269,127)**	**(7,664)**	**(276,791)**
Net leased property	**$294,536**	**$ 6,382**	**$300,918**

	Millions of Yen		
	February 28, 2003		
	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

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Due within one year	**¥10,094**	¥ 8,756	**$ 91,763**
Due after one year	**24,613**	25,558	**223,755**
Total	**¥34,707**	¥34,314	**$315,518**

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
	2004	2003	**2004**
Depreciation expense	**¥10,032**	¥8,432	**$ 91,200**
Interest expense	**1,162**	1,141	**10,564**
Total	**¥11,194**	¥9,573	**$101,764**

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

The minimum rental commitments under noncancelable operating leases as of February 29, 2004, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥ 27	$ 246
Due after one year	145	1,318
Total	¥172	$1,564

12. Contingent Liabilities

As of February 29, 2004, the Group had the following contingent liabilities:

	Millions of Yen	Thousands of U.S. Dollars
Guarantee of financial institution loan, borrowed by Famima Credit Corporation	¥147	$1,336
Guarantee on payment of CAPLAN Corporation	5	45

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. Net Income per Share

Basis of computation of basic net income per share ("EPS") for the years ended February 29, 2004 and February 28, 2003 is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended February 29, 2004	Net Income	Weighted-average Shares	EPS	EPS
EPS:				
Net income	**¥13,788**			
Bonuses to director and corporate auditors	**80**			
Net income available to common shareholders	**¥13,708**	**96,857**	**¥141.5**	**$1.29**

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended February 28, 2003	Net Income	Weighted-average Shares	EPS	EPS
EPS:				
Net income	¥12,880			
Bonuses to director and corporate auditors	62			
Net income available to common shareholders	¥12,818	96,867	¥132.3	

14. Subsequent Events

At the general shareholders meeting held on May 26, 2004, the Company's shareholders approved the following appropriations of retained earnings:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥19 ($0.17) per share	¥1,840	$16,727
Bonuses to directors and corporate auditors	47	427

15. Related Party Transactions

Transactions of the Company with related parties for the years ended February 29, 2004 and February 28, 2003, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
ITOCHU Corporation—Average short-term deposit balance to ITOCHU Corporation under cash management program	**¥18,593**		**$169,027**
Nishino Trading Co., Ltd.:			
Purchases		¥97,049	
Payable—trade for franchised and Company-owned stores		8,879	
Tadashi Endo (corporate auditor and attorney)— Attorney's fee	**27**	32	**245**
Famima Credit Corporation (associated company):			
Receivable—short-term loans	**500**	3,500	**4,545**
Receivable—long-term loans (included investments in and advances to unconsolidated subsidiaries and associated companies)	**3,500**		**31,818**

A portion of the above loans are guaranteed by ITOCHU Corporation and ITOCHU Finance Corporation, which guaranteed amounts were ¥2,034 million ($18,491 thousand) and ¥1,855 million, for the years ended February 29, 2004 and February 28, 2003, respectively.

16. 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 29, 2004 and February 28, 2003, was as follows:

(1) Industry Segments

The industry segments of the Company and its subsidiaries for the years ended February 29, 2004 and February 28, 2003, are summarized as follows:

a. Operating Revenues and Operating Income

	Millions of Yen				
	2004				
	Convenience Store Business	E-commerce Business	Other Businesses	Eliminations/ Corporate	Consolidated
Operating revenues from outside the Group	**¥194,653**	**¥33,892**	**¥ 432**		**¥228,977**
Intersegment operating revenues	**29**	**4,484**	**2,737**	**¥(7,250)**	
Total operating revenues	**194,682**	**38,376**	**3,169**	**(7,250)**	**228,977**
Operating expenses	**161,692**	**38,286**	**3,086**	**(3,180)**	**199,884**
Operating income	**¥ 32,990**	**¥ 90**	**¥ 83**	**¥(4,070)**	**¥ 29,093**

b. Total Assets, Depreciation and Capital Expenditures

	Millions of Yen				
	2004				
	Convenience Store Business	E-commerce Business	Other Businesses	Eliminations/ Corporate	Consolidated
Total assets	**¥198,479**	**¥5,612**	**¥5,696**	**¥99,528**	**¥309,315**
Depreciation	**11,498**	**6**	**188**		**11,692**
Capital expenditures	**23,388**	**2**	**96**		**23,486**

a. Operating Revenues and Operating Income

	Thousands of U.S. Dollars				
	2004				
	Convenience Store Business	E-commerce Business	Other Businesses	Eliminations/ Corporate	Consolidated
Operating revenues from outside the Group	**$1,769,573**	**$308,109**	**$ 3,927**		**$2,081,609**
Intersegment operating revenues	**263**	**40,764**	**24,882**	**$(65,909)**	
Total operating revenues	**1,769,836**	**348,873**	**28,809**	**(65,909)**	**2,081,609**
Operating expenses	**1,469,927**	**348,055**	**28,054**	**(28,909)**	**1,817,127**
Operating income	**$ 299,909**	**$ 818**	**$ 755**	**$(37,000)**	**$ 264,482**

b. Total Assets, Depreciation and Capital Expenditures

	Thousands of U.S. Dollars				
	2004				
	Convenience Store Business	E-commerce Business	Other Businesses	Eliminations/ Corporate	Consolidated
Total assets	**$1,804,355**	**$51,018**	**$51,782**	**$904,800**	**$2,811,955**
Depreciation	**104,527**	**55**	**1,709**		**106,291**
Capital expenditures	**212,618**	**18**	**873**		**213,509**

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 Capital 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

(2) Geographical Segments

The geographical segments of the Company and its subsidiaries for the years ended February 29, 2004 and February 28, 2003, are summarized as follows:

	Millions of Yen			
	2004			
	Japan	Asia	Eliminations/ Corporate	Consolidated
Operating revenues from outside the Group	**¥196,386**	**¥32,591**		**¥228,977**
Interarea transfers	**416**	**26**	**¥ (442)**	
Total operating revenues	**196,802**	**32,617**	**(442)**	**228,977**
Operating expenses	**165,292**	**30,951**	**3,641**	**199,884**
Operating income	**¥ 31,510**	**¥ 1,666**	**¥ (4,083)**	**¥ 29,093**
Assets	**¥178,896**	**¥27,749**	**¥102,670**	**¥309,315**

	Thousands of U.S. Dollars			
	2004			
	Japan	Asia	Eliminations/ Corporate	Consolidated
Operating revenues from outside the Group	**$1,785,327**	**$296,282**		**$2,081,609**
Interarea transfers	**3,782**	**236**	**$ (4,018)**	
Total operating revenues	**1,789,109**	**296,518**	**(4,018)**	**2,081,609**
Operating expenses	**1,502,654**	**281,373**	**33,100**	**1,817,127**
Operating income	**$ 286,455**	**$ 15,145**	**$(37,118)**	**$ 264,482**
Assets	**$1,626,327**	**$252,264**	**$933,364**	**$2,811,955**

	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

(3) Operating Revenues from Foreign Customers

Operating revenues from foreign customers for the years ended February 29, 2004 and February 28, 2003, amounted to ¥32,820 million ($298,364 thousand) and ¥33,200 million, respectively.

Independent Auditors' Report

Deloitte
Touche
Tohmatsu

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of FamilyMart Co., Ltd. and consolidated subsidiaries as of February 29, 2004 and February 28, 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of FamilyMart Co., Ltd. and consolidated subsidiaries as of February 29, 2004 and February 28, 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

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

Deloitte Touche Tohmatsu

May 26, 2004

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
21,173

Number of Full-Time Employees
2,245

Stock Exchange Listing
Tokyo stock exchange

Domestic Area Franchisers
Okinawa FamilyMart Co., Ltd.
Minami Kyushu FamilyMart Co., Ltd.

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

(As of February 29, 2004)

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Printed on recycled paper

Printed in Japan
2004. 06