



FamilyMart

Annual Report 2006

PROFILE

FamilyMart: Friendly interaction with people around the world

The FamilyMart Group comprises 23 companies: FamilyMart Co., Ltd., 11 subsidiaries, and 11 affiliates. Centered on its core business of operating convenience stores through a network of 12,452* stores in Japan and other countries, the Group engages in retailing business that provides customers with high-value-added merchandise garnished with sincere and friendly hospitality.

The FamilyMart Group's corporate philosophy is "Co-Growing," namely the building of mutually beneficial relationships with customers, franchisees, business partners, employees, and the local communities it serves, and growing and developing hand-in-hand with them. Based on this spirit of "Co-Growing," the Group's business policy is to conduct convenience store operations in a way that enables customers, franchisees, business partners, and employees to interact harmoniously, and also to be an innovative corporate group that is the most advanced in its industry.

In fiscal 2006, which marks our 25th anniversary, under the slogan "FamilyMart, Where You Are Always One of the Family" we will maintain our commitment to building enterprise value. We will do so by creating a convenience store chain that gives its customers the immediate feeling of being warmly accepted, by creating stores that are in step with the times and offer attractive merchandise, and by further enhancing the level of service, quality and cleanliness (SQ&C).

In fiscal 2006 the FamilyMart Group will attain its goal of becoming a truly national chain by finally having stores in all 47 of Japan's prefectures. This will be just one milestone on the road to our long-term target, under our Pan-Pacific Plan, of building a global network of 20,000 stores (8,000 in Japan and 12,000 overseas) by the end of February 2009. Under the Plan, by deploying hospitality sourced in Japan we will wrap the world in smiles and maintain our firm progress as the leading convenience store chains with respect to quality.

* As of the end of February 2006



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Cautionary Statement:

This report contains forward-looking statements, including the Company's strategies, future business plans, and projections. Such forward-looking statements are not based on historical facts and involve known and unknown risks and uncertainties that relate to, but are not necessarily confined to, such areas as economic trends and consumer preferences in Japan and abrupt changes in the market environment. Accordingly, the actual business performance of the Company may substantially differ from the forward-looking statements in this report.

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THE PAN-PACIFIC PLAN



CORPORATE GOVERNANCE & CSR INITIATIVES

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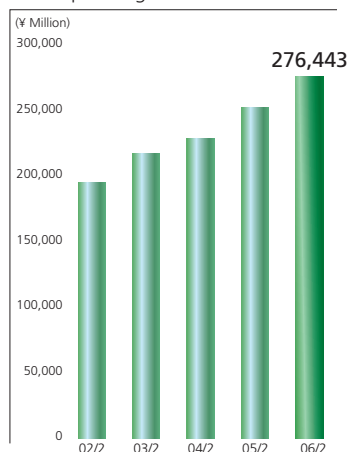
CONSOLIDATED FINANCIAL HIGHLIGHTS
 FamilyMart Co., Ltd. and Consolidated Subsidiaries Years Ended the Last Day of February

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Results of operations:			
Total operating revenues	¥276,443	¥252,901	\$2,383,129
Operating income	32,662	30,869	281,569
Net income	14,195	12,623	122,371
Basic net income per share (in yen and U.S. dollars)	145.7	129.5	1.26
Cash dividends per share (in yen and U.S. dollars)	43.0	38.0	0.37
Financial position:			
Total shareholders' equity	168,233	156,931	1,450,285
Total assets	314,121	286,771	2,707,940
Book value per share (BPS) (in yen and U.S. dollars)	1,736.2	1,619.5	14.97
Other data:			
Number of stores (Note 2)	12,452	11,501	
Number of shareholders	17,444	18,644	
Number of full-time employees (on a consolidated basis)	6,048	5,458	

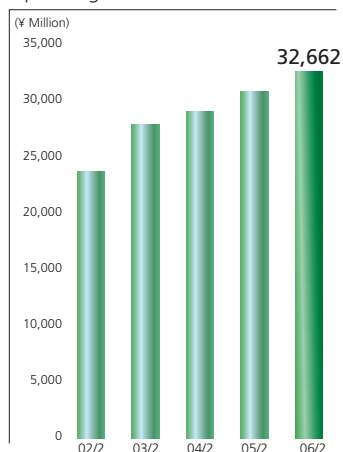
Notes: 1. Conversion into U.S. dollars has been made at the exchange rate of ¥116 =U.S.\$1, the rate prevailing on February 28, 2006.

2. Number of stores includes domestic and overseas area franchised stores.

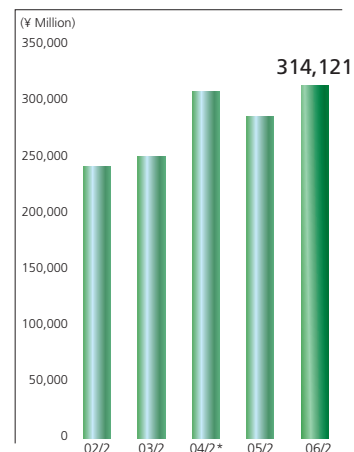
Total operating revenues



Operating income



Total assets



* 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.

MESSAGE FROM THE PRESIDENT

Junji Ueda

President and Representative Director



Buoyed by its second-phase structural reform, FamilyMart will truly be the leading convenience store chain with respect to quality

Operating results for fiscal 2005 provide firm evidence of FamilyMart's growth capacity

During fiscal 2005, ended February 2006, the Japanese economy sustained its modest recovery, centered on the improvement of corporate earnings. However, despite showing some signs of brightness, consumer spending has not achieved an overall recovery. The convenience store industry in particular continued to suffer from a very harsh operating environment, hit by factors such as unusual weather conditions that included an unprecedented spell of severe cold and massive snowfalls.

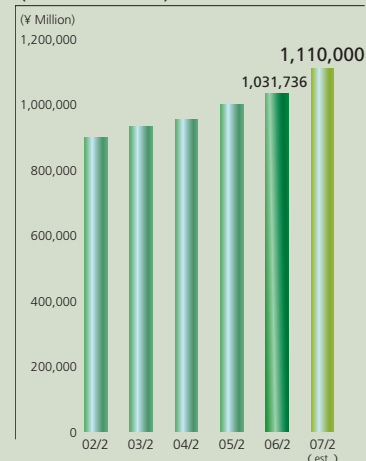
Amid these conditions, under the slogan "FamilyMart, Where You Are One of the Family," the staff at headquarters and at our franchised stores worked in unison to pursue the distinct "FamilyMart's special characteristics" that differentiate us from other chains, creating stores able to give each individual customer the immediate feeling of being warmly accepted.

As a result, in the year ended February 2006, total operating revenues were ¥276,443 million (up by 9.3% year-on-year), operating income totaled ¥32,662 million (up by 5.8%) for a record high, and net income ¥14,195 million (up by 12.5%) on a consolidated basis. This was the fourth successive year in which FamilyMart achieved increases in revenues and earnings, except net income.

On a non-consolidated basis, aggregate store sales topped the trillion yen mark for the first time. As a result of posting a loss on the replacement of the existing store management system with a third-generation system from September 2006, and also of making provisions for overseas operations and other items, net income decreased to ¥10,365 million (down by 20.0%) on a non-consolidated basis. This may appear to be a decline in profit, but in reality it demonstrates the Company's fundamental strength in being able to depreciate these losses in advance and our confidence in solid growth in profitability from fiscal 2006 onwards.

In consequence, the Company will pay a dividend for the term of ¥43 per share, representing an increase of ¥5 per share, in accordance with our initial business plan.

Total net sales of FamilyMart stores (non-consolidated)



Three priority measures and their synergies are underpinning FamilyMart's uniqueness and progress

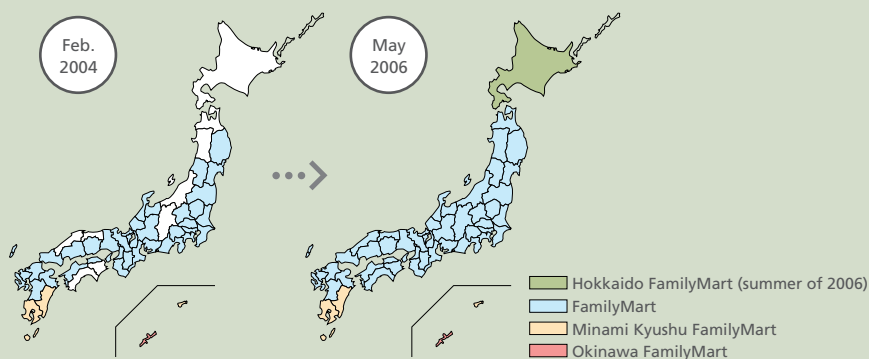
FamilyMart has been implementing the three priority policies of enhancing the competitiveness of individual stores, strengthening merchandising, and creating high-quality stores. Through these, and through their mutual synergies, we are endeavoring to increase profitability.

With regard to the first policy, of enhancing the competitiveness of individual stores, during fiscal 2005 the Company worked closely with franchisees to implement the Store Staff Total (SST) system, which included more than 30,000 store staff achieving their primary qualification in the store staff qualification system. In this way, we were able to raise our SQ&C (service, quality and cleanliness) level still further, enabling us to extend our further hospitality to customers.

For strengthening merchandising, we employed three marketing strategies — generation, price, and regional marketing. To give the customer the immediate feeling of being warmly accepted, we have laid down eight product concepts, offering merchandise and product ranges quite different from those of other chains. Of particular note was the achievement of phenomenal sales over a one-year period of more than 60 million portions of fried chicken, which have proved popular with customers, while *oden* (Japanese-style stewed hotchpotch) and French fries have also evolved into standard-bearers of FamilyMart merchandise. These developments enabled sales of fast food products to achieve an unprecedented 30% year-on-year growth.

In respect of the third priority strategy, creating high-quality stores, during the year the Company achieved the largest total

Our Store Network



of new store-openings, numbering 606. These included stores to reinforce our dominance in regions in which we already have a presence, and others to launch into new regions, including the prefectures of Shimane, Nagano, Niigata, and Akita. In fiscal 2006, we will open our first stores in Aomori and Hokkaido, and as a result, we will truly achieve a nationwide store network in Japan.

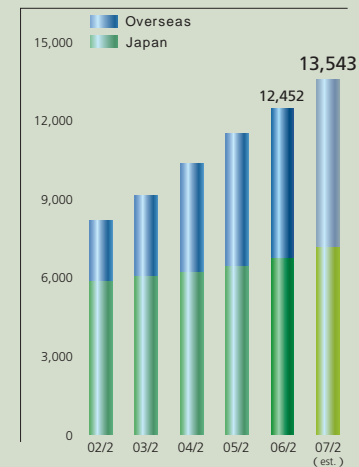
In addition, we accelerated our opening of stores overseas as part of our steps to realize our target of creating a global network of 20,000 stores. We have expanded our chain networks in various countries, including opening the first Famima!! store in California in July 2005. This resulted in a year-end total of 5,718 stores overseas, which combined with stores within Japan amounted to a global total of 12,452 stores.

FamilyMart will lead the transition period in 2006 by reforming the internal physical infrastructure of store operations

In fiscal 2005, there was no recurrence of the severe summer heat suffered in the previous year, and the most severe winter weather for over a decade. Sales were also hit by the termination of highway toll-card sales in September. As a result, the average daily sales of existing stores sagged year-on-year, as did the average daily sales of new stores. However, weather-related and other external factors alone cannot explain this, suggesting that major changes in consumption trends were underway.

As a result of factors such as changes in the population structure, the increasing diversity in customer preferences, and the growth of IT business such as Internet shopping, customers are holding back their spending until they find goods and

Number of stores



services that offer them real value. Accordingly, past experience of success and accepted wisdom are becoming increasingly irrelevant. Retailing is entering a major period of transition, and convenience stores are certainly no exception.

Nevertheless, in spite of the difficult operating environment FamilyMart has been achieving year-on-year increases in the average number of customers visiting its stores and in sales of ready-to-eat foods. This can only be attributed to the strength underpinned by the three priority measures that we have been implementing continuously and by the raising of the consciousness of Company employees and of franchisees. This shows that the transition period has the potential to be a springboard that will propel FamilyMart sharply forward.

Other chains are currently trying to diversify their formats, for example as fresh food convenience stores or ¥100 shops. FamilyMart, however, will continue to focus on its basic convenience store format and make efforts to enliven its product displays. We believe that the true key to success is to go back to the basics of retailing, assemble an array of attractive merchandise, ensure thorough SQ&C, and enhance the quality of every individual store.

This transition period is a real opportunity for FamilyMart. FamilyMart, which is composed of as many as 6,734 stores* within Japan as of the end of February 2006, will achieve steady growth over the years to come. FamilyMart will also introduce the concept of "wide-variety" deliveries as a new business into its existing stores in line with any changes in the business environment of each store, both on an industry and individual store basis, with the aim of enhancing the profitability of every store.

* This includes the stores of two domestic area franchisers.



Four reforms will be started to create a structure for ongoing revenue and earnings growth

In fiscal 2006 FamilyMart will mark the 25th anniversary of its establishment, and will become a truly national chain network encompassing all of Japan from Hokkaido to Okinawa.

As a national chain, we must have a certain business scale. In fiscal 2006, we will devote maximum effort to achieving principal management targets on a non-consolidated basis of ¥30.4 billion for operating income; a year-on-year rise of 0.5% in the average daily sales of existing stores; 650 for new stores opened; ¥470,000 for the average daily sales of new stores; and 29.6% for the gross profit ratio. These will also be milestones leading towards our previously announced goal of creating a global network of 20,000 stores by the end of February 2009.

To meet these targets, in fiscal 2006 FamilyMart will inaugurate its second-phase structural reform, which will have four cornerstones: (1) Remodeling our sales displays and product lineups, (2) Strengthening our earnings structure, (3) Improving our cost structure, and (4) Rethinking our corporate culture. We will tackle these reforms throughout the Company, establishing a firm financial structure that will give us growth in both revenues and earnings, making fiscal 2006 a year of preparation to take us through to the next stage.

Remodeling our sales displays and product lineups

Creating exciting sales areas

To increase the frequency with which customers visit our stores, it is important to enhance their attractiveness.

To ensure the merchandise that customers want is always part of our product lineup, increasing the accuracy of ordering

is an obvious task to address. It is also essential to go the extra mile, having the enthusiasm to provide something that exceeds the customer's expectations, such as surprise, excitement or stress relief. We will continue to pursue FamilyMart's unique business profile by deploying the three marketing strategies we have been implementing hitherto, for example by offering merchandise targeted at the baby-boomer generation, and merchandise tailored to the diverse needs of different regions of the country.

As part of those efforts, from fiscal 2006 all stores are due to implement the "Famima Wonder 500" project, through which the space for two existing gondolas will be made available for the display of unique and innovative product ranges, going beyond the uniform product lineups of conventional convenience stores, the challenge being to increase sales from that space fivefold. Once this project gets into full swing, we expect to see ideas taking shape that will sweep away old-fashioned ideas and established concepts. By establishing "FamilyMart's special characteristics," we expect to give the convenience store industry as a whole a fresh image.

What is more, we have already begun creating fresh food sales corners within our existing stores, after careful designing and testing by a special project team. We have selected 1,000 stores in Japan's three major metropolitan areas for the introduction of these fresh food sales corners, as these stores are expected to display effective synergies with their existing business and thereby generate sure earnings. Out of the total of 1,000 stores, fresh food corners are scheduled to be opened at 400 within fiscal 2006.

Strengthening our earnings structure

Assuring profit growth potential and maximizing shareholder value

With regard to the reform of the earnings structure, since fiscal 2005 we have been sharing targets with franchisees and business partners, and we are working together to tackle structural reform. Through this we hope to maximize profitability, first achieving the 29.6% gross profit ratio set out in the plan for fiscal 2006, and then reaching 30.0% at an early date through the radical reform of all processes from the production of ingredients through goods distribution and other logistics work.

As part of these initiatives, in fiscal 2006 we will continue our efforts to increase the percentage of high markup products, with the cooperation of our suppliers, so as to improve the earnings of our franchisees.

In addition, fiscal 2006 will see the planned introduction of a third-generation store management system that will integrate store-operation equipment such as POS registers, store controllers, and Famiport Multimedia Kiosks. The building of an optical-fiber network incorporating state-of-the-art IT technologies will upgrade store information systems and make possible a variety of services to proactively cater to the increasingly diverse needs of customers.

Linked with the introduction of this system, FamilyMart will take steps to enhance the efficiency of ordering and other store operations and to reform its business practices, the aim being to assure profit growth capacity for the future and to create a base to give strong support for the target of creating a global network of 20,000 stores.

Improving our cost structure

Concentrating management resources to enhance store competitiveness

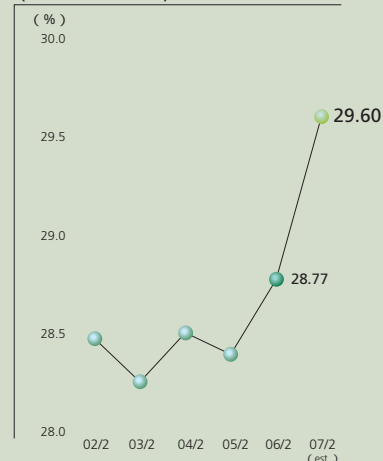
Improving our cost structure is an essential prerequisite for the radical reform of our earnings structure.

The Cost Structure Improvement Committee has been revived to serve as the body to oversee the implementation of a no-holds-barred reform of the cost structure. Of particular note is that in order to secure the chain's competitiveness amid the current harsh operating environment, it is necessary to revise headquarters business expenditure exhaustively, and to refocus financial resources on support for franchisees.

Additionally, in March 2006 the Internal Control Promote Project Office was established. This will conduct thorough analyses, from a CSR and BPR standpoint, of the way in which business is conducted at headquarters, and will take resolute steps to rationalize and enhance the efficiency of business processes.

The reform of the cost structure implemented by these two organizations will have ramifications throughout FamilyMart, and it is hoped that it will lead to the building of a slim, yet resilient management structure that will help us to thrive in the future.

Gross Profit ratio
(non-consolidated)



Rethinking our corporate culture

Becoming a company of lively and frank exchange of opinions

The rethinking of our corporate culture will underpin all of these reforms.

In my view, the companies that will be successful in the 21st century are those in which there is a lively and frank exchange of opinions. Accordingly, we will build a focused personnel system and a very open corporate culture in which the entire Company takes on very demanding challenges, and where every employee works with passion to attain his or her individual goals and their performance is appropriately reflected in their assessments, so as to motivate them still more.

Of course, it is also important to rethink our relationships with our franchisees and the motivation we provide them with. From fiscal 2006, we have introduced the new-type 2FC-N franchise contract, designed to increase motivation for the growth of franchisees and reward their management efforts. Additionally, to improve the support structure for staff training, our Store Staff Total (SST) system is being promoted throughout the Company to ensure that as many store staff as possible obtain primary, intermediate, or advanced qualifications in the store staff qualification system.

Through these efforts, we will go back to basics, and all employees will ask themselves "What can I do to help?" so as to realize the hospitality our customers demand. We are putting our efforts into training our staff to put our service concepts into action.



We aim to establish the FamilyMart brand in a way that maximizes shareholder value

To translate this vision into reality, fiscal 2006 will be a very important year, as it marks the start of our second-phase structural reform. Our management goals, on a consolidated basis, include total operating revenues of ¥307.5 billion (up by 11.2% year-on-year), operating income of ¥33.4 billion (up by 2.3%), and net income of ¥16.1 billion (up by 13.4%).

In fiscal 2006, which marks the 25th anniversary of the Company's establishment, to show our gratitude to the customers who have so loyally supported us up to now, and to demonstrate our sincere desire to serve them in the future, we are continuing our efforts to create stores that give each customer the immediate feeling of being warmly accepted, under the slogan of "FamilyMart, Where You are Always One of the Family."

We have boiled down the essence of our various ideas regarding our business to the single statement that, in the retailing business, "hospitality is everything." We aim to set ourselves apart from our rivals in everything: not only in the operation of our stores, but also in product development, store and sales space design, sales promotion campaigns, and all other corporate activities. As well as aiming to be a "family mart" that everyone likes, and where they feel at home, employees and franchisees will join together in implementing our second-phase structural reform, so as to establish a solid structure for growing both revenues and earnings and be the leading company in its industry for quality.

In fiscal 2006, we announced the Policy (Actions against Corporate Acquisition) toward Large-Scale Purchases of FamilyMart Shares. Also, from the perspective of corporate management we wish to ensure proper corporate governance by strengthening our compliance structure and by rationalizing our business activities as we strive to maximize shareholder value.

Regarding share repurchases, at a meeting held on May 19, 2006, the Board of Directors of FamilyMart approved a resolution to acquire the Company's own shares up to a maximum of 5 million shares (equivalent to 5.1% of all issued shares), provided that the purchase cost does not exceed a maximum of ¥20,000 million. The purpose of this resolution is to give the management of the Company greater flexibility in raising capital.

We look forward to receiving the support and goodwill of all of our shareholders and investors as we pursue these endeavors.

FamilyMart will charm customers worldwide with typical Japanese hospitality

Taking advantage of being the only major convenience store chain to deploy a brand originating in Japan, FamilyMart will build a network in the Pan-Pacific region encompassing East Asia and the United States. To do this, we will step up the opening of stores under a cooperative structure in which we join with area franchisers overseas.

Already, the abundant range of merchandise, including ready-to-eat food items characterized by freshness and quality, and meticulous service, are becoming renowned for the clear difference that they show from local convenience stores. When we have acquired the reputation of being a unique Japanese convenience store bursting with hospitality, the global network that FamilyMart is building will have evolved into a chain of "family marts" in the literal sense, that is, of stores where customers feel as if they are at home.

J. Heda
President and Representative Director

ずっと、 あなたと、コンビニに、 ファミリーマート

FamilyMart, Where You Are Always One of the Family

In fiscal 2005 we adopted the slogan "FamilyMart, Where You Are One of the Family," signaling our desire to give every customer the immediate feeling of being warmly accepted.

In fiscal 2006 the Company has appended the slogan "FamilyMart, Where You Are Always One of the Family" to its 25th anniversary message, clearly stating our desire to provide the finest possible service. We are striving to ensure that our stores will always be places that people always find friendly and welcoming.



To make the customer feel even more like “one of the family,” we focus on values found nowhere else but at FamilyMart

Amid rapid change in the social structure, we live in an age in which customers have a strong desire for a place where they can escape from the hustle and bustle of life. For convenience stores, the traditional values of being close and convenient must today be supplemented by another value: that of providing goods and services that resonate with people. Focusing on and providing merchandise that can only be found at FamilyMart, and services that only FamilyMart can provide, gives full play to our strong points — conveying a friendly attitude and making customers feel “one of the family,” as reflected in our Company name. In these ways, we will communicate the value of our products and services to the public, while we pursue our aim of being number one for quality.

Currently, not only staff who interact with customers, but all Company staff and franchisees, are working in unison to build the FamilyMart brand, focusing more strongly on hospitality.



To give customers the immediate feeling of being warmly accepted, our store staff put top priority on hospitality

FamilyMart — the hospitality chain

We want our customers to accept us as a much-loved and essential part of their daily lives: we aim to be their store of choice. Our aim is to create convenience stores that give customers who enter the immediate feeling of being warmly accepted, and that suggest to them ways of reenergizing themselves for an enjoyable lifestyle.

The essence of hospitality lies in projecting a sincerely welcoming attitude. At FamilyMart, based on our eight product concepts, for example making customers feel part of the family and at home, and being readily able to savor real professionalism, we endeavor to provide the goods and services that will make our customers' day. We want to make our stores places of excitement and discovery. When interacting with customers, by communicating with them in a friendly but also courteous way, we endeavor to convey the sincerity of the welcome that we extend.

SQ&C — An oasis of calm amid the bustle of modern life

To give concrete form to hospitality through brand-building activities conducted throughout the Company, an increasing number of franchisees are stepping forward: involving store staff in deciding on the themes, and then tackling promotions such as those in which they emphasize their "sparkling" restrooms or windows. As a symbol of the efforts being made to raise the level of SQ&C, in June 2005 the uniforms worn by store staff were redesigned for the first time in five years.

In fiscal 2006, individual store staff will look beyond what is required of them in their staff manuals and think "What can I myself achieve?" and "What kind of things can I do to make my customers happy?" They will do everything from their basic tasks to a range of small, extra things, thereby raising the level of SQ&C still further, and highlighting FamilyMart's special characteristics.



FamilyMart, Where You Are One of the Family

We give you wholehearted hospitality and the highest quality
— because to us, you are one of the family

“FamilyMart, Where You Are One of the Family”

With these words in our hearts, we will do away with the idea that a “convenience store” simply means a store that is nearby and offers convenient service.

We declare that we will become a convenience store that is close to its customers’ hearts, and is an indispensable part of their lives.

We will convey this thought to every customer through great merchandise and service that lifts their spirits, and at times simply in the form of softly spoken words.

As the name “FamilyMart” implies, we regard each customer as being a “member of the family.”

To you, our important customer, we offer a warm welcome that you will feel as soon as you step inside.



We can

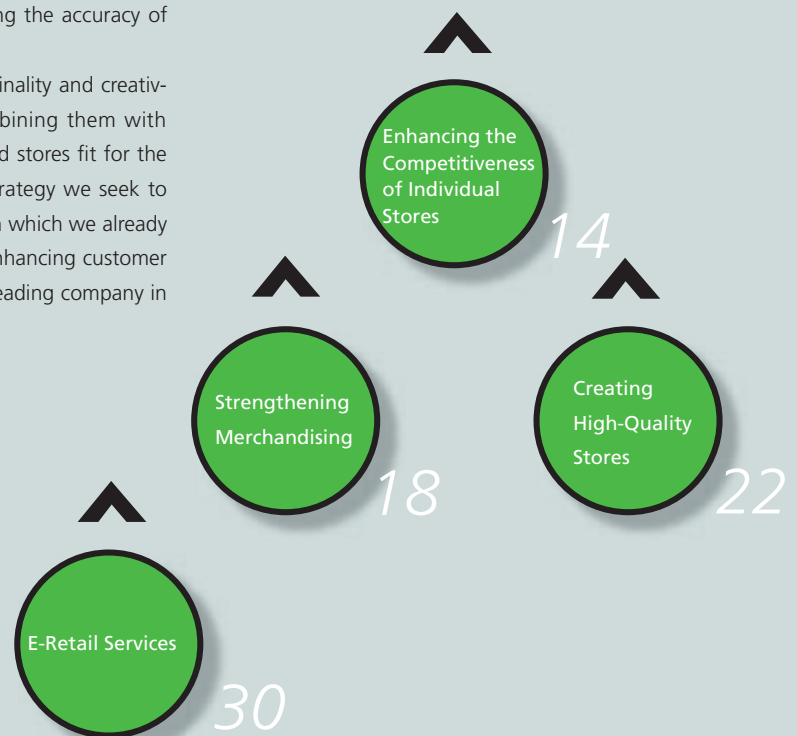
OUR STRATEGY

We do

We will pay thorough attention to the basics of retailing, becoming the leading company in its industry for quality

Retailing is entering a period of change — a period in which people are demanding goods and service that give genuine value for money. For FamilyMart the most important issue is to enhance the competitiveness of individual stores, maximizing the value of each store by giving thorough attention to service, quality and cleanliness (SQ&C) and increasing the accuracy of the demand forecasts we use in merchandise ordering.

In addition, by strengthening merchandising with originality and creativity, boosting the attractiveness of sales displays and combining them with advanced E-Retail Services, we are creating high-value-added stores fit for the new era. In developing stores, based on our dominance strategy we seek to create high-quality stores in every location, both in regions in which we already have a presence and also in new regions, with the aim of enhancing customer convenience. With these policies, we aim at becoming the leading company in its industry for quality.



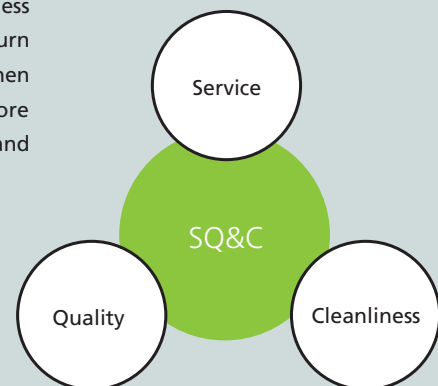


Enhancing the Competitiveness of Individual Stores

At FamilyMart we aim to create stores with heightened levels of SQ&C and an abundance of hospitality. We work with our franchisees to enhance the competitiveness of individual stores and are also making vigorous use of our unique Store Staff Total (SST) system to nurture the competitiveness of store staff.

During fiscal 2005, the number of business districts within Japan under the direct supervision of the Company's top management (excluding areas covered by two area franchisers) increased by one from 19 to 20, and the total net sales of FamilyMart stores were increased by putting in place a structure in which strategies and measures are conveyed promptly from the headquarters to all stores.

Based on these developments, from the beginning of fiscal 2006 the said business districts have been reorganized into a total of 21. Under this structure, we will return to the basics of retailing, giving thorough attention to SQ&C. We will also strengthen our Store Staff Total (SST) system to expand the scope of tasks carried out by store staff, including order placement, so as to further improve store management skills and the accuracy of ordering.



By focusing rigorously on SQ&C,
we will create even more friendly and welcoming stores

At headquarters, we have established a specialist group to implement our Store Staff Total (SST) system, forming part of the building of a structure for the meticulous support of store operations. This also includes the operation of the SQ&C training vehicles to give training in customer service to the staff of stores located far away from our training facilities, and in regions where we have opened our first stores only just recently. In this way, our franchisees and headquarters are working in unison to raise the level of SQ&C.

In fiscal 2005, Companywide activities were devoted to building the brand, during which positive attitudes towards vigorously extending hospitality to customers were communicated to the staff of all our stores, and an increasing number of franchisees engaged in original activities such as special campaigns focusing on their "sparkling" washrooms or windows. In June 2005, to convey the friendliness of our service more forcefully to customers, and to point up the immediate feeling of being warmly accepted, we introduced new designs for our store staff uniforms for the first time in five years, and are encouraging staff to wear neckties for a smarter appearance.

In fiscal 2006 these efforts will be redoubled. The SQ&C level will be raised further by having individual store staff carry out tasks that they are capable of doing, over and above what is required of them in their staff manuals.



SQ&C training vehicle



Companywide steps will be made to promote
the SST system

The keys to creating stores filled with hospitality are the store staff, who interact directly with customers as individuals.

The skills of store staff are being upgraded through encouragement to participate in the store staff qualification system, as well as by holding staff trainer development meetings.

During fiscal 2005, over 30,000 store staff obtained qualifications in the store staff qualification system, making a major contribution to raising the standard of customer service and staff motivation. In consequence, the overall atmosphere of stores was brightened, and franchisees expressed appreciation that they are now able to devote themselves more fully to management.

In fiscal 2006, measures such as further improvements to the support structure for staff training will make it easier for more store staff to obtain primary, intermediate, or advanced qualifications. In ways such as this, Companywide efforts will be made to promote the Store Staff Total (SST) system.





Further increasing the accuracy of ordering to ensure we never lose the opportunity for a sale

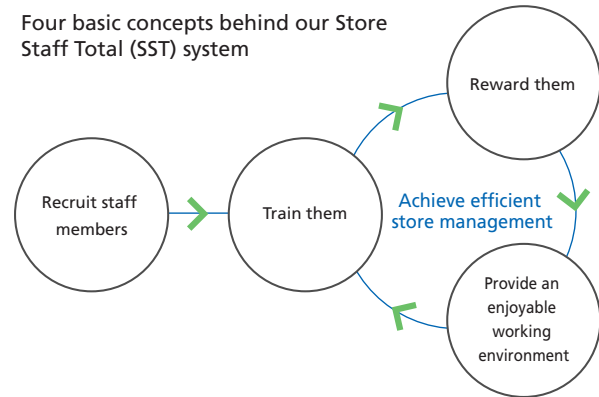
Our customers basically appreciate a convenience store for being somewhere they can buy the goods they want, in the quantity they want, and whenever they want. The best-selling items among ready-to-eat food items, the greatest common measure of customer needs, must be stocked without fail by FamilyMart for 24 hours a day, 365 days a year. This is one of the ways in which FamilyMart displays its true value.

To achieve this, when new items of merchandise are launched, and at other times when sales increase, such as during promotional campaigns for existing items, it is essential that stores are never short of these items, as this would constitute a lost sales opportunity. It is also vital to monitor trends among customers on a daily basis and make painstaking efforts to ensure a balance between customer numbers and the volume of merchandise, so as to maximize sales opportunities.

FamilyMart currently posts weekly sales goals for priority items. To increase the accuracy of ordering, goals are set on a district, area, and store basis.



Four basic concepts behind our Store Staff Total (SST) system



Operation, Management, and Training manuals

Every store is equipped with a Store Activation Terminal (SAT) providing real-time information essential for ordering merchandise, such as product information and information on sales at other stores. The SAT information system provides not only aggregate figures for merchandise sales, but also figures for every individual item of merchandise, enabling franchisees to conduct thorough item-by-item management.

Job enhancement under the SST system enables the apportionment of order placement tasks to store staff. As a result, orders are placed not only by store managers, but by store staff as well. This not only helps train staff in fulfilling their responsibilities, but also improves the accuracy of our product lineups.

Introducing a third-generation store management system to enhance store management skills

FamilyMart strives constantly to improve its systems designed to increase the accuracy of ordering and support store management. Currently, we are in the process of building a third-generation store management system, which is scheduled to be introduced from the second half of fiscal 2006.



Ordering merchandise using Store Activation Terminal (SAT)



Famiport Multimedia Kiosk



POS register

The system will employ an optical fiber network to integrate and control the POS registers, store controllers, Famiport Multimedia Kiosks and other information equipment within stores. This will enhance in-store operational capabilities and help create a base for giving strong support for the plan to build a global network of 20,000 stores.

Of particular note is that the full use of broadband will make it possible for ordering and sales data to be collated and processed faster. This will provide advantages such as reducing the time taken to deliver products to stores, and is thus expected to make a substantial contribution to FamilyMart's demand chain management (DCM).

What is more, POS registers will have greater operability and enhance stores' ability to handle other media such as electronic money, and other functions will include the ability to transmit interactive messages to customers. They are thus expected to give rise to synergies with SQ&C.

By linking the introduction of this third-generation store management system with the promotion of the Store Staff Total (SST) system, the efficiency of store operations will be enhanced, including increased accuracy of ordering. This, in turn, will lead to the creation of more profitable stores.



Shisaburo Ueda

*Senior Managing Director
Operation Division*

Further disseminating our Store Staff Total (SST) system, and pursuing the basics of the retailing business

Customers have become very demanding when it comes to convenience stores. Not only is it of the utmost importance that shelves are always stocked with just the items that customers require, store staff must also greet customers with a smile, and the shop must be clean. We are giving thorough attention to SQ&C (service, quality and cleanliness) and increasing the accuracy of ordering, with the aim of creating an ideal store environment that will ensure a pleasant shopping experience for our customers. The driving force behind this initiative is our Store Staff Total (SST) system.

At present, the Operation Division encourages store managers to make their staff participate in our store staff total system. The basic thinking behind this initiative is to recruit staff members, train them, reward them, and encourage them to enjoy their work.

For example, the allocation of ordering assignments to store staff — instead of making store managers solely responsible for merchandise order placements — helps raise the staff members' awareness to sell all items ordered. This, in turn, makes them feel greater responsibility for their jobs, and gives them an increased level of job satisfaction. Because their jobs become more enjoyable, this makes our stores friendlier places for our customers.

FamilyMart endeavors to be the leading company in terms of service quality, and this is made possible by a thorough adherence to the basics of the retail business through the strict implementation of our Store Staff Total (SST) system.

We can



Strengthening Merchandising

FamilyMart employs a three-pronged marketing strategy that focuses on generation, price, and region. It ensures differentiation from other chains by developing full-fledged ready-to-eat food items that are attractive in terms of price, taste, and appearance, as well as other ingeniously original merchandise, such as *tsutsumi jitate* — *en papillote* boxed lunches (featuring main-dish items wrapped in polypropylene-coated paper pouches) and a new type of boxed lunches cooked using superheated steam.

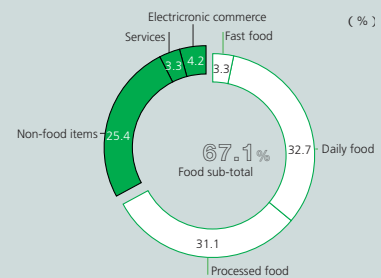
During the year under review, we sold more than 60 million portions of fried chicken, a phenomenal success by the standards of the convenience store industry. Sales of *oden* (Japanese-style stewed hotchpotch) also began developing from the summer, and showed strong growth. In total, fast food sales recorded year-on-year growth of approximately 30%.

Based on that performance, in fiscal 2006 we will take steps to create more attractive sales displays by increasing the proportion of original merchandise to 40%, also carrying out a program for the remodeling of sales displays and product lineups that will include improvements to non-food items and other merchandise in all stores.

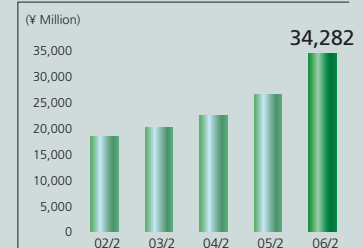
With respect to merchandise procurement, we will achieve major cost reductions by undertaking a radical overhaul of the entire cycle from the procurement of raw materials to supply, through merchandise distribution and other logistics operations. This will help us to achieve our Companywide target of a 29.6% gross profit ratio.

* "Ready-to-eat food" includes such items as fast food, rice balls, sushi, boxed lunches, cooked noodles, delicatessen items, salads, savory and sweet rolls & pastries, and desserts.

Breakdown of Sales by Merchandise Category (non-consolidated) 2006.2



Sales of Fast Food (non-consolidated)



Satisfaction for a wide range of customer age groups

Generation marketing

In line with the concept of offering ranges of merchandise that satisfy not only our core customer segments but also a broader range of consumers, FamilyMart develops and offers clearly targeted merchandise.

As an example, during fiscal 2005 we developed new products and conducted sales promotion campaigns targeted at middle-aged consumers and seniors, particularly those in the baby-boomer generation, who are expected to account for an increasing proportion of demand from here on, and who have more free time and more money to spend than most generations.

In fiscal 2006 we will be widening the range of our ready-to-eat foods to include side-dishes and prepared noodle dishes, thereby extending the range of our merchandise categories across the full spectrum of Japanese cuisine. We will also be developing a new range of dishes targeting working women, based on surveys of our own female staff as well as our customers.

Offering excellent value for money

Price marketing

FamilyMart also assembles product lineups that cater to a wide array of needs, ranging from goods at reasonable prices to high-value-added goods made from the finest seasonal ingredients. Of particular importance is the fact that for high-value-added merchandise we pay attention to developing goods that are not only high in quality but are moderately priced.

Our unique rice balls and a full pasta range made from select ingredients proved highly popular in fiscal 2005, and they are to be followed in fiscal 2006 by the introduction of merchandise such as one-piece sandwiches that can be purchased in combinations with other foods, and desserts such as are sold in specialist dessert stores or high-class cafés. By expanding the variety of our merchandise in this way, we aim to offer a well-balanced range of goods that satisfies a diversity of needs.



Tsutsumi jitate — en papillote dishes

Ensuring that FamilyMart is always rich in products with local flavor

Regional marketing

FamilyMart divides Japan into seven regions, developing and selling products specifically for each of them so as to match local characteristics and needs.

During the year under review, in the Tohoku region (northern Japan) we offered the *Azuma Snow-Hare* range of goods based on local specialties from Fukushima Prefecture. By working with the youth section of the local chamber of commerce and industry to commercialize symbolic local produce, and promoting them through special campaign events, FamilyMart was able to grow the range into hit products that generated overwhelmingly large sales. In April 2006, four items were offered nationwide for a limited period.

Sparked by this success, in fiscal 2006 we will boost to 40% the proportion of priority ready-to-eat food* accounted for by regional products. With “Local products, sold locally,” as our watchword, we will maintain our commitment to catering to the specific tastes of people in different parts of Japan by using locally-grown ingredients to develop merchandise with truly regional color.

*Priority ready-to-eat food includes rice balls, sushi, boxed lunches, delicatessen and cooked noodles.

Enhancing friendly interaction with our customers — surprising and impressing them

At FamilyMart, we believe in going back to the merchandise-based origins of retailing, offering attractive product lineups.

As part of this approach, in fiscal 2006 we will begin the “Famima Wonder 500” project. Under this, the space for two existing gondolas will be made available for the display of product ranges to meet the unique requirements of individual stores, the challenge being to register a five-fold sales increase from that space. We expect this to be recognized as an epoch-making idea that will break the current standardized mold of convenience store merchandise ranges.

We are also conducting feasibility studies for the handling of fresh foods. Currently, we are selling fresh foods at directly-managed stores on a trial basis. In addition, we will use original means such as sales promotion vehicles to win customers, making exhaustive efforts to promote sales on a region-by-region and store-by-store basis.



Special packages for FM Apparel of MUJI



We will radically reform our earnings structure, increasing the proportion of high-margin merchandise

Both FamilyMart and our franchisees aim to achieve sustained growth in earnings, regarding not only daily sales volume but also the gross profit ratio as key indicators.

With the target of gross profit ratio for fiscal 2006 set at 29.6%, we will be making further reforms to the earnings structure to achieve that. We will endeavor to boost sales of ready-to-eat food items and enhance the efficiency of sales, with the goal of increasing the proportion of high-margin original merchandise to 40% of the total.



Original Cosmetics

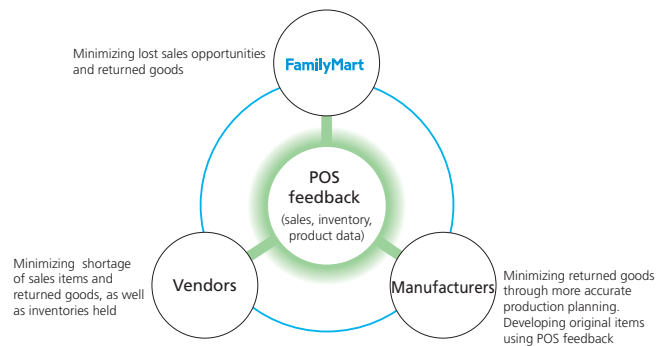
A thorough overhaul of merchandise distribution and other logistics operations will form part of an all-embracing reform of the logistics system

In the distribution sphere, we are committed to sharing ordering and sales information with major suppliers, so as to build demand chain management (DCM) systems that will strengthen our cooperative relationships with them. Through this, we aim to enhance the degree to which we can assemble merchandise ranges in a timely manner to match customer requirements, at the same time raising the accuracy of inventory management.

A notable achievement in fiscal 2005 was that we further enhanced the efficiency of the procurement of the raw materials for ready-to-eat food items, and reduced production losses.

In the course of fiscal 2006 we will press ahead with this reform of goods distribution, requiring suppliers to make drastic cost improvements at all stages from raw-material procurement to supply, thereby making a further contribution to the reform of the earnings structure.

DCM (Demand Chain Management)





FamilyMart has concluded a product license agreement with FIFA to manufacture and sell 2006 FIFA World Cup™ Official Licensed Products. We are poised to offer attractive goods.



Every year FamilyMart sells original goods relating to popular characters and big events, and runs much-talked-about campaigns, as part of its efforts to create stores with a pleasant ambience where customers are treated like members of the family.

In November 2005, FamilyMart became the only chain retailer in Japan to conclude a product license agreement with Fédération Internationale de Football Association (FIFA) for the 2006 FIFA World Cup Germany™. This enables us to develop and sell original Official Licensed Products and to conduct related product sales promotional activities. In consequence, FamilyMart stores throughout Japan can be expected to be transformed into exciting and lively stadiums during the summer of 2006.



Takayuki Yokota

*Managing Director
Merchandising Division*

Pursuing product development to expand profitability

The Merchandising Division is promoting structural reorganization under two themes related to the concept of “manufacturing.”

The first theme is to effect a dramatic rise in the proportion of locally produced items in the category of “priority ready-to-eat food.” By launching sales of products incorporating locally produced ingredients, such as our Azuma Snow Hare series, jointly developed with the youth section of the Fukushima Chamber of Commerce and Industry, and the Sasebo Burger, developed in collaboration with the Sasebo Tourism Association, we have succeeded in raising the proportion of “regional products” to 30%.

During fiscal 2006, regional managers (one in charge of each of seven marketing blocs throughout the country) will be working together with our franchisees and the staff of the food processing plants handling our ready-to-eat food items, and well as with important regional food producers and famous retail establishments, to further widen our cooperative network for product development under the slogan “Local products, sold locally.” In this way, our stores will be able to offer the products that are most popular with local consumers. Additionally, items that have been developed in one region and proved very popular will be sold nationwide and marketed as products of the culture of the regions they come from. Sold through our nationwide network of stores, these items will be vigorously promoted as “regional items on a national menu.”

The second theme is to improve the earnings structure through the achievement of a “distribution revolution.” We plan to promote the Demand Chain Management concept — which centers on a revolution in our method of product distribution — as a tool for the optimization of both the upstream-to-downstream flow of products and the downstream-to-upstream flow of information about customer needs. In this way, we will be able to augment sales of newly emerging product categories, and more speedily and proactively develop original products that will be guaranteed to sell well and earn excellent profits.

From fiscal 2006, the Demand Chain Management Department has been transferred to the Merchandising Division, and cross-divisional initiatives are being taken in various fields ranging from food ingredient procurement to reforming our earnings structure. These efforts are expected to make a major contribution to our Companywide earnings structure reform initiative.

We do



Creating High-Quality Stores

To build a store network with strong profitability, FamilyMart is implementing a dominance strategy* that places emphasis on the distinctive characteristics of the markets in different regions.

Fiscal 2005 saw the further development of stores in regions in which we already have a presence, together with launches into new regions: Shimane and Nagano Prefectures in May 2005, Niigata Prefecture in August, and Akita Prefecture in December.

Additional moves are also being made to launch vigorously into new markets, in part to provide more convenient service and to meet our customers' latent needs. In tandem with this, new-concept Famima!! stores are being developed in a linkage with our overseas strategy.

Measures such as these brought the opening of 606 high-quality stores in fiscal 2005, raising the total number to 6,284 as of the end of February 2006, net of 316 stores that were closed. Including the outlets of two area franchisers, FamilyMart's domestic network encompassed 45 prefectures, and the total number of stores reached 6,734 within Japan.

The opening of high-quality stores will be accelerated in fiscal 2006, for which the goal is 650 new stores for FamilyMart itself, each generating an average daily sales volume of ¥470,000. That will see the establishment of a truly national chain encompassing all of Japan's 47 prefectures. This, in turn, will serve as a springboard for progress towards our target of building a global network of 20,000 stores (8,000 in Japan and 12,000 overseas).

* Dominance strategy: A store-opening strategy in which stores are concentrated in specific areas, thereby enhancing operating efficiency and competitiveness in gaining sales.

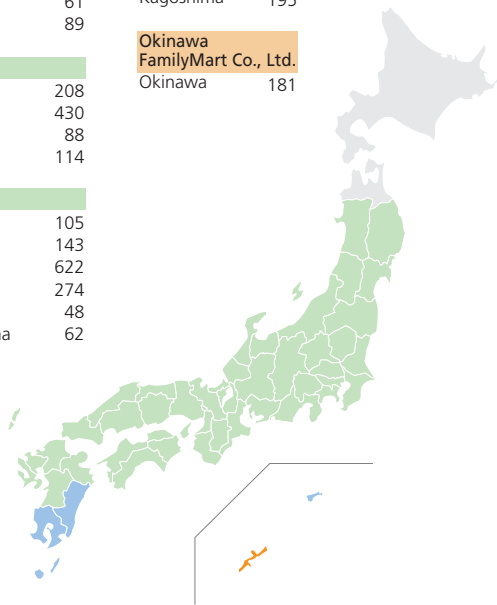
New store openings (non-consolidated)



Number of Stores by Region

(As of February 28, 2006)

Tohoku		Chugoku	
Iwate	74	Tottori	13
Akita	4	Shimane	10
Yamagata	90	Okayama	82
Miyagi	184	Hiroshima	132
Fukushima	135	Yamaguchi	9
Kanto		Shikoku	
Ibaraki	128	Tokushima	22
Tochigi	111	Kagawa	54
Gunma	85	Ehime	47
Saitama	362	Kochi	10
Chiba	252	Kyushu	
Tokyo	1,009	Fukuoka	237
Kanagawa	505	Saga	45
Koshinetsu		Nagasaki	139
Yamanashi	61	Kumamoto	95
Nagano	10	Oita	63
Niigata	8	Minami Kyushu FamilyMart Co., Ltd.	
Hokuriku		Miyazaki	74
Toyama	64	Kagoshima	195
Ishikawa	61	Okinawa FamilyMart Co., Ltd.	
Fukui	89	Okinawa	181
Tokai			
Shizuoka	208		
Aichi	430		
Gifu	88		
Mie	114		
Kansai			
Shiga	105		
Kyoto	143		
Osaka	622		
Hyogo	274		
Nara	48		
Wakayama	62		



FamilyMart soon to become a truly national chain with stores in all 47 Japanese prefectures

To establish efficient dominance in line with the situation prevailing in each region in which it operates, at FamilyMart, each District Office (the regional organization under the direct control of top management) is in charge of store-opening areas. The Store Development Division and the officers responsible for each district work together both to expand the store network and to strengthen the support for existing stores.

The opening of high-quality stores in areas in which we already have a presence was accelerated once again during fiscal 2005, thanks to the effective use of our unique in-house Geographic Information System (GIS). In addition, we launched into new territory in the prefectures of Shimane, Nagano, Niigata, and Akita, achieving a total of 606 store-openings, the highest number ever.

We opened our first store in Aomori Prefecture in May 2006. Combined with the establishment of a presence in Japan's northernmost main island of Hokkaido in the summer — under an area franchise agreement with Hokkaido FamilyMart Co., Ltd., which is a joint venture set up with Maruyo Nishio Co., Ltd., based in Sapporo City — this will give FamilyMart a store network covering all 47 Japanese prefectures. That will mark the establishment of a national chain network covering every corner of the country, centered on the three metropolises of Tokyo, Osaka, and Nagoya.

Creating a domestic network of 8,000 stores backed by enhanced development capabilities

The Store Development Division, responsible for the development of high-quality stores, has an important role to play in ensuring that the national chain lives up to its name and makes its presence felt.

In fiscal 2006 the number of development staff will be increased to 175. These changes will create a solid structure



Famima!! Akihabara UDX store



Famima!! Shin-Yokohama Prince Pepe store



FamilyMart close to Matsumoto Castle in Nagano Prefecture

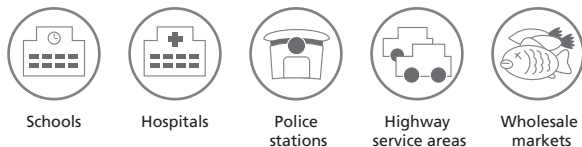
for the gathering and screening of property information, and with the ability to support the opening of 650 new stores. Additionally, various measures have been taken to provide backup to franchisees, in order to respond to the management efforts they are making. These include the introduction of the new-type 2FC-N franchise contract, which gives them improved incentives. With the aid of these, FamilyMart will step up the creation of high-quality stores towards achieving its goal of having a domestic network of 8,000 stores by fiscal 2008.

Reinforcing capabilities in new market development and moving ahead with opening of new-concept stores

FamilyMart is actively pursuing store-opening programs in new types of location, such as within office buildings, hospitals or other large-scale facilities, in the service areas of expressways, and at the venues for major events.

In fiscal 2005, we became the first convenience store operator to open outlets in a shipyard and a wholesale market. We are also experimenting with a new store chain concept — Famima!! — which is designed to meet demand from office workers and also to blend in harmoniously with the architecture of the large buildings where the stores are located. In February of this year, we opened the sixth Famima!! store, in the Akihabara area of downtown Tokyo.

In fiscal 2006, we will continue to actively tackle the challenge of developing new markets.



Schools

Hospitals

Police stations

Highway service areas

Wholesale markets



FamilyMart in a central wholesale market in Osaka



FamilyMart in a hospital in Shimonoseki



Shota Takahashi

Director
Store Development Division

Taking multiple factors into account in creating high-quality stores

The Store Development Division has identified three issues to be effectively addressed by the end of fiscal 2006.

Firstly, as store development professionals, we aim to raise the accuracy of the assessment of each and every potential site with the goal of creating high-quality stores for the benefit of both the franchisees and our headquarters. We will reaffirm our policy of placing priority on the development of high-quality stores to achieve our average daily sales targets.

Secondly, fiscal 2006 will mark a milestone in our history with the opening of stores in Aomori and Hokkaido, finally realizing our goal of operating stores in all of Japan's 47 prefectures. Through this achievement, FamilyMart will become able to provide uniform services nationwide. Fully utilizing the power of this nationwide chain, we will aggressively cultivate new opportunities to develop new markets or to collaborate with promising business operators in other industries.

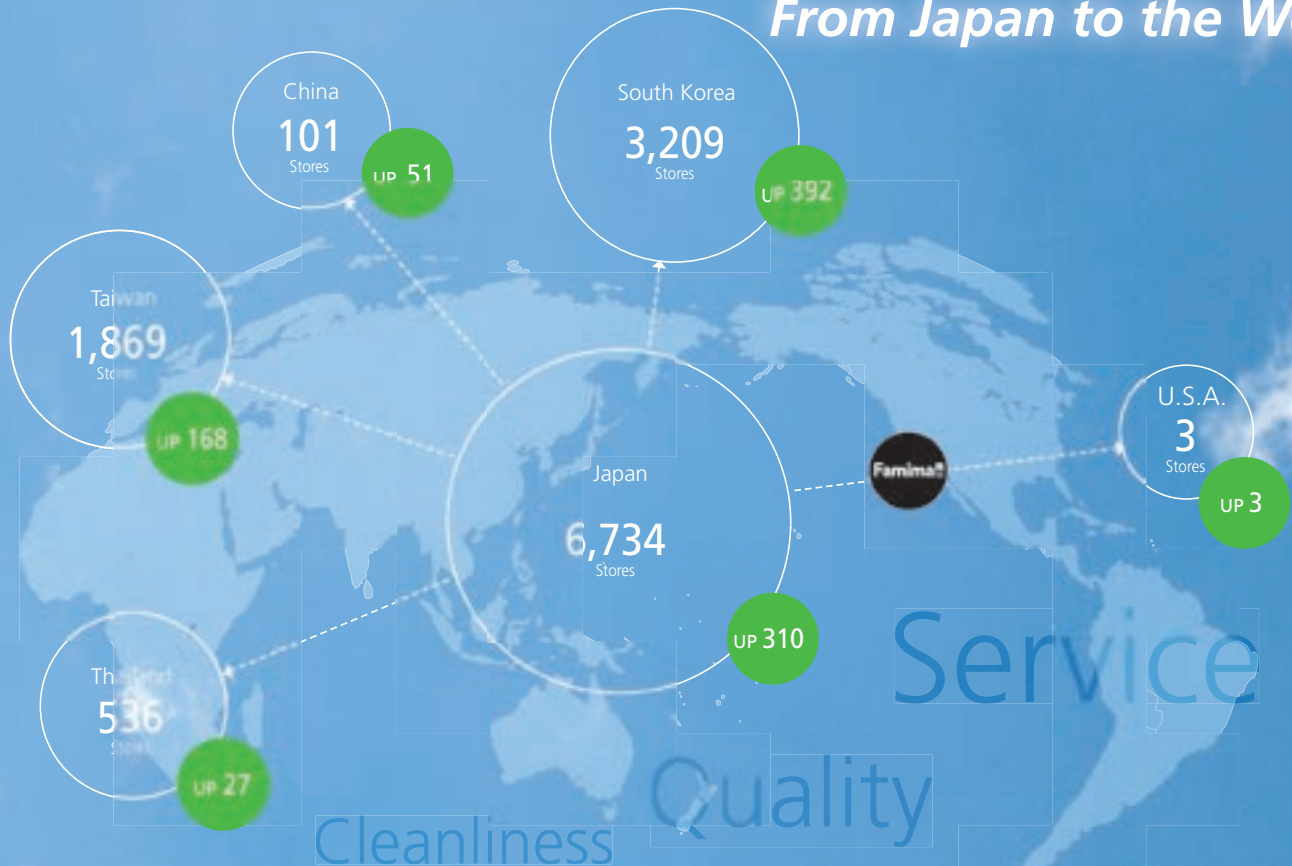
Thirdly, in fiscal 2006, we aim at opening 650 new stores. We are strengthening our base in urban centers, dominated by stores in Japan's three largest cities, thereby increasing store management efficiency and convenience for customers.

We will simultaneously make utmost efforts to deal with these issues — 1) more carefully evaluating sites for new stores, 2) operation of a store chain nationwide, and 3) strengthening our market dominance, centering on Japan's three major metropolitan areas. In this way, FamilyMart will make a new start in its store development in fiscal 2006, which marks the 25th anniversary of FamilyMart's establishment. We will do our best to make 2006 a very special year, befitting our fresh start.

PAN PACIFIC PLAN

The Pan-Pacific Plan

From Japan to the World



As of February 28, 2006

We will accelerate new-store openings in the countries of the Pacific Rim, to achieve our goal of a global network of 20,000 stores by the end of February 2009.



Having reached our goal of 10,000 stores in East Asia in 2003, we have positioned as the next step in our overseas expansion the Pan Pacific Plan, calling for a global network of 20,000 stores by February 2009 (8,000 in Japan and 12,000 overseas). We opened our first Famima!! store in the United States as planned in July 2005, with three stores in operation as of the end of fiscal 2005. Overseas stores, in Taiwan, South Korea, Thailand, China, and the United States as of the end of February 2006 totaled 5,718, bringing the total number of stores in the FamilyMart network to 12,452. In fiscal 2006, we will continue to accelerate the opening of new stores, pushing ahead with initiatives to bring top quality service and the Japanese style of hospitality to customers around the world.

U.S.A.



As the only major convenience-store chain that originated in Japan, we have been preparing to introduce high-quality Japanese-style stores to the United States, where convenience stores originated. We finally opened our first Famima!! store as planned, in West Hollywood, California, on July 20, 2005. We opened a second store in Westwood in December and a third in Santa Monica in February 2006.

We are excited about the new shopping style we are providing under the slogan "The Premium Experience," including panini grilled in-store and fresh, high-quality ready-to-eat foods such as rice balls, sushi, and Japanese boxed lunches. We also offer premium grocery products, Japanese tea, and imported stationery. Thanks to service exuding the hospitality we learned to provide in Japan, we have received overwhelming local support, and have brought a breath of fresh air into the American convenience store scene.

In fiscal 2006, we plan to open stores at an additional 17 locations, leveraging the superiority of our high-quality Japanese-style stores to expand the ranks of Famima!! fans, building the network up to about 200 stores by the end of February 2009.



Taiwan



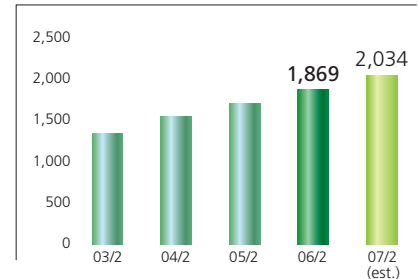
In fiscal 2005, we worked in the face of intensifying competition to improve operational strengths and beef up products, especially in the ready-to-eat food category. In particular, we earned good marks for our *tsutsumi-jitate* — en papillote boxed lunches, which have proved extremely popular in Japan. Bolstering our local marketing and promotional activities resulted in solid growth in sales and earnings. In addition, under the Store Staff Total (SST) system, we promoted a store staff qualification system, with 2,500 store staff receiving primary qualification. As a result, we were rated number one in service for the second straight year by Taiwan's business magazine Yuanjian.

On the development front, we added new stores aggressively, including 10 suburban roadside stores with parking, bringing the total number of stores as of the end of February 2006 to 1,869.

In fiscal 2006, while continuing to open suburban stores, we will push forward with initiatives to increase customer satisfaction such as adding functionality to e-retail services and developing original products in partnership with manufacturers, linked to improvements in SQ&C levels.



Number of Stores in Taiwan



South Korea

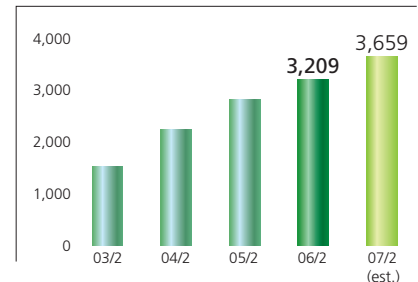


In 2005, we aggressively developed original ready-to-eat foods such as rice balls and bread based on the concept of promoting our stores as places where our customers can relax, while expanding lifestyle services such as catalog sales and digital printing services. A point service program we developed in partnership with a leading communications firm was well received, contributing to record earnings. Our focus on strengthening our dominant position in specific areas resulted in a net increase of 392 stores, bringing the store count to 3,209 and cementing our position as South Korea's top convenience store chain.

In fiscal 2006, we will strengthen store operations by raising SQ&C levels and raising the percentage of ready-to-eat food, while aggressively developing original products and fast food products. The opening of 630 new stores will further strengthen our dominance.



Number of Stores in South Korea



Thailand

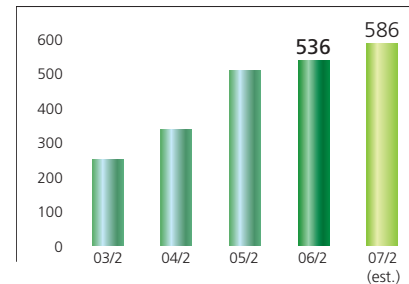


Our business in Thailand in early fiscal 2005 was affected by the aftermath of the tsunami that hit the southwestern coast of Thailand at the end of 2004. The hardest-hit of our stores was that on Phuket Island, but thanks to support provided by the entire company, we were able to get the store back up and running in a short time.

In the field of store operation, we thoroughly applied the lessons learned in Japan in store redesigning and staff training. We also conducted aggressive sales promotion campaigns for specially targeted items. These campaigns conveyed the fun to be had in shopping at our stores, and were rewarded by an extremely strong upsurge of customer interest in FamilyMart. We continued to develop original products, particularly in the fast food category, and our grilled sausages and teriyaki hamburgers proved especially popular, doing much to raise sales as a whole. As a result, average daily sales at all stores in Thailand rose 10% year-on-year.



Number of Stores in Thailand



China

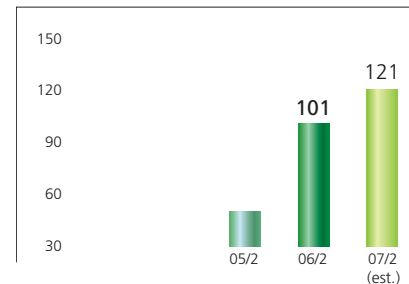


New openings in China started with 25 directly-operated stores in July 2004 in Shanghai, where a number of competitors are arrayed against us. With the easing of regulations on foreign investment in December 2004, we began expanding franchising operations, building up expertise in developing stores and choosing sites. This enabled us to expand the number of stores to 101 by February 2006, with strong growth in average daily sales of existing stores.

We are positioning fiscal 2006 as a year for creating a firm foundation for another leap in growth, building up our logistics infrastructure and improving SQ&C levels to enhance the competitiveness of individual stores, while creating products the Shanghai FamilyMart stores can be known for, such as introducing in all stores the Meiten Bread* which many customers already love. In addition to raising our presence in the Shanghai region, we are preparing to expand our network over the medium term to the regions around Beijing and Guangzhou.



Number of Stores in China



* Original products developed in collaboration with GOURMET and Ichido, famous bakeries in Shanghai

We will strengthen our support systems for franchisees, and accelerate the creation of high-quality stores overseas.

With managers and store staff in every region working as one, we will push ahead to reach the overarching group-wide goal of 20,000 stores in our global network.

Our emphasis on opening high-quality, profitable stores overseas means that we are proceeding with new stores that can be effective in each country's markets. In addition, the experience we have accumulated in expanding our network in five countries enables us to aggressively consider expanding into new regions.

In view of this, to clarify responsibilities and functions, we have reorganized the Management Planning Department and Area Franchise Support Department within the Area Franchising Division into a Domestic Business Department and an Overseas Business Department. This is to support expansion of the scope of our domestic businesses and the strengthening of overseas business in order to build a firm foundation for our Pan-Pacific network. We will continue to accelerate the deployment of new high-quality stores overseas, targeting 6,420 stores by the end of February 2007.

Leveraging economies of scale as a global chain

With a combined domestic and overseas network that has grown to 12,452 stores, we will aggressively leverage economies of scale. Since fiscal 2003, we have held annual summit meetings with area franchisers from Japan and overseas, proactively creating synergetic effects within the FamilyMart Group.

The establishment of a global organization not only exploits the strength of a service business's office network and infrastructure, but also creates opportunities for implementing joint procurement across countries and opening new international markets leveraging the network of local partners.

We are making maximum use of these advantages to reduce costs for procurement of raw materials and supplies, as well as expanding Groupwide sales promotions of global scale in partnership with large suppliers.

Taiwan



South Korea



Thailand



China





E-Retail Services

FamilyMart offers E-Retail Services, developed in-house and linked to real stores. This effort has provided even more convenient service to existing customers, and has attracted new ones.

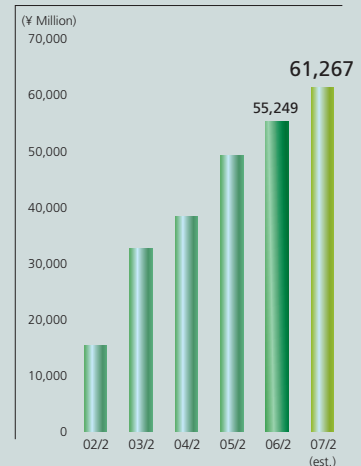
With the goal of increasing earnings in the service segment, in fiscal 2005, we brought new functionality to our Famiport Multimedia Kiosks to enhance linkage between stores and the Internet. In addition, we differentiated our E-Retail Services as a business selling such items as tickets with special bonuses, and ramped up development of new products and services sold only on the Internet site Famima.com.

We also installed ATMs at approximately 60% of our stores to increase visitor value, while working to increase service quality for the new era by increasing the number of stores accepting the e-money Suica.

This contributed to earnings, with EC-related operating revenues reaching ¥49.9 billion in fiscal 2005, up 13% over the previous year.

In fiscal 2006, we will introduce a more user-friendly Famiport, and work to further increase the frequency of customer visits by raising the number of Famima Card members.

Operating Revenues of Famima.com Co., Ltd.



Increasing the number of Famima Card users to bring more repeat customers and raise profitability

The Famima Card, launched in fiscal 2004, is both a credit card and a cash card, providing a cashless shopping alternative to customers. It offers a variety of features such as member-only services and a point system. There is no enrollment or annual fee. Purchases under ¥10,000 offer the great convenience of requiring no signature, stimulating ongoing growth in cumulative credit membership since its introduction to 520,000, as of

the end of February 2006.

As the card, designed with an eye to customer relationship management (CRM), grows more popular, it not only contributes to the revamping of our profit model, but also leads to customer retention by providing a customer-focused mix of products and services. The entire Company is thus focused on increasing the number of users to 700,000 in fiscal 2006.

*Customer Relationship Management (CRM) Employing IT systems, this is a method used to build long-term customer relationships. The breakdown of customer needs based on very detailed customer data leads to better customer retention.

Famiport Multimedia Kiosk

Through our proprietary multimedia kiosks, we will offer a wide variety of one-stop services ranging from the Toto soccer lottery to various types of tickets and prepaid services and services linked to the Internet and the Famima Card.



ATM



The Famima Card

Famima Card offers a variety of services available only to members. This feature-packed card, which functions as a credit card and a cash card, enables us to enhance the range of products stocked at stores and provide additional services as a way to promote customer relationship management.



E-money

FamilyMart accepts cash, prepaid cards, and credit cards, as well as e-money formats such as Suica. Offering this variety of settlement alternatives maximizes customer convenience.



Famima.com MAGAZINE: Catalog shopping

A catalog is distributed free of charge at FamilyMart stores. It is highly popular because of its interesting content, including ticket information centering on a variety of entertainment and sports topics, information about products for sale, and original articles.



Home



Office/Events



famima.com: Internet shopping / Mobile shopping

We offer a high-quality virtual shopping site available from PCs and mobile phones. This provides a vending capability for tickets sold by Famiport.





We will accelerate the evolution of Famiport by enhancing its one-stop service capabilities.

Our multi-media Famiport terminals offer one-stop services to maximize customer convenience, including tickets to major events, prepaid services, and a range of payment services.

In fiscal 2005, we upgraded service by offering advanced prepaid products such as e-money and famous character products valued for their rarity. We introduced Suica charging services, linked to its use as a settlement alternative.

In fiscal 2006, we will enhance user-friendliness in connection with the launch of our third-generation store management system and provide attractive broadband-based content, while preparing for the introduction of an e-money system.

In conjunction with our vision of a global network of 20,000 stores, we will build a network of Famiport Multimedia Kiosks in East Asia and the United States, allowing, for example, tickets purchased in Japan to be picked up overseas, increasing FamilyMart's value as a center for settlement of a range of services and E-Retail Services, access, and delivery.

Maximizing customer convenience by expanding settlement services

We began trials in the Omiya/Urawa area of settlement services using JR East's proximity IC card Suica in fiscal 2004, and as of the end of February 2006 have expanded its use to about 1,000 stores throughout the Tokyo area and around the city of Sendai in northern Japan.

In the autumn of 2006, in conjunction with the introduction of our third-generation store management systems, we will also commence "iD" settlement services using mobile phones (mobile phones that can also be used as credit cards).

Sales using e-money for settling Internet transactions through our Famiport Multimedia Kiosks have also exploded over the last several years.

This greatly contributes to customer convenience, by extending the option of using cash, prepaid cards, credit cards, and now a range of e-money at FamilyMart locations.

We will cultivate new shopping possibilities by increasing usage of famima.com.

We have built our own EC Franchise System on FamilyMart's famima.com shopping site, giving each actual physical store a corresponding virtual store on the Internet. This creates an exciting shopping arena where a wide range of CDs, DVDs, books and magazines, gifts and character products are offered through the website, over mobile phones, and in the freely distributed information sheet called Famima.com MAGAZINE. Now entering the sixth year of operations since its October 2000 launch, famima.com is gaining increased recognition and visitorship, with operating revenues reaching ¥55.2 billion in fiscal 2005.

In fiscal 2006, we plan partnerships with providers of popular content and the addition of original famima.com products that will further enhance its quality as a shopping portal.



CORPORATE GOVERNANCE

& CSR CORPORATE
SOCIAL
RESPONSIBILITY

INITIATIVES

> Corporate Governance

Strengthening internal control systems for decisive, responsible management.

Based on our belief that strong corporate governance builds enterprise value, we are working to establish a transparent and effective management system. To this end, we are working to establish a system to ensure legal compliance and the accurate performance of clerical work. In addition, to ensure proper corporate governance, it is essential to fulfill our duty of accountability through regular and sufficient disclosure of corporate information.

As of the end of May 2006, the board of directors was composed of 12 directors responsible for key corporate decisions and monitoring operations. The executive officer system delegates management responsibilities to executive officers, ensuring speedy decision-making and execution.

We have also established an Internal Control Promote Project Office reporting directly to the President. This is part of our commitment to further improve management practices by strengthening internal control systems and revamping management processes across the Company. By these means, the effectiveness of our internal control system will be further raised. These measures are part of ongoing initiatives at FamilyMart to bring our corporate governance system and standards up to higher levels.

> Environmental Protection Activities



Sustainability Report 2005



<http://www.family.co.jp/eco>
<http://www.family.co.jp/company/eco/ecokids>

Converting to “eco-shops” to help protect the global environment

At FamilyMart, where we consider global environmental initiatives a critical element in our social mission, we have established the goal of building an environmentally friendly convenience store business. This includes specific objectives, in accordance with the ISO 14001 environmental management system, in such areas as products, logistics, store facilities, and waste disposal.

Developing environmentally friendly private brand products is part of this effort. In February 2004 we became the first company in the convenience store industry to use gasoline-electric hybrid trucks for deliveries, and we are now steadily converting our fleet.

We are also moving to establish energy-saving stores by integrating air conditioning, refrigeration, and freezing systems in our stores into a co-generation system, and experimenting with a new store sign lighting system using light-emitting diodes. We also strive to make our stores more environmentally friendly, with a waste oil recovery recycling system deployed at 5,843 stores as of the end of February 2006, while also developing systems to reduce garbage and other waste products.

An ongoing effort to preserve the environment through proactive, company-wide initiatives

In June 2005 we published our “Sustainability Report 2005”, to inform the general public about our economic, social, and environmental activities. Discussing the issue of the role of the corporation in an interdependent age, the report met with an excellent response, as did the “FamilyMart Children’s Environmental Report” and the web-based “FamilyMart Eco-kids” released in fiscal 2004.

The redesigned uniforms introduced in June 2005 make partial use of recycled plastic bottles in their polyester materials.

We are also making proactive contributions to environmental preservation. In August 2005, we participated in the “Team Minus 6” citizens’ campaign being promoted in the government’s Greenhouse Gases project, with the goal of reducing greenhouse gas emissions by 6%.

> Contributing to Society

Extending a helping hand as a bridge to NPOs / NGOs

FamilyMart is engaged in activities designed to improve local environments. For example, since 2003 we have conducted an annual National Environmental Cleanup Campaign in areas near our offices nationwide.

In fiscal 2006, in conjunction with our 25th anniversary, we established a new “FamilyMart Connecting Dreams Foundation.” For the sake of the world’s children and the Earth’s future, the foundation collects donations using donation boxes placed in stores and via Famima Card points at Famiport Multimedia Kiosks, distributing the proceeds to the UN’s WFP, Save The Children Japan, the National Land Afforestation Promotion Organization, and the Environmental Restoration and Conservation Agency of Japan, four organizations engaged in ongoing environmental and social contribution activities inside and outside Japan, thereby serving as a bridge between the feelings of our customers and NPO/NGOs.



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

Serving as a lifeline in times of disasters and emergencies

In order to serve as a lifeline providing daily necessities in times of disaster, as of the end of February 2006 we have concluded agreements with five prefectures for the provision of goods, and with four prefectures and two administrative organizations in the Greater Tokyo area and the Kansai Region to cooperate in the support of people unable to return to their homes.

We collected donations at stores nationwide for the victims of the March 2005 earthquakes off the coasts of western Fukuoka Prefecture and Sumatra, and the October 2005 earthquake in Pakistan, contributing to the support of the affected areas.

> Compliance

Each and every employee rigorously observes high standards of legal and ethical compliance

The customers whose trust we desire and the localities with which we want to build positive relationships have come to expect us to be a good corporate citizen. With the level of corporate ethical practice in Japan now coming under severe scrutiny, it is essential for each and every one of our employees to fully understand the importance of ethical conduct, and to maintain high moral standards.

In September 2003, we established a Compliance Committee reporting directly to the President. In May 2004 we issued our “Basic FamilyMart Policy for Compliance” to clearly demonstrate, internally and externally, top management’s commitment to strict observance of the law. The “Three-Point Compliance Action

Plan” was also announced, setting forth clear guidelines for our employees in their day-to-day attitudes and actions. In addition, in fiscal 2004 we introduced our Internal Whistleblower System, establishing channels for internal reporting of unethical conduct or breaches of the law. Then in March 2005 we established the Information Management Office to build robust systems to prevent leaking of personal and other confidential information.

We make use of our internal network to ensure that every employee is cognizant of the existence and content of these guidelines and standards. By having each employee take responsibility for his or her actions meeting these standards, we ensure a high level of compliance in line with FamilyMart’s stated intention of being the nation’s standard-bearer in the field of legal and ethical compliance.

➤ BOARD OF DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE AUDITORS

Chairman

Michio Tanabe

*President,
Representative Director*

Junji Ueda

*Senior Managing Directors
and Senior Managing Executive Officers*

**Shisaburo Ueda
Shinichiro Harima**

*Managing Directors
and Managing Executive Officers*

**Masahiro Ikeda
Shiro Inoue
Yasuhiko Uramoto
Takayuki Yokota**

*Directors and
Managing Executive Officers*

**Masatsuna Seki
Shota Takahashi
Yasuhiro Kobe
Yoshiki Miyamoto**

Managing Executive Officers

**Toshio Kato
Masaaki Kosaka
Akinori Wada
Takeshi Takasugi
Jin Tin Pan
Motoo Takada**

Executive Officers

**Kazushige Ueno
Kimichika Iwakiri
Hisashi Suzuki
Masami Fujimori
Teruki Uehigashi
Masayuki Kato
Tomoyuki Kimura
Katsuo Ito
Masataka Uesugi
Mitsuji Hirata**

Standing Corporate Auditors

**Naoji Ishizu
Noboru Nishioka
Masahiro Asano**

Corporate Auditor

Takashi Endo

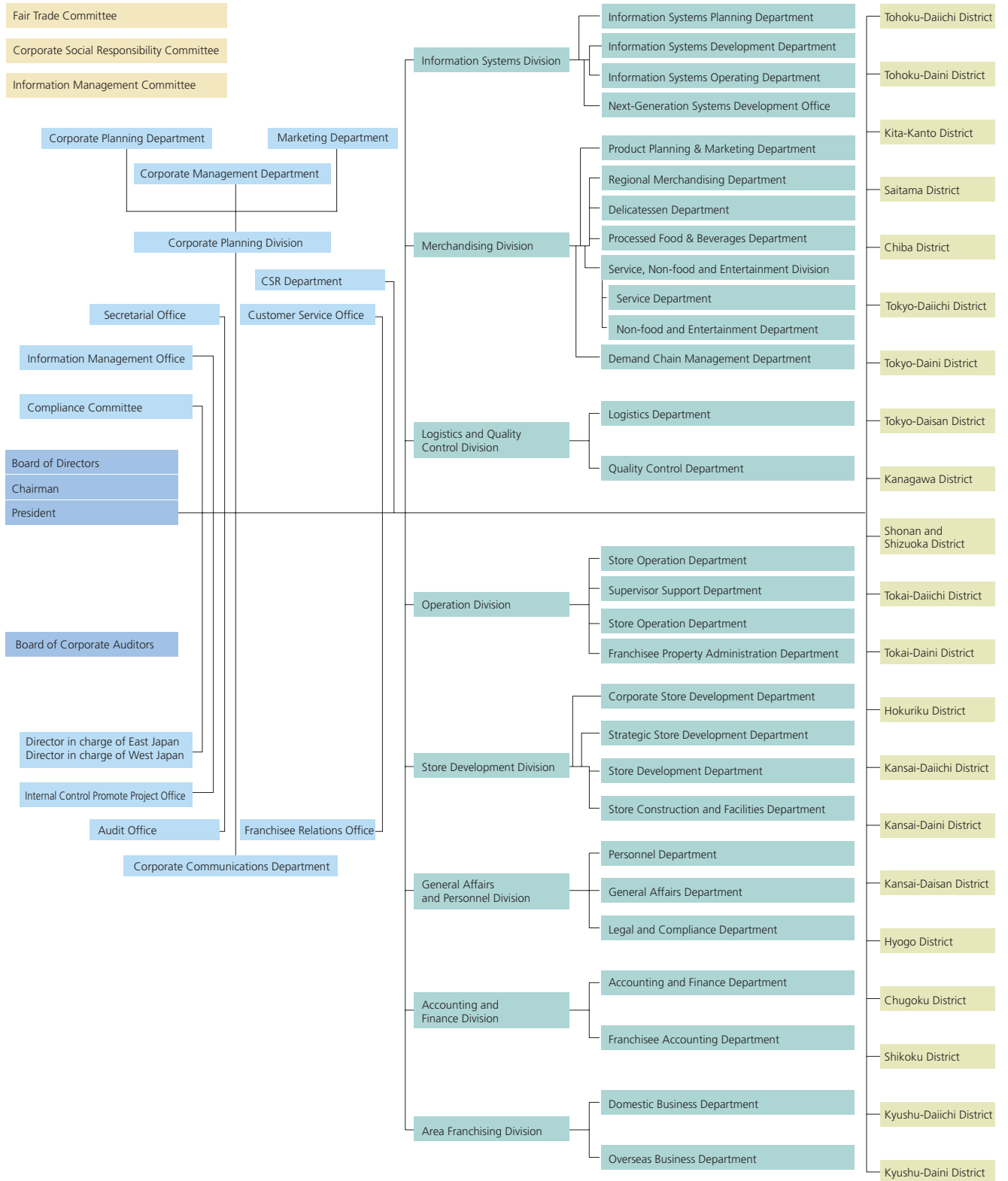


Chairman
Michio Tanabe

*President,
Representative Director*
Junji Ueda

(As of June 1, 2006)

ORGANIZATION











(As of June 1, 2006)

▶ TYPES OF FAMILYMART FRANCHISING CONTRACTS

FamilyMart has two main kinds of franchising contracts. One kind (1FC-A and 1FC-B) calls for franchisees to provide the land and store space as well as to make certain other investments, while the other kind (1FC-C and 2FC-N) calls for the Company to make those investments. Aiming to

motivate franchisees, the Company provides support for those seeking to step up from 2FC-N to 1FC-B or 1FC-C contracts as well as for 1FC-contract franchisees who operate multiple stores.

Types of FamilyMart Franchising Contracts				
Contract type	1FC-A	1FC-B	1FC-C	2FC-N
Contract period	—10 years from store opening—			
Funds required at contract date	<p>¥3,075,000 at contract date (including ¥75,000 consumption tax)</p> <p>Affiliation fee ¥525,000</p> <p>Store preparation commission ¥1,050,000</p> <p>Initial stocking fee* ¥1,500,000</p> <p>* Including cash for making change and a portion of merchandise procurement costs</p>			
Land/building				
Store construction expense				
Remarks		FamilyMart funds part of interior facility construction expense	Franchisee funds interior facility construction expense	
Franchise commission	35% of gross margin*	38% of gross margin*	48% of gross margin*	48%~65% of gross margin*
	<p>1FC Multiple-Store Promotion System</p> <p>Support for the operation of multiple stores based on 1FC contracts</p> <p>When franchisees operate multiple stores based on 1FC contracts, the 1FC Multiple-Store Promotion System makes incentive payments to franchisees that are calculated based on gross margin (net sales less cost of sales) standard levels.</p>			<p>2FC-N Step-Up System</p> <p>Support for moving up to 1FC contracts</p> <p>At the end of the first five years of their contracts, 2FC-N franchisees who are entitled by the Company can shift to either 1FC-B or 1FC-C contracts.</p>

* Net sales less cost of sales

FINANCIAL SECTION

CONSOLIDATED SIX-YEAR SUMMARY

FamilyMart Co., Ltd. and Consolidated Subsidiaries Years Ended the Last Day of February

	Millions of yen						Thousands of U.S. dollars (Note)
	2006	2005	2004	2003	2002	2001	2006
Results of operations:							
Operating revenues:							
Commission from franchised stores	¥138,636	¥132,864	¥127,164	¥122,738	¥116,478	¥111,729	\$1,195,138
Net sales	118,551	103,599	87,083	80,952	67,822	54,122	1,021,991
Other operating revenues	19,256	16,438	14,730	13,778	11,305	10,248	166,000
Total operating revenues	276,443	252,901	228,977	217,468	195,605	176,099	2,383,129
Operating income	32,662	30,869	29,093	27,921	23,756	24,123	281,569
Net income	14,195	12,623	13,788	12,880	8,549	8,112	122,371
Net cash provided by operating activities.....	42,778	1,428	73,593	32,694	34,219	23,305	368,776
Net cash used in investing activities	(32,249)	(23,183)	(10,719)	(29,327)	(28,812)	(30,980)	(278,009)
Net cash used in financing activities	(4,238)	(3,922)	(3,892)	(3,626)	(4,338)	(6,160)	(36,534)
Financial position:							
Total assets	314,121	286,771	309,315	250,609	242,517	230,883	2,707,940
Total shareholders' equity	168,233	156,931	147,524	137,636	130,510	126,190	1,450,285
Per share of common stock:							
Shareholders' equity (in yen and U.S. dollars)...	1,736.2	1,619.5	1,522.3	1,420.4	1,346.6	1,302.2	14.97
Basic net income (in yen and U.S. dollars)	145.7	129.5	141.5	132.3	87.6	82.8	1.26
Cash dividends applicable to the year (in yen and U.S. dollars)	43.0	38.0	38.0	38.0	38.0	38.0	0.37
Ratio:							
Shareholders' equity	53.6	54.7	47.7	54.9	53.8	54.6	
Return on equity	8.7	8.3	9.7	9.6	6.7	6.5	
Return on total assets	4.7	4.2	4.9	5.2	3.7	3.7	
Other data:							
Number of franchised stores and Company-owned stores	6,284	5,994	5,770	5,593	5,287	5,275	
Number of area franchised stores (including overseas area franchised stores)	6,168	5,507	4,556	3,530	2,897	2,341	
Number of stores	12,452	11,501	10,326	9,123	8,184	7,616	
Number of shareholders	17,444	18,644	21,173	24,263	28,088	31,429	
Number of full-time employees (on a consolidated basis)	6,048	5,458	4,675	4,466	4,205	3,917	
Weighted average number of shares (thousands).....	96,846	96,852	96,857	96,867	96,868	97,107	

Note: Conversion into U.S. dollars has been made at the exchange rate of ¥116 =U.S.\$1, the rate prevailing on February 28, 2006.

➤ BUSINESS OVERVIEW AND ANALYSIS

Operating Results

(Analysis of Revenues, Costs, and Expenses)

The FamilyMart Group comprises 23 companies, including FamilyMart Co., Ltd. (“the Company”), 11 subsidiaries (of which 7 are consolidated subsidiaries, 3 are non-consolidated subsidiaries accounted for by the equity method, and 1 is a non-consolidated subsidiary not accounted for by the equity method), and 11 affiliated companies (all of which are accounted for by the equity method). The Group’s main business is the operation of convenience stores, and it has recently diversified into the operation of e-commerce and other related services.

On a consolidated basis, total operating revenues, consisting of commissions from franchised stores, net sales, and other operating revenues, grew by ¥23,542 million, or 9.3%, to ¥276,443 million (US\$2,383 million). Within this total, operating revenues from convenience store operations rose ¥17,623 million, or 8.5%, to ¥226,089 million, as a result of a growth in commissions from franchised stores as well as an increase in sales of Company-owned stores. Operating revenues from the e-commerce business surged ¥5,912 million, or 13.4%, to ¥49,885 million, thanks to increased sales of prepaid services and other items via Famiport Multimedia Kiosk.

Total operating expenses rose ¥21,749 million, or 9.8%, to ¥243,781 million (US\$2,102 million). This is mainly attributable to a growth in SG&A expenses (store rents and utility expenses resulting from the increase in the number of stores), in addition to a higher cost of sales for the e-commerce business.

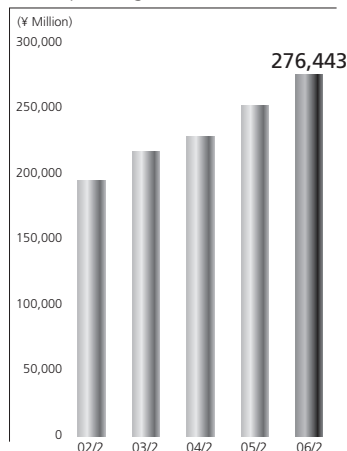
As a result, operating income grew ¥1,793 million, or 5.8%, to ¥32,662 million (US\$282 million). Of this total, operating income from convenience store operations rose ¥1,529 million, or 4.4%, to ¥36,188 million, while operating income from the e-commerce business was up ¥411 million, or 115.8%, at ¥766 million.

A net figure for “other expenses” of ¥8,291 million (US\$71 million) was registered for the reporting period, a year-on-year increase of ¥1,704 million, or 25.9%. This was mainly due to the recognition of expenses under the heading of “Loss on renewal of store management system,” stemming from the Company’s adoption of its third-generation store management system.

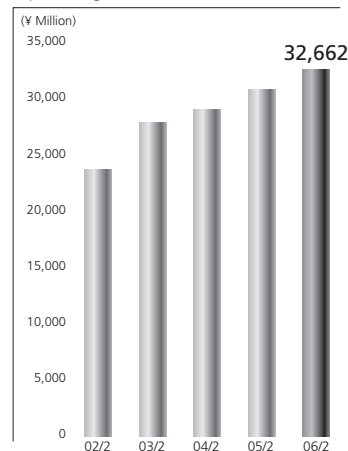
Consequently, income before income taxes and minority interests came to ¥24,371 million (US\$210 million), up by ¥89 million, or 0.4%, from the previous business term. Net income rose ¥1,572 million, or 12.5%, to ¥14,195 million (US\$122 million).

Net income per share amounted to ¥145.7 (US\$1.26).

Total operating revenues



Operating income



Financial Position

Total assets at the reporting term-end amounted to ¥314,121 million (US\$2,708 million), an increase of ¥27,350 million, or 9.5%, over the previous term-end.

Current assets increased ¥15,061 million, to ¥147,578 million (US\$1,272 million). This was due to rises in cash and cash equivalents, as well as marketable securities holdings.

The book value of property and store facilities declined ¥758 million to ¥54,111 million (US\$466 million) due mainly to depreciation.

Total investments and other assets rose ¥13,047 million, to ¥112,432 million (US\$969 million), due to increases in held-to-maturity securities and store-related leasehold deposits.

Total liabilities grew ¥14,374 million, or 11.6%, to ¥138,363 million (US\$1,193 million).

Current liabilities increased ¥13,198 million to ¥121,557 million (US\$1,048 million), principally owing to rises in utility payments received and trade accounts payable of the Company and its overseas subsidiaries.

Long-term liabilities grew ¥1,176 million to ¥16,806 million (US\$145 million), mainly due to increased liabilities for retirement benefits and a rise in the amount of leasehold deposits resulting from the increase in the number of franchised stores.

Minority interests grew ¥1,674 million, or 28.6%, to ¥7,525 million (US\$65 million), as a result of an increase in the net income of consolidated subsidiaries, among other factors.

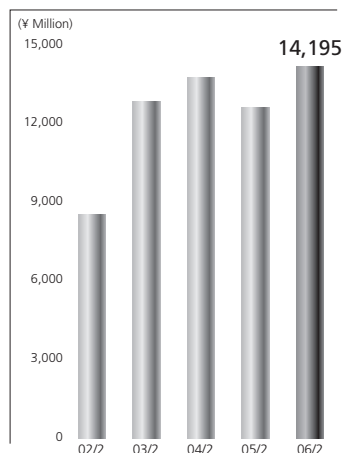
As a result, shareholders' equity came to ¥168,233 million (US\$1,450 million), while the shareholders' equity ratio declined slightly from 54.7% at the previous term-end, to 53.6%. Shareholders' equity per share amounted to ¥1,736.2 (US\$14.97).

Cash Flows

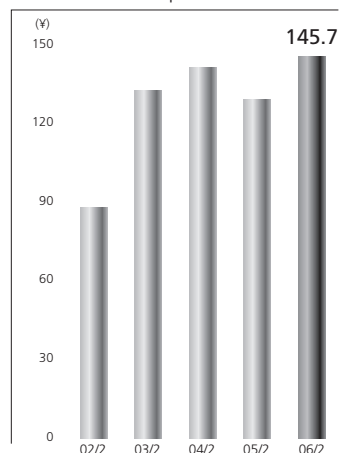
The term-end balance of cash and cash equivalents stood at ¥86,189 million (US\$743 million), up ¥6,655 million, or 8.4%.

Net cash provided by operating activities came to ¥42,778 million (US\$369 million), an increase of ¥41,350 million over the previous term. This is mainly attributable to the fact that, as the last day of the term before last (term ended February 2004) fell on a bank holiday, the settlement of accounts payable due on that date was carried over into the term ended February 2005. As a result of this, trade payables, which posted a year-on-year decrease of ¥36,787 million for the term ended February 2005, posted a year-on-year increase of ¥3,225 million for the reporting period ended February 2006. This resulted in a net cash inflow of ¥40,012 million.

Net income



Basic net income per share



Net cash used in investing activities increased ¥9,066 million, to ¥32,249 million (US\$278 million). This is mainly due to an increase of ¥2,396 million in payments of leasehold deposits, as well as a decline of ¥6,894 million in proceeds from the sales and redemption at maturity of marketable and investment securities.

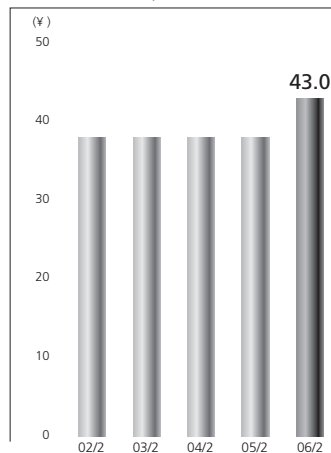
Net cash used in financing activities came to ¥4,238 million (US\$37 million), an increase of ¥316 million over the previous term. This is mainly due to the fact that an increase in revenues of ¥236 million resulting from contribution from minority-interest shareholders was more than offset by an increase of ¥240 million in dividend payments and an increase of ¥286 million in dividend payments to minority-interest shareholders.

Dividend Policy

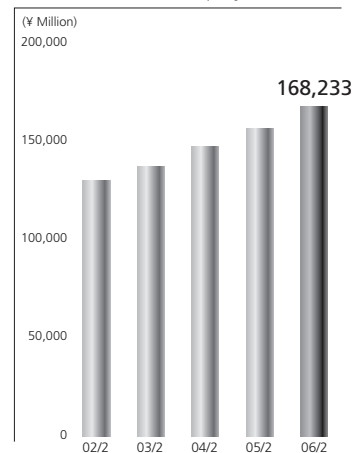
The Company regards the distribution of profits to shareholders, in the form of the payment of dividends, as a matter of the highest priority. In accordance with the Company's fundamental policy of the stable distribution of dividends to shareholders in line with the growth of operations, Company's management have decided to pay an annual per-share dividend (including an interim dividend) of ¥43.0 (US\$0.37), representing an increase of ¥5.0 per share over the previous business term.

For the current term, ending February 2007, in line with projections of strengthened business performance, the Company plans to increase its annual per-share dividend to ¥46.0 (US\$0.40).

Cash dividends per share



Total shareholders' equity




CONSOLIDATED BALANCE SHEETS
 FamilyMart Co., Ltd. and Consolidated Subsidiaries February 28, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
ASSETS			
Current assets:			
Cash and cash equivalents.....	¥ 86,189	¥ 79,534	\$ 743,009
Time deposits.....	5	14	43
Marketable securities (Note 5).....	9,853	6,930	84,940
Receivables:			
Due from franchised stores (Note 4).....	8,359	8,543	72,060
Short-term loans.....	259	283	2,233
Other.....	18,430	16,233	158,879
Allowance for doubtful receivables.....	(1,094)	(1,271)	(9,431)
Merchandise and supplies.....	6,906	6,715	59,534
Deferred tax assets (Note 11).....	3,548	1,940	30,586
Prepaid expenses and other current assets.....	15,123	13,596	130,371
Total current assets.....	<u>147,578</u>	<u>132,517</u>	<u>1,272,224</u>
Property and store facilities (Note 6):			
Land.....	13,004	13,226	112,103
Buildings and structures.....	51,700	50,525	445,690
Machinery and equipment.....	3,690	3,645	31,810
Furniture and fixtures.....	41,615	37,722	358,750
Construction in progress.....	182	47	1,569
Total.....	<u>110,191</u>	<u>105,165</u>	<u>949,922</u>
Accumulated depreciation.....	(56,080)	(50,296)	(483,448)
Net property and store facilities.....	<u>54,111</u>	<u>54,869</u>	<u>466,474</u>
Investments and other assets:			
Investment securities (Note 5).....	6,735	3,935	58,060
Investments in and advances to unconsolidated subsidiaries and associated companies (Notes 3 and 17).....	10,943	6,006	94,336
Software (Note 6).....	5,588	6,181	48,173
Goodwill (Notes 6 and 7).....	1,029	1,759	8,871
Leasehold deposits.....	80,644	74,902	695,207
Deferred tax assets (Note 11).....	2,750	2,780	23,707
Other assets.....	4,743	3,822	40,888
Total investments and other assets.....	<u>112,432</u>	<u>99,385</u>	<u>969,242</u>
Total	<u>¥314,121</u>	<u>¥286,771</u>	<u>\$2,707,940</u>

	Millions of yen		Thousands of
	2006	2005	U.S. dollars (Note 1)
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans (Note 8)	¥ 518	¥ 481	\$ 4,466
Payables:			
Trade notes	744	836	6,414
Trade accounts for franchised and Company-owned stores	59,622	55,229	513,983
Due to franchised stores (Note 4)	2,835	2,455	24,440
Other	15,409	11,359	132,836
Income taxes payable (Note 11)	5,870	6,559	50,603
Utility payments received (Note 4)	31,003	24,308	267,267
Accrued expenses	3,596	3,360	31,000
Allowance for impairment loss on leased property (Note 12)	156	134	1,345
Other current liabilities	1,804	3,638	15,551
Total current liabilities	<u>121,557</u>	<u>108,359</u>	<u>1,047,905</u>
Long-term liabilities:			
Liability for retirement benefits (Note 9)	5,369	4,898	46,284
Leasehold deposits from franchised stores	10,449	10,205	90,078
Allowance for impairment loss on leased property (Note 12)	659	467	5,681
Other long-term liabilities	329	60	2,836
Total long-term liabilities	<u>16,806</u>	<u>15,630</u>	<u>144,879</u>
Minority interests	7,525	5,851	64,871
Commitments and contingent liabilities (Notes 12, 14 and 17)			
Shareholders' equity (Notes 10 and 16):			
Common stock—authorized, 250,000,000 shares; issued, 97,683,133 shares	16,659	16,659	143,612
Capital surplus	17,057	17,057	147,043
Retained earnings	135,576	125,366	1,168,759
Unrealized gain on available-for-sale securities (Note 5)	878	415	7,569
Foreign currency translation adjustments	(168)	(817)	(1,448)
Total	<u>170,002</u>	<u>158,680</u>	<u>1,465,535</u>
Treasury stock—at cost (840,136 shares in 2006 and 834,204 shares in 2005) ...	(1,769)	(1,749)	(15,250)
Total shareholders' equity	<u>168,233</u>	<u>156,931</u>	<u>1,450,285</u>
Total	<u>¥314,121</u>	<u>¥286,771</u>	<u>\$2,707,940</u>

See notes to consolidated financial statements.


CONSOLIDATED STATEMENTS OF INCOME
 FamilyMart Co., Ltd. and Consolidated Subsidiaries Years Ended February 28, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Operating revenues:			
Commission from franchised stores (Note 4).....	¥138,636	¥132,864	\$1,195,138
Net sales	118,551	103,599	1,021,991
Other operating revenues (Notes 3 and 4)	19,256	16,438	166,000
Total operating revenues	<u>276,443</u>	<u>252,901</u>	<u>2,383,129</u>
Operating expenses:			
Cost of sales.....	96,634	84,480	833,052
Selling, general and administrative expenses (Notes 7, 9, 12 and 17).....	147,147	137,552	1,268,508
Total operating expenses.....	<u>243,781</u>	<u>222,032</u>	<u>2,101,560</u>
Operating income	<u>32,662</u>	<u>30,869</u>	<u>281,569</u>
Other income (expenses):			
Interest and dividend income.....	835	708	7,198
Equity in earnings of unconsolidated subsidiaries and associated companies.....	29	1	250
Gain on sales of marketable and investment securities—net.....	164	274	1,414
Loss on sales of investment in a subsidiary and an associated company	(71)		(612)
Loss on devaluation of marketable and investment securities.....	(95)	(10)	(819)
Loss on disposals/sales of property and store facilities—net.....	(1,923)	(2,868)	(16,578)
Loss on impairment of long-lived assets (Notes 6 and 12)	(1,414)	(3,226)	(12,190)
Loss on renewal of store management system	(5,127)		(44,198)
Loss on cancellations of lease contracts	(804)	(971)	(6,931)
Other—net (Note 13)	115	(495)	992
Other expenses—net	<u>(8,291)</u>	<u>(6,587)</u>	<u>(71,474)</u>
Income before income taxes and minority interests	<u>24,371</u>	<u>24,282</u>	<u>210,095</u>
Income taxes (Note 11):			
Current	11,024	11,736	95,034
Deferred.....	(1,877)	(1,156)	(16,181)
Total income taxes	<u>9,147</u>	<u>10,580</u>	<u>78,853</u>
Minority interests in net income	1,029	1,079	8,871
Net income	<u>¥ 14,195</u>	<u>¥ 12,623</u>	<u>\$ 122,371</u>
	Yen	U.S. dollars	
Per share of common stock:			
Basic net income (Note 15).....	¥145.7	¥129.5	\$1.26
Cash dividends applicable to the year	43.0	38.0	0.37

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

FamilyMart Co., Ltd. and Consolidated Subsidiaries Years Ended February 28, 2006 and 2005

	Thousands	Millions of yen					
	Issued number of shares of common stock	Common stock	Capital surplus	Retained earnings	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Treasury stock
Balance, March 1, 2004	97,683	¥16,659	¥17,057	¥116,504	¥102	¥(1,068)	¥(1,730)
Net income				12,623			
Cash dividends, ¥38.0 per share.....				(3,680)			
Bonuses to directors and corporate auditors.....				(61)			
Adjustments of retained earnings for:							
Newly consolidated subsidiary.....				(17)			
Inclusion of associated company accounted for by equity method				(3)			
Net increase in unrealized gain on available-for-sale securities					313		
Net increase in foreign currency translation adjustments						251	
Net increase in treasury stock—net (5,835 shares)							(19)
Balance, February 28, 2005	97,683	16,659	17,057	125,366	415	(817)	(1,749)
Net income				14,195			
Cash dividends, ¥40.5 per share.....				(3,922)			
Bonuses to directors and corporate auditors.....				(63)			
Net increase in unrealized gain on available-for-sale securities					463		
Net increase in foreign currency translation adjustments						649	
Net increase in treasury stock—net (5,932 shares)							(20)
Balance, February 28, 2006	97,683	¥16,659	¥17,057	¥135,576	¥878	¥ (168)	¥(1,769)

	Thousands of U.S. dollars (Note 1)						
	Common stock	Capital surplus	Retained earnings	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Treasury stock	
Balance, February 28, 2005	\$143,612	\$147,043	\$1,080,741	\$3,578	\$(7,043)	\$(15,078)	
Net income			122,371				
Cash dividends, \$0.35 per share			(33,810)				
Bonuses to directors and corporate auditors			(543)				
Net increase in unrealized gain on available-for-sale securities				3,991			
Net increase in foreign currency translation adjustments					5,595		
Net increase in treasury stock—net (5,932 shares)						(172)	
Balance, February 28, 2006	\$143,612	\$147,043	\$1,168,759	\$7,569	\$(1,448)	\$(15,250)	

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FamilyMart Co., Ltd. and Consolidated Subsidiaries Years Ended February 28, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Operating activities:			
Income before income taxes and minority interests.....	¥ 24,371	¥ 24,282	\$ 210,095
Adjustments for:			
Income taxes—paid	(12,222)	(10,753)	(105,362)
Depreciation and amortization	11,368	12,146	98,000
Reversal of allowance for doubtful receivables	(253)	(99)	(2,181)
Equity in earnings of unconsolidated subsidiaries and associated companies....	(29)	(1)	(250)
Gain on devaluation/sale of marketable and investment securities—net	(69)	(264)	(595)
Loss on sale of investment in a subsidiary and an associated company	71		612
Loss on disposals/sales of property and store facilities—net	1,923	2,868	16,578
Loss on cancellations of lease contracts.....	530	571	4,569
Loss on impairment of long-lived assets	1,414	3,226	12,190
Loss on renewal of store management system	5,127		44,198
Bonuses to directors and corporate auditors.....	(63)	(61)	(543)
Changes in assets and liabilities:			
Decrease in due from/to franchised stores—net.....	564	9,939	4,862
Decrease (increase) in merchandise and supplies.....	224	(545)	1,931
Increase (decrease) in payables—trade.....	3,225	(36,787)	27,801
Increase in utility payments received	6,695	2,167	57,716
Increase in liability for retirement benefits.....	465	347	4,009
Other—net	(563)	(5,608)	(4,854)
Total adjustments.....	18,407	(22,854)	158,681
Net cash provided by operating activities	42,778	1,428	368,776
Investing activities:			
Decrease (increase) in time deposits—net	9	(4)	78
Purchases of marketable and investment securities	(120,793)	(123,292)	(1,041,319)
Purchases of investment in subsidiaries and associated companies	(479)	(1,066)	(4,129)
Proceeds from sales and redemption at maturity of marketable and investment securities	116,595	123,489	1,005,129
(Increase) decrease in receivables—short-term loans—net.....	(3,929)	1,647	(33,871)
Purchases of property and store facilities, software and other intangible assets...	(14,296)	(15,284)	(123,241)
Proceeds from sales of property and store facilities, software and other intangible assets.....	1,996	677	17,207
Payments of leasehold deposits	(14,508)	(12,112)	(125,069)
Refunds of leasehold deposits	2,992	1,792	25,793
Receipts of leasehold deposits from franchised stores	791	1,074	6,819
Refunds of leasehold deposits from franchised stores	(625)	(828)	(5,388)
Payments for acquisition of business.....	(65)	(687)	(561)
Other	63	1,411	543
Net cash used in investing activities.....	(32,249)	(23,183)	(278,009)
Financing activities:			
Purchase of treasury stock—net.....	(20)	(19)	(172)
Contribution from minority interest shareholders.....	544	308	4,690
Dividends paid.....	(3,925)	(3,685)	(33,836)
Dividends paid to minority interest shareholders	(812)	(526)	(7,000)
Other	(25)		(216)
Net cash used in financing activities	(4,238)	(3,922)	(36,534)
Foreign currency translation adjustments on cash and cash equivalents.....	364	7	3,138
Net increase (decrease) in cash and cash equivalents.....	6,655	(25,670)	57,371
Cash and cash equivalents, beginning of year	79,534	105,203	685,638
Cash and cash equivalents of newly consolidated subsidiary, beginning of year....		1	
Cash and cash equivalents, end of year.....	¥ 86,189	¥ 79,534	\$ 743,009

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FamilyMart Co., Ltd. and Consolidated Subsidiaries Years Ended February 28, 2006 and 2005

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 generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

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 2005 consolidated financial statements to conform to the classifications used in 2006.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which FamilyMart Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥116 to \$1, the approximate rate of exchange at February 28, 2006. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. Summary of significant accounting policies

a. Consolidation—The consolidated financial statements as of February 28, 2006 included the accounts of the Company and its seven (eight in 2005) significant subsidiaries (together, the "Group"). In November 2005, the Company sold all of its shares of MBE Japan, Inc. ("MBE") which was formerly an 82.76% owned consolidated subsidiary. The Company's 2006 consolidated financial statements reflect the operations and cash flows of MBE through August 31, 2005.

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 3 unconsolidated subsidiaries and investments in 11 associated companies are accounted for by the equity method. Hokkaido FamilyMart Co., Ltd., a 49.00% owned associated company, was included in the consolidated financial statements using the equity method because of its establishment in February 2006. The Company's 36.36% investment in e-PLAT JAPAN. CO., LTD. was recorded on the equity method in its August 31, 2005 interim financial statements but has been excluded in the 2006 consolidated financial statements due to the sale of the investment in November 2005.

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

The excess of the cost of the Company's investments in consolidated subsidiaries and associated companies accounted for by the equity method over 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. Long-lived Assets—In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements were effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The Group adopted the new accounting standard for impairment of fixed assets from the year ended February 28, 2005.

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

g. 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).

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

i. 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.

j. Leases—All leases are accounted for as operating leases. Under the Japanese accounting standard for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain “as if capitalized” information is disclosed in the notes to the lessee’s financial statements.

However, in certain foreign consolidated subsidiaries, leases are accounted for as capital leases.

k. 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.

l. Appropriations of Retained Earnings—Appropriations of retained earnings are reflected in the consolidated financial statements for the following year upon shareholders’ approval.

m. 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.

n. 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.

o. Derivatives—The Company uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange. Foreign exchange forward contracts are utilized by the Company to reduce foreign currency exchange risks. The Company does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of income.

p. Per Share Information—Basic net income per share is computed by dividing net income available to common shareholders 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.

q. New Accounting Pronouncements

Bonuses to directors and corporate auditors

Prior to the fiscal year ended February 28, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders meeting. The ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 13, “Accounting treatment for bonuses to directors and corporate auditors,” which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

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 in Japan.

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

The Company allows area franchised companies to be franchisers of "FamilyMart" stores in each area, including outside Japan. Area franchised companies are required to pay continuing royalty fees to the Company and the Company records this as "Other operating revenues." Area franchised companies as of February 28, 2006, are as follows:

Name of area franchiser	Area	The Company's ownership in area franchiser
Subsidiaries:		
Taiwan FamilyMart Co., Ltd.	Taiwan	40.95%
Siam FamilyMart Co., Ltd.	Thailand	90.13
FAMIMA CORPORATION	The United States of America	59.50
Associated companies:		
Okinawa FamilyMart Co., Ltd.	Okinawa, Japan	48.98
Minami Kyushu FamilyMart Co., Ltd.	Kagoshima and Miyazaki, Japan	49.00
Hokkaido FamilyMart Co., Ltd.	Hokkaido, Japan	49.00
Bokwang FamilyMart Co., Ltd.	Korea	21.45

FamilyMart China Holding, a 67.00% owned subsidiary, is a holding company of China CVS (Cayman Islands) Holding Corp. ("CCH"). CCH, a 49.50% owned associated company, is a holding company of Shanghai FamilyMart Co., Ltd. Shanghai FamilyMart Co., Ltd., a wholly owned associated company, is an area franchiser in Shanghai, China.

SFM HOLDING CO., LTD., a 90.71% 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.

Famima.com Co., Ltd., a 50.50% owned subsidiary, supports 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 in Japan.

Family Chef Co., Ltd., a 30.00% owned associated company, produces and distributes delicatessen items to "FamilyMart" stores in Japan.

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 ten years and may be extended or renewed upon expiration subject to renegotiation of contract terms between the Company and the franchisee. The franchise agreement currently in use provides that, at the commencement of the agreement, the franchisee shall make a cash payment to the Company in the amount of ¥1,500,000 which is credited to income of the Company as "Other operating revenues" for the lump-sum franchise fee and which shall be spent for services such as research, training and preparations of store opening provided by the Company. In addition, the franchisee shall advance another ¥1,500,000 to the Company as a deposit for purchases and it is credited to "Payables—Due to franchised stores," accordingly.

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

Each franchised store shall make a remittance of cash from sales to the Company on a daily basis. Furthermore, the franchised stores collect utility payments from customers on behalf of utility service providers, such as electric power companies and telecommunication companies, which are remitted to the Company on a daily basis. The receipts of such charges are recorded as a liability due to utility service suppliers and presented as "Utility payments received" on the accompanying consolidated balance sheets.

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

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

5. Marketable and investment securities

Marketable and investment securities as of February 28, 2006 and 2005, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Current:			
Government and corporate bonds...	¥1,000		\$ 8,621
Trust fund investments.....	8,853	¥6,930	76,319
Total	¥9,853	¥6,930	\$84,940

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Non-current:			
Marketable equity securities.....	¥2,198	¥1,457	\$18,948
Government and corporate bonds...	4,000	2,000	34,483
Non-marketable equity securities...	537	478	4,629
Total	¥6,735	¥3,935	\$58,060

The carrying amounts and aggregate fair values of marketable and investment securities at February 28, 2006 and 2005, were as follows:

February 28, 2006	Millions of yen			Fair value
	Cost	Unrealized gains	Unrealized losses	
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 780	¥1,444	¥ 26	¥2,198
Debt securities	8,853			8,853
Held-to-maturity	5,000		128	4,872

February 28, 2005	Millions of yen			Fair value
	Cost	Unrealized gains	Unrealized losses	
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 771	¥706	¥20	¥1,457
Debt securities	6,930			6,930
Held-to-maturity	2,000		10	1,990

February 28, 2006	Thousands of U.S. dollars			Fair value
	Cost	Unrealized gains	Unrealized losses	
Securities classified as:				
Available-for-sale:				
Equity securities	\$ 6,724	\$12,448	\$ 224	\$18,948
Debt securities	76,319			76,319
Held-to-maturity	43,103		1,103	42,000

Available-for-sale securities whose fair value is not readily determinable as of February 28, 2006 and 2005, were as follows:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Available-for-sale—Equity securities	¥537	¥478	\$4,629

The carrying values of debt securities by contractual maturities for securities classified as held-to-maturity at February 28, 2006, are as follows:

	Millions of yen	Thousands of U.S. dollars
Due in one year or less.....	¥1,000	\$ 8,621
Due after one year through five years	4,000	34,483

6. Long-lived assets

The Group reviewed its long-lived assets for impairment as of the years ended February 28, 2006 and 2005 and, as a result, recognized an impairment loss of ¥1,414 million (\$12,190 thousand) and ¥3,226 million as other expense for each stores, idle assets and others to a decline in value of the related asset categories due mainly to a continuous operating losses. The carrying amount of those assets was written down to the recoverable amount.

The Group recognized impairment losses on the following fixed assets and leased property for the years ended February 28, 2006 and 2005:

Fixed assets and leased property	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Land	¥ 270	¥ 955	\$ 2,328
Building	529	1,252	4,560
Leased property	413	601	3,560
Others	202	418	1,742
Total	¥1,414	¥3,226	\$12,190

The category and related assets which incurred impairment losses for the years ended February 28, 2006 and 2005, were as follows:

Category	Related assets	Millions of yen		Thousands of U.S. dollars
		2006	2005	2006
Stores	Land, building, leased property, etc. ...	¥1,414	¥2,595	\$12,190
Idle assets	Land and building		108	
Others	Land, building, etc.		523	
Total		¥1,414	¥3,226	\$12,190

The recoverable amount of those stores and the others was measured at their value in use and the discount rate used for computation of present value of future cash flows was 8.34% and 9.78% for the years ended February 28, 2006 and 2005, respectively. The recoverable amount of the idle assets was measured by its net selling price at disposition.

In addition, some associated companies accounted for by equity method recognized impairment losses using the same methodology. The Group recognized ¥141 million (\$1,216 thousand) and ¥125 million for the years ended February 28, 2006 and 2005, respectively, of losses on impairment of long-lived assets as "Equity in earnings of unconsolidated subsidiaries and associated companies."

7. Goodwill

Goodwill as of February 28, 2006 and 2005, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Consolidation goodwill	¥ 167	¥ 225	\$1,440
Acquisition goodwill	862	1,534	7,431
Total	¥1,029	¥1,759	\$8,871

Amortization charged to selling, general and administrative expenses for the years ended February 28, 2006 and 2005, was ¥752 million (\$6,483 thousand) and ¥917 million, respectively.

Loss on impairment of long-lived assets charged to other expense for the years ended February 28, 2006 and 2005, was ¥19 million (\$164 thousand) and ¥14 million, respectively.

8. Short-term bank loans

Short-term bank loans as of February 28, 2006 and 2005, consisted of bank overdrafts. The annual interest rate applicable to the short-term bank loan at February 28, 2006 was 5.6%.

9. 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 28, 2006 and 2005 is ¥523 million (\$4,508 thousand) and ¥397 million, respectively. The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

The liability for employees' retirement benefits as of February 28, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Projected benefit obligation	¥13,978	¥12,901	\$120,500
Fair value of plan assets	(6,895)	(5,485)	(59,440)
Unrecognized actuarial loss.....	(2,215)	(2,893)	(19,095)
Unrecognized transitional obligation...	(22)	(22)	(189)
Net liability.....	¥ 4,846	¥ 4,501	\$ 41,776

The components of net periodic benefit costs for the years ended February 28, 2006 and 2005, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Service cost.....	¥ 997	¥ 905	\$ 8,595
Interest cost	264	321	2,276
Expected return on plan assets.....	(6)	(4)	(52)
Recognized actuarial loss	254	136	2,190
Amortization of transitional obligation	4	3	34
Net periodic benefit costs.....	¥1,513	¥1,361	\$13,043

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 accordance with a transitional measurement of the accounting standard for employees' retirement benefits for the year ended February 28, 2003.

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 had no effect to the consolidated statement of income for the year ended February 28, 2005.

Assumptions used for the years ended February 28, 2006 and 2005, are set forth as follows:

	2006	2005
Discount rate	Primarily 1.7%	Primarily 2.0%
Expected rate of return on plan assets	Primarily 0%	Primarily 0%
Recognition period of actuarial gain/loss	Primarily 15 years	Primarily 15 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 28, 2006 and 2005 were ¥126 million (\$1,086 thousand) and ¥114 million, respectively.

10. Shareholders' equity

Japanese companies are subject to the Code.

The Code requires that all shares of common stock be 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 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 legal reserve and additional paid-in capital 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 Code allows Japanese companies to purchase treasury stock and dispose of such treasury stock upon resolution of the Board of Directors. The amount of treasury stock available for purchase cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the shareholders meeting.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash outlays, the Code also imposes certain limitations on the amount of capital surplus and

retained earnings available for dividends. The amount of capital surplus and retained earnings available for dividends under the Code was ¥132,165 million (\$1,139,353 thousand) as of February 28, 2006, based on the amount recorded in the parent company's general books of account.

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

On May 1, 2006, a new corporate law (the "Corporate Law") became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

a. Dividends—Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as: (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained to be at least ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus—The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the capital account charged at the payment of such dividends until the aggregate amount of legal reserve and additional paid-in capital equals 25% of common stock. Under the Code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights—The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot

exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders' equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of shareholders' equity or deducted directly from stock acquisition rights.

On December 9, 2005, the ASBJ published a new accounting standard for presentation of shareholders' equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of shareholders' equity. Such items include stock acquisition rights, minority interest, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006.

11. Income taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 41% and 42% for the years ended February 28, 2006 and 2005, respectively.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities as of February 28, 2006 and 2005, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets:			
Provision for doubtful receivables... ¥	320	¥ 364	\$ 2,759
Accrued bonuses	428	426	3,690
Provision for retirement benefits—employees	1,947	1,804	16,784
Provision for retirement benefits—directors and corporate auditors...	213	159	1,836
Depreciation	62	57	534
Loss on disposals of property and store facilities and cancellations of lease contracts	271	256	2,336
Loss on impairment of long-lived assets	1,589	1,280	13,698
Loss on renewal of store management system	1,827		15,750
Enterprise tax payable	448	541	3,862
Tax loss carryforwards	1,749	2,219	15,078
Other	342	521	2,949
Less valuation allowance	(1,800)	(2,272)	(15,517)
Total	7,396	5,355	63,759
Deferred tax liabilities:			
Special reserve for tax purpose depreciation	61	92	526
Unrealized gain on available-for-sale securities	572	270	4,931
Other	465	273	4,009
Total	1,098	635	9,466
Net deferred tax assets	¥6,298	¥4,720	\$54,293

A reconciliation between the normal effective statutory tax rate and the actual effective tax rates reflected in the accompanying consolidated statements of income for the year ended February 28, 2006 is as follows, and that for the year ended February 28, 2005 is not material.

	2006
Normal effective statutory tax rate	41%
Inhabitants taxes.....	1
Tax benefits not recognized on operating losses of subsidiaries	1
Tax credit	(3)
Lower income tax rates applicable to income in certain foreign countries	(2)
Actual effective tax rate	<u>38%</u>

As of February 28, 2006, certain subsidiaries have tax loss carryforwards aggregating approximately ¥5,180 million (\$44,655 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
2007.....	¥1,309	\$11,285
2008.....	1,081	9,319
2009.....	484	4,172
2010.....	814	7,017
2011 and thereafter.....	1,492	12,862
Total	<u>¥5,180</u>	<u>\$44,655</u>

12. Leases

As Lessee

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

Total rental expenses including lease payments for the years ended February 28, 2006 and 2005, were ¥11,962 million (\$103,121 thousand) and ¥12,617 million, respectively.

For the year ended February 28, 2006, the Group recorded an impairment loss of ¥413 million (\$3,560 thousand) on certain leased property held under finance leases that do not transfer ownership and an allowance for impairment loss on leased property.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, accumulated impairment loss, obligation under finance lease, depreciation expense, interest expense and other information of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended February 28, 2006 and 2005, was as follows:

	Millions of yen		
	2006		
	Furniture and fixtures	Software	Total
Acquisition cost	¥64,990	¥806	¥65,796
Accumulated depreciation	(36,549)	(608)	(37,157)
Accumulated impairment loss	(940)		(940)
Net leased property.....	<u>¥27,501</u>	<u>¥198</u>	<u>¥27,699</u>

	Millions of yen		
	2005		
	Furniture and fixtures	Software	Total
Acquisition cost	¥64,354	¥1,442	¥65,796
Accumulated depreciation	(33,868)	(1,068)	(34,936)
Accumulated impairment loss	(601)		(601)
Net leased property.....	<u>¥29,885</u>	<u>¥ 374</u>	<u>¥30,259</u>

	Thousands of U.S. dollars		
	2006		
	Furniture and fixtures	Software	Total
Acquisition cost	\$560,259	\$6,948	\$567,207
Accumulated depreciation	(315,078)	(5,241)	(320,319)
Accumulated impairment loss	(8,103)		(8,103)
Net leased property.....	<u>\$237,078</u>	<u>\$1,707</u>	<u>\$238,785</u>

Obligations under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Due within one year.....	¥ 7,876	¥ 9,544	\$ 67,897
Due after one year	23,727	22,374	204,543
Total	<u>¥31,603</u>	<u>¥31,918</u>	<u>\$272,440</u>

Allowance for impairment loss on leased property of ¥815 million (\$7,026 thousand) and ¥601 million as of February 28, 2006 and 2005 were not included in obligations under finance leases.

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

Depreciation expense, interest expense and other information under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Depreciation expense.....	¥ 9,904	¥10,486	\$85,379
Interest expense.....	799	1,012	6,888
Total	<u>¥10,703</u>	<u>¥11,498</u>	<u>\$92,267</u>
Reversal of allowance for impairment loss on leased property	¥ 199		\$ 1,716
Impairment loss	413	¥ 601	3,560

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

The minimum rental commitments under noncancelable operating leases as of February 28, 2006 and 2005, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Due within one year.....	¥ 458	¥ 65	\$ 3,948
Due after one year	3,061	256	26,388
Total	<u>¥3,519</u>	<u>¥321</u>	<u>\$30,336</u>

As Lessor

The Group subleases certain lands and buildings. The subleases are the finance leases that do not transfer ownership of leased buildings to the lessee. Receivable under such finance leases as of February 28, 2006 were as follows:

	Millions of yen	Thousands of U.S. dollars
Due within one year.....	¥ 241	\$ 2,078
Due after one year.....	2,229	19,216
Total	¥2,470	\$21,294

The minimum rental commitments under noncancelable operating subleases as of February 28, 2006 were as follows:

	Millions of yen	Thousands of U.S. dollars
Due within one year.....	¥ 307	\$ 2,647
Due after one year.....	2,795	24,095
Total	¥3,102	\$26,742

13. Derivatives

The Company enters into foreign currency forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Company does not hold or issue derivatives for trading purposes.

Derivatives are subject to market risk. Market risk is the exposure created by potential fluctuations in market conditions, including foreign exchange rates. Because the counterparties to those derivatives are limited to major international financial institutions, the Company does not anticipate any losses arising from credit risk.

The execution and control of derivatives are controlled by the Accounting and Finance Department of the Company in accordance with the Company internal regulation.

The Company had no derivative contracts outstanding as of February 28, 2006 and 2005.

14. Contingent liabilities

As of February 28, 2006, 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	¥3,795	\$32,716
Guarantee of financial institution loan, borrowed by SIAM DCM Co., Ltd.	62	534

SIAM DCM Co., Ltd., which is associated company, distributes merchandise and supplies for "FamilyMart" stores in Thailand.

15. Net income per share

Basis of computation of basic net income per share ("EPS") for the years ended February 28, 2006 and 2005 is as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars
Year ended February 28, 2006	Net income	Weighted-average shares	EPS	
EPS:				
Net income	¥14,195			
Bonuses to director and corporate auditors	(89)			
Net income available to common shareholders....	¥14,106	96,846	¥145.7	\$1.26

	Millions of yen	Thousands of shares	Yen	U.S. dollars
Year ended February 28, 2005	Net income	Weighted-average shares	EPS	
EPS:				
Net income	¥12,623			
Bonuses to director and corporate auditors	(86)			
Net income available to common shareholders....	¥12,537	96,852	¥129.5	

16. Subsequent events

(1) On April 10, 2006, the Company sold 560,000 shares of its treasury stock to Ryohin Keikaku Co., Ltd. at ¥3,556 (\$30.66) per share, in the aggregate of ¥1,991 million (\$17,164 thousand), in accordance with resolution approved at a meeting of the Board of Directors held on March 23, 2006. This sale was conducted in order to strengthen the relationship with Ryohin Keikaku Co., Ltd. The Company plans to buy the common stock of Ryohin Keikaku Co., Ltd. with the cash generated from the sale of treasury stock.

(2) On May 19, 2006, the Board of Directors of the Company made a resolution to repurchase up to 5,000,000 shares of the Company's common stock (aggregate amount of ¥20,000 million (\$172,414 thousand)) as treasury stock from May 22, 2006 to November 30, 2006.

(3) At the general shareholders meeting held on May 25, 2006, the Company's shareholders approved the following appropriations of retained earnings:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥21.5 (\$0.19) per share	¥2,082	\$17,948
Bonuses to directors and corporate auditors	47	405

17. Related party transactions

Transactions of the Company with related parties for the years ended February 28, 2006 and 2005, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
ITOCHU Corporation—Average short-term deposit balance to ITOCHU Corporation under cash management program	¥16,671	¥20,110	\$143,716
Tadashi Endo (corporate auditor and attorney)—Attorney's fee...	27	35	233
Famima Credit Corporation (associated company):			
Receivable—long-term loans (included investments in and advances to unconsolidated subsidiaries and associated companies)	6,050	2,000	52,155
Guarantee of financial institution loan	3,795	2,058	32,716

¥3,162 million (\$27,259 thousand) of the above long-term loans outstanding as of February 28, 2006 are guaranteed by ITOCHU Corporation. Additionally, ¥1,031 million of the above long-term loans were guaranteed by ITOCHU Corporation and ITOCHU Finance Corporation for the year ended February 28, 2005.

18. 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 (until August 31, 2006), financial services, etc.

Information about industry segments, geographical segments and operating revenues from foreign customers of the Company and its subsidiaries for the years ended February 28, 2006 and 2005, was as follows:

(1) Industry Segments

The industry segments of the Company and its subsidiaries for the years ended February 28, 2006 and 2005, are summarized as follows:

a. Operating Revenues and Operating Income

	Millions of yen				Consolidated
	2006	2006	2006	2006	
	Convenience store business	E-commerce business	Other businesses	Eliminations/Corporate	
Operating revenues from outside the Group	¥226,089	¥49,885	¥ 469		¥276,443
Intersegment operating revenues	71	5,364	1,861	¥(7,296)	
Total operating revenues	226,160	55,249	2,330	(7,296)	276,443
Operating expenses	189,972	54,483	2,134	(2,808)	243,781
Operating income	¥ 36,188	¥ 766	¥ 196	¥(4,488)	¥ 32,662

b. Total Assets, Depreciation, Loss on Impairment of Long-lived Assets and Capital Expenditures

	Millions of yen				Consolidated
	2006	2006	2006	2006	
	Convenience store business	E-commerce business	Other businesses	Eliminations/Corporate	
Total assets	¥220,207	¥4,754	¥7,192	¥81,968	¥314,121
Depreciation	11,214	3	94		11,311
Loss on impairment of long-lived assets	1,414				1,414
Capital expenditures	29,453	2	36		29,491

a. Operating Revenues and Operating Income (Loss)

	Millions of yen				Consolidated
	2005	2005	2005	2005	
	Convenience store business	E-commerce business	Other businesses	Eliminations/Corporate	
Operating revenues from outside the Group	¥208,466	¥43,973	¥ 462		¥252,901
Intersegment operating revenues	61	5,244	2,389	¥(7,694)	
Total operating revenues	208,527	49,217	2,851	(7,694)	252,901
Operating expenses	173,868	48,862	2,860	(3,558)	222,032
Operating income (loss)	¥ 34,659	¥ 355	¥ (9)	¥(4,136)	¥ 30,869

b. Total Assets, Depreciation, Loss on Impairment of Long-lived Assets and Capital Expenditures

	Millions of yen				Consolidated
	2005	2005	2005	2005	
	Convenience store business	E-commerce business	Other businesses	Eliminations/Corporate	
Total assets	¥202,378	¥4,285	¥3,656	¥76,452	¥286,771
Depreciation	11,835	5	120		11,960
Loss on impairment of long-lived assets	3,130		96		3,226
Capital expenditures	26,538	4	81		26,623

a. Operating Revenues and Operating Income

	Thousands of U.S. dollars				
	2006				
	Convenience store business	E-commerce business	Other businesses	Eliminations/Corporate	Consolidated
Operating revenues from outside the Group	\$ 1,949,043	\$ 430,043	\$ 4,043		\$ 2,383,129
Intersegment operating revenues	612	46,241	16,044	\$(62,897)	
Total operating revenues	1,949,655	476,284	20,087	(62,897)	2,383,129
Operating expenses	1,637,690	469,681	18,396	(24,207)	2,101,560
Operating income	\$ 311,965	\$ 6,603	\$ 1,691	\$(38,690)	\$ 281,569

b. Total Assets, Depreciation, Loss on Impairment of Long-lived Assets and Capital Expenditures

	Thousands of U.S. dollars				
	2006				
	Convenience store business	E-commerce business	Other businesses	Eliminations/Corporate	Consolidated
Total assets	\$ 1,898,336	\$ 40,983	\$ 62,000	\$ 706,621	\$ 2,707,940
Depreciation	96,672	26	811		97,509
Loss on impairment of long-lived assets	12,190				12,190
Capital expenditures	253,905	17	311		254,233

(2) Geographical Segments

The geographical segments of the Company and its subsidiaries for the years ended February 28, 2006 and 2005, are summarized as follows:

	Millions of yen				
	2006				
	Japan	Asia	Other area	Eliminations/Corporate	Consolidated
Operating revenues from outside the Group	¥233,826	¥42,555	¥ 62		¥276,443
Interarea transfers	530	22		¥ (552)	
Total operating revenues	234,356	42,577	62	(552)	276,443
Operating expenses	199,158	40,317	363	3,943	243,781
Operating income (loss)	¥ 35,198	¥ 2,260	¥ (301)	¥ (4,495)	¥ 32,662
Total assets	¥185,694	¥41,806	¥1,415	¥85,206	¥314,121

	Millions of yen				
	2005				
	Japan	Asia	Other area	Eliminations/Corporate	Consolidated
Operating revenues from outside the Group	¥217,363	¥35,538			¥252,901
Interarea transfers	440	29		¥ (469)	
Total operating revenues	217,803	35,567		(469)	252,901
Operating expenses	184,689	33,679	¥ 5	3,659	222,032
Operating income (loss)	¥ 33,114	¥ 1,888	¥ (5)	¥ (4,128)	¥ 30,869
Total assets	¥173,772	¥32,770	¥99	¥80,130	¥286,771

	Thousands of U.S. dollars				
	2006				
	Japan	Asia	Other area	Eliminations/Corporate	Consolidated
Operating revenues from outside the Group	\$ 2,015,741	\$ 366,853	\$ 535		\$ 2,383,129
Interarea transfers	4,569	190		\$(4,759)	
Total operating revenues	2,020,310	367,043	535	(4,759)	2,383,129
Operating expenses	1,716,879	347,560	3,129	33,992	2,101,560
Operating income (loss)	\$ 303,431	\$ 19,483	\$(2,594)	\$(38,751)	\$ 281,569
Total assets	\$ 1,600,810	\$ 360,397	\$ 12,198	\$ 734,535	\$ 2,707,940

(3) Operating Revenues from Foreign Customers

Operating revenues from foreign customers for the years ended February 28, 2006 and 2005, amounted to ¥42,944 million (\$370,207 thousand) and ¥35,945 million, respectively.

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of FamilyMart Co., Ltd. (the "Company") and consolidated subsidiaries (together, the "Group") as of February 28, 2006 and 2005, 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 generally accepted 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 28, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 2.f to the consolidated financial statements, the Group adopted the new accounting standard for impairment of fixed assets from the year ended February 28, 2005.

As discussed in Note 16(2) to the consolidated financial statements, the Board of Directors of the Company made a resolution to repurchase its common stock as treasury stock on May 19, 2006.

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 25, 2006

▶ CORPORATE HISTORY

1972	Sept. The Planning Office of The Seiyu Stores, Ltd., sets up a Small Store Section.	1999	Mar. All offices and stores of FamilyMart receive blanket certification under ISO 14001, the international standard for environmental management systems.
1973	Sept. The first convenience store opens on a trial basis in Sayama, Saitama Prefecture.	2000	Sept. FamilyMart and 25 other companies (including 4 convenience store chains and 10 financial institutions) jointly establish E-net Co., Ltd., to install ATM machines in stores.
1978	Mar. The Seiyu Stores establishes FamilyMart Department; four stores operating.	2001	May To promote electronic commerce, FamilyMart and top companies in each industry—including ITOCHU Corporation, NTT DATA Corporation, and Toyota Motor Corporation—jointly establish famima.com Co., Ltd.
1981	Sept. The Seiyu Stores establishes FamilyMart Co., Ltd., and transfers business and property; 89 stores operating.	2001	Oct. FamilyMart experimentally introduces Famiport Multimedia Kiosks in some stores (full-scale introduction in Feb. 2001).
1987	Feb. The number of stores reaches 1,000.	2001	Nov. FamilyMart establishes IFJ Co., Ltd. (currently Famima Credit Corporation), a credit card company.
1987	Oct. FamilyMart and RYUBO CO., LTD., in Naha, Okinawa Prefecture, jointly establish Okinawa FamilyMart Co., Ltd.	2002	Feb. Taiwan FamilyMart is listed on the GreTai Securities Market, an over-the-counter stock market in Taiwan.
1987	Dec. The Tokyo Stock Exchange lists FamilyMart stocks on the Second Section.	2002	May FamilyMart introduces an IC card (JUPI card).
1988	Aug. FamilyMart and partner companies in Taiwan jointly establish Taiwan FamilyMart Co., Ltd.	2003	Dec. FamilyMart becomes the first convenience store chain of Japanese origin to reach 10,000 outlets in Asia.
1989	Aug. The Tokyo Stock Exchange lists FamilyMart stocks on the First Section.	2004	May FamilyMart jointly establishes Shanghai FamilyMart Co., Ltd. (China), in cooperation with four partners—ITOCHU Corporation; Taiwan FamilyMart; Tingshin (Cayman Islands) Holding Corporation; and CITIC Trust & Investment Co., Ltd.
1990	July FamilyMart concludes a contract with Bokwang FamilyMart Co., Ltd., of Seoul, South Korea, for the 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 commence.	2004	July Shanghai FamilyMart begins the development of FamilyMart stores in Shanghai.
1992	Sept. FamilyMart jointly establishes Siam FamilyMart Co., Ltd. with Robinson Department Store Public Co., Ltd.; Saha Pathanapibul Public Co., Ltd.; and ITOCHU (THAILAND) LTD.	2004	Oct. FamilyMart introduces its Famima Card. FamilyMart establishes FAMIMA CORPORATION (U.S.A.) in cooperation with two partners—ITOCHU and ITOCHU International Inc. (U.S.A.).
1993	Apr. FamilyMart and HOMBO SYOTEN Co., Ltd., in Kagoshima jointly establish Minami Kyushu FamilyMart Co., Ltd. FamilyMart concludes an area franchiser contract with the Company and commences franchising operations for FamilyMart stores in Kagoshima and Miyazaki prefectures.	2004	Dec. Shanghai FamilyMart begins establishing franchised stores in Shanghai.
1998	Feb. The total number of stores reaches 6,000, including 1,000 overseas.	2005	June Familymart introduces new design for staff uniforms.
1998	Feb. The ITOCHU Group buys the stock of FamilyMart from The Seiyu, Ltd., and other companies, becoming the largest shareholder.	2005	July FAMIMA CORPORATION (U.S.A.) begins the development of Famima!! stores in the U.S.A.
		2005	Sept. Number of stores accepting Suica e-money successively increases in the Tokyo and Sendai areas.
		2006	Feb. FamilyMart and Sapporo-based company Maruyo Nishio Co., Ltd. Jointly establish Hokkaido FamilyMart Co., Ltd.

➤ CORPORATE DATA (Non-consolidated)

Head Office

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

Incorporated

September 1, 1981

Paid-in Capital

¥16,659 million

Authorized Shares

250,000,000

Issued Shares

97,683,133

Number of Shareholders

17,444

Number of Full-Time Employees

2,540

Stock Exchange Listing

Tokyo Stock Exchange

Domestic Area Franchisers

Okinawa FamilyMart Co., Ltd.
Minami Kyushu FamilyMart Co., Ltd.
Hokkaido FamilyMart Co., Ltd.

Overseas Area Franchisers

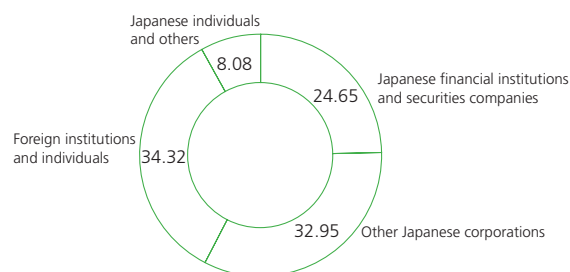
Taiwan FamilyMart Co., Ltd. (Taiwan)
Bokwang FamilyMart Co., Ltd. (South Korea)
Siam FamilyMart Co., Ltd. (Thailand)
Shanghai FamilyMart Co., Ltd. (China)
FAMIMA CORPORATION (U.S.A.)

Principal Shareholders

	(%)
Family Corporation Inc.	30.65
The Master Trust Bank of Japan, Ltd.	5.88
Japan Trustee Services Bank Ltd.	2.92
Mizuho Bank, Ltd.	2.13
State Street Bank and Trust Company	1.84
Nomura Securities Co., Ltd.	1.81
Japan Trustee Services Bank Ltd.	1.80
Mellon Bank, N.A. as Agent for its Client Mellon Omnibus US Pension	1.50
Dresdner Kleinwort Wasserstein (Japan) Limited	1.44
BNP PARIBAS Securities (Japan) LIMITED	1.37

Note: Shareholding percentages are calculated by dividing the number of shares held by the number of issued shares.

Distribution of the Shares*



*Excluding shares that do not comprise full trading units

(As of February 28, 2006)

FamilyMart

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