

Annual Business Report

(April 1, 2003 to March 31, 2004)



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F&M CO., LTD.

Listed company: 4771

Operating Environment and Performance for Fiscal 2003

Fiscal 2003 was an extremely significant year for us.

Firstly, the Outsourcing Business experienced a dramatic increase in its membership, which had been on the decrease over the past few years. The upturn was attributable to the revision and the enhancement of its service content that we had been working on over the past couple of years. In the accounting services, which target sole proprietors and small firms, bookkeeping alone cannot fully satisfy customers' needs. Accordingly, we have decided to improve the convenience of a series of operations stemming from accounting, by turning them into "one-stop services"; with the aim of tackling customers' various problems. We also decided to offer additional value by providing a wide range of useful information, in addition to reasonable pricing. We believe such an active approach towards customers' needs led to the increase in membership during fiscal 2003.

Further, in fiscal 2003, we launched accounting services targeting sole proprietors and small firms other than life insurance sales agents, which were previously our challenge, and aggressively carried out proposal-oriented marketing activities. The services are expected to experience further growth in the future, considering the enormity of the potential market for the outsourcing of accounting services in Japan.

Moreover, in the F&M Club Business, we continued to make efforts to enhance its service. Although the economy has gradually been recovering since last year, the business environment has not dramatically improved for small- and medium-sized enterprises (SMEs). In these circumstances, we

developed a new service to meet customers' needs by taking the existing framework a step further, including consulting for filing applications under the Law on Supporting Business Innovation of Small and Medium Enterprises by the Ministry of Economy, Trade and Industry (METI).

As a result of these efforts, we recorded consolidated sales in the amount of 3,869 million yen, operating income of 184 million yen, and ordinary income of 67 million yen.

(For detailed information on outsourcing of applications under the Law on Supporting Business Innovation of Small and Medium Enterprises, please refer to p.5.)

Measures for Fiscal 2004 and Beyond

In the Outsourcing Business, our policy is to strive towards increasing its membership based on a stronger framework, following the measures taken in fiscal 2003.

For services targeting life insurance sales agents, we will direct our efforts towards accelerating the rate of increase in membership, which experienced an upturn during fiscal 2003, by further enhancing our marketing system and carrying out extensive customer follow-up activities. For accounting services targeting other sole proprietors and small firms, we will further improve the quality of services by specializing in certain business categories, and build stepping stones to expand into other business categories by improving the standard of services. Our strength lies in the wealth of expertise in accounting services which we have accumulated over many years, and our network system with nationwide support. We will continue to expand the business by making maximum use of this strength.

In the F&M Club Business, our policy is to not



**We will aim at making greater strides
by taking advantage of our status as the only
listed company in the accounting
service business in Japan.**

only enhance the service content, but also to direct our efforts towards making various services widely known and tapping into potential needs, by aggressively carrying out proposal-oriented marketing activities focusing on member companies. From fiscal 2004 onwards, we will push our business forward by concentrating on establishing a more exhaustive follow-up framework for member companies, so that they will utilize our services for many years to come.

In terms of Group management, we turned Challenger, Gray & Christmas K.K. into a consolidated subsidiary during fiscal 2003, and sold our shares in Small and Medium-Sized Company M&A Center Inc.

Among the plans to be implemented from fiscal 2004 onwards, particularly noteworthy is the full-fledged promotion of marketing activities outside the F&M Group by F&Mnet Co., Ltd., which has primarily been in charge of system development operations within the Group. F&Mnet Co., Ltd. has been increasing sales generated from companies outside the Group from year to year, based on its wealth of technologies and expertise accumulated inside the Group, and is expected to further expand the market as a strategic IT company of the F&M Group.

In this manner, the F&M Group will continue to execute business restructuring as necessary in the future.

(For detailed information on the business of F&Mnet Co., Ltd., please refer to p.6.)

To Our Shareholders

Although we are heading for recovery in terms of business performance, it is still short of many shareholders' expectations. It goes without saying that the best way to reward our shareholders and



Ichiro Morinaka

President, F&M CO., LTD.

- February 1961: Born in Osaka
- March 1984: Graduated from the College of Social Science, Ritsumeikan University
- April 1984: Employed by Link Consulting Associates-Japan Co., Ltd.
- June 1989: Employed by Venture Link Co., Ltd. Director of the First Sales Promotion Department, responsible for sales in western Japan
- July 1990: Left Venture Link Co., Ltd. to fulfill the dream of starting a business while in 20s
- July 1990: Established F&M Co., Ltd. Appointed to Representative Director

investors is to pass on our profits. To do so, we need to improve our business performance more than anything else.

Our various service businesses have an extremely high future potential in terms of marketability, and we are confident that we are in an extremely advantageous position in these markets. We will continue to make Group-wide concerted efforts to further improve our business performance, in order to generate stable returns for shareholders in the long run.

Your further understanding and support will be highly appreciated.

June 2004

Outsourcing Business

Overview of Fiscal 2003: We achieved a massive increase in clients by improving our services and through active marketing.

In fiscal 2003, we reviewed our operations as a whole and endeavored to improve the standard of services. We also aggressively carried out marketing activities to capture new clients. These efforts were fruitful, in that our clients increased 4,228 from the previous year to 29,866 as of the year-end, amid the continual decrease in life insurance sales agents. We also secured almost 500 new members in business categories other than life insurance sales agents (sole proprietors and small firms).

As a result, the Outsourcing Business recorded sales in the amount of 1,388 million yen in fiscal 2003, and is expected to contribute towards profits in fiscal 2004 as well.

Future Prospects: We will aim at further improving customer satisfaction and tapping into new markets.

Our challenge for fiscal 2004 is to maximize customer throughput and maximize F&M throughput.

We will promote customer throughput maximization by focusing on the following two categories. In the accounting services category, we will provide assistance for cost reduction, while in the category of industry information feeding services and recruitment support services, we will provide assistance for sales growth. And under this policy, we implement sales strategies and service development.

In order to maximize F&M throughput, we will further accelerate membership growth by improving the standard of our services based on operation strategies. We will also vigorously promote cost reduction, including executing some of the operations (excluding customer services) in China. We will also continue to tap into other business fields, which we started in the middle of fiscal 2003, under marketing policies specializing in certain customer targets.

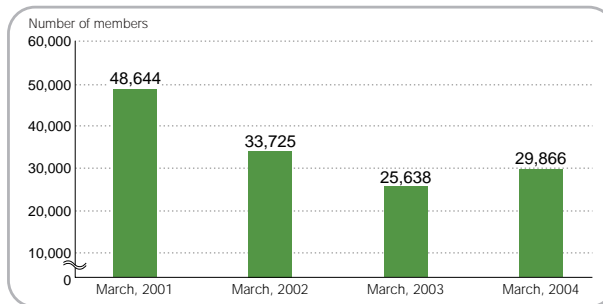
Accounting services

(Organizing records and preparing income tax returns for sole proprietors)

Business support services

(Providing services which help life insurance sales agents improve their business performance)

Number of Members



F&M Club Business

Overview of Fiscal 2003: We enhance the service menu tailored to meet members' needs.

In the F&M Club Business, we endeavored to enhance new content as a "jointly-purchased agent" of various services, as well as to make our service content which we enhanced up until fiscal 2003 widely known, through aggressive marketing activities.

In fiscal 2003, we added to our service lineup application support services under the Law on Supporting Business Innovation of Small and Medium Enterprises by METI and life support services designed to meet the needs of employees of member companies. In particular, the application support services tapped into new customer needs by proposing the utilization of public institutions to member companies, including providing assistance for preparing business innovation plans required for filing applications.

As a result, the membership resulted in a net increase on a full-year basis, totaling 4,541 companies, and sales amounted to 1,388 million yen for fiscal 2003.

Future Prospects: We will generate synergies with existing businesses by implementing new services.

Our future policy is to make efforts in financial consulting for SMEs, including preparing business innovation plans aimed at receiving public aid on behalf of applicants, by utilizing our wealth of unique and diverse expertise which we have accumulated to date. We will strive to further increase the number of member companies by reinforcing assistance relating to cashflow (which is a major management issue for SMEs) by collaborating with local financial institutions and chambers of commerce and industry.

Further, we will make efforts to further improve customer satisfaction, by reinforcing our support system for member companies, including building a local-community-oriented customer support framework.

Consultation services for general affairs & administrative divisions

(Providing a wide range of useful information on human resources, education, finance, etc.)

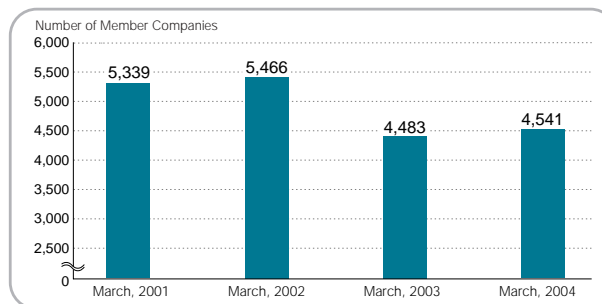
Training and examination services

(Implementing corporate training programs and various aptitude tests)

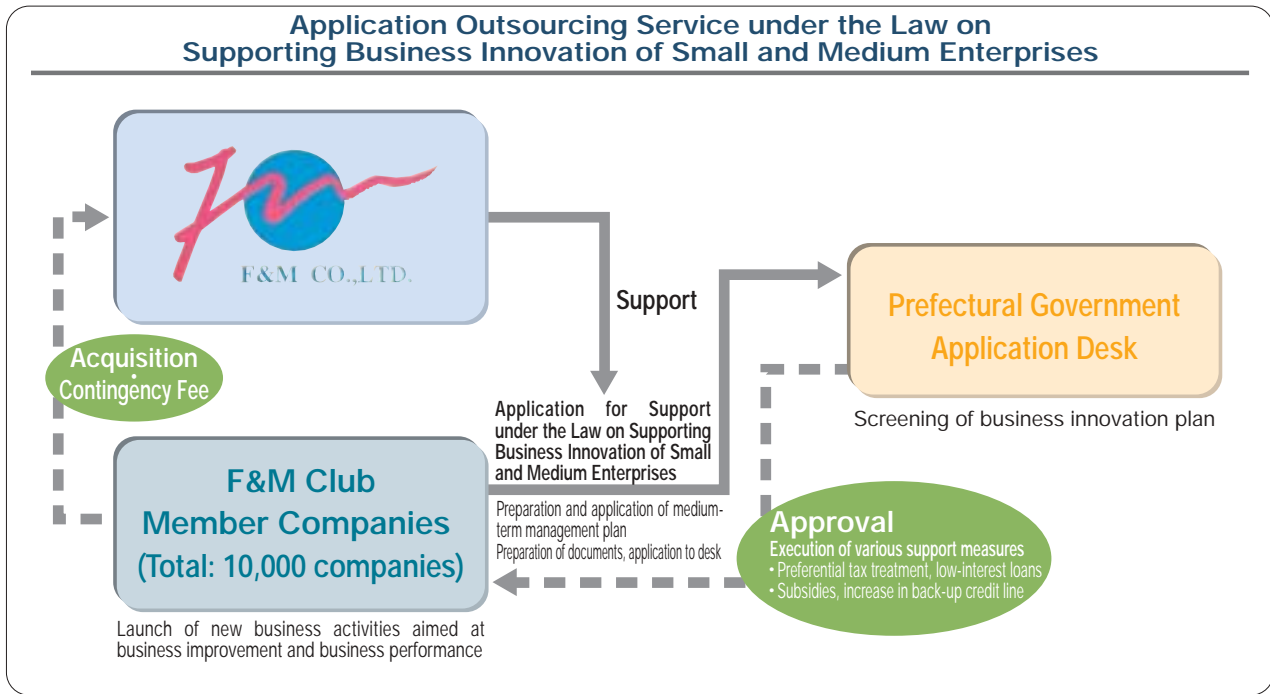
ISO certification acquisition support services

(Providing teaching materials to acquire certification and advice for SMEs)

Number of Member Companies



New Approach of F&M Club Business



Various management information made available at a fixed monthly membership fee: 95% success rate of application outsourcing service under the Law on Supporting Business Innovation of Small and Medium Enterprises!

The F&M Club Business is a membership service targeting general affairs and administrative divisions of SMEs. F&M purchases various services provided by other companies that are too costly for one company, and makes such jointly-purchased services available for use to member companies at a fixed monthly membership fee. Currently available service content include credit information services and aptitude tests.

In particular, the application outsourcing service under the Law on Supporting Business Innovation of Small and Medium Enterprises launched in fiscal 2003 has been highly appreciated by member companies.

In order to qualify for benefits under the Law on Supporting Business Innovation of Small and Medium Enterprises, it is

necessary to prepare a "business innovation plan" and submit it to the prefectural governor. If the plan is approved, the applicant gains access to low-interest loans, subsidies, tax benefits, etc.

F&M offers services including providing assistance for preparing application forms and plans concerning the Law on Supporting Business Innovation of Small and Medium Enterprises, financial assessment, etc. We boast a high success rate as of fiscal 2003 (the 14th term): 95% of all member companies which filed an application with F&M's support have gained approval. This may be regarded as the result of fully utilizing F&M's wealth of unique expertise accumulated in the course of pursuing customer satisfaction, as F&M has been engaged in supporting as many as 10,000 SMEs since its establishment.

We will continue to further enhance the service menu of the F&M Club Business, and further strengthen our back-office support functions.

F&Mnet Co., Ltd.

Company Outline

President: Nobutsugu Motohashi
 Established: 2000
 Capital: ¥30 million
 Business lines: Planning, development and operation of business systems on behalf of clients
 Contact: Head office: Shin-Minami-Ohi Bldg. 6F 13-5, Minamiohi 1-chome, Shinagawa-ku, Tokyo
 Osaka branch: F&M Bldg. 6F, 23-38, Esaka 1-chome, Suita, Osaka
 URL: [http:// www.fandmnet.com/](http://www.fandmnet.com/)

Business Line

A Provider of Diverse IT Solutions both Inside and Outside the Group.

F&Mnet Co., Ltd. offers diverse services to client companies outside the Group, while serving as the information system division of the F&M Group.

As the Group's information system division, it develops and operates business systems, such as customer management, marketing support, bookkeeping and payment processing systems for companies. It also develops system services provided by the F&M Group to customers, including e-somu, Mate Pack and website production.

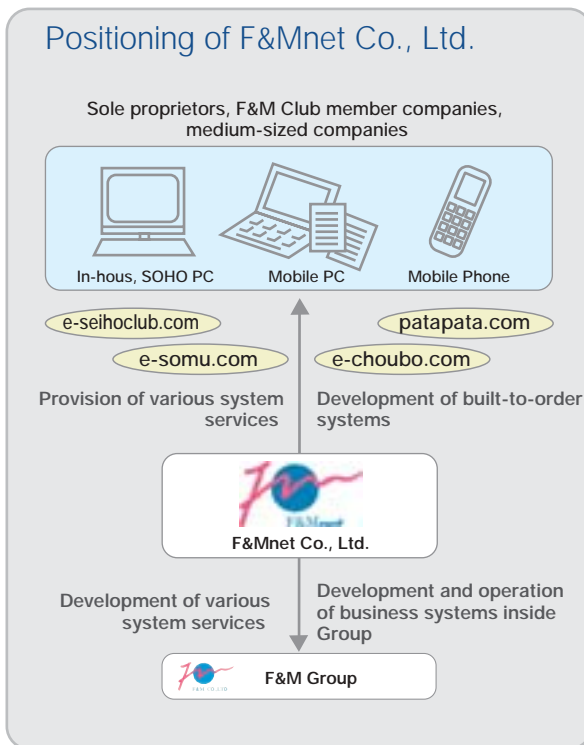
In addition, to client companies outside the Group, it offers system services relating to payroll services, mail magazine distribution services, marketing support ASP for PDAs, and sale and installation support for accounting software, as well as built-to-order system development services.

Prospects for Outplacement Support Business

We will Enhance Marketing Activities outside the Group by Taking Advantage of our Wealth of Expertise.

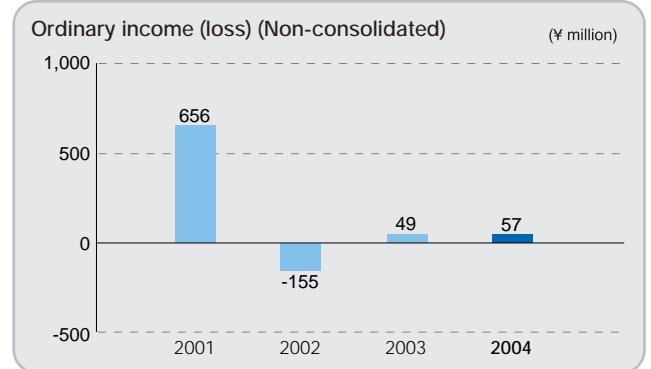
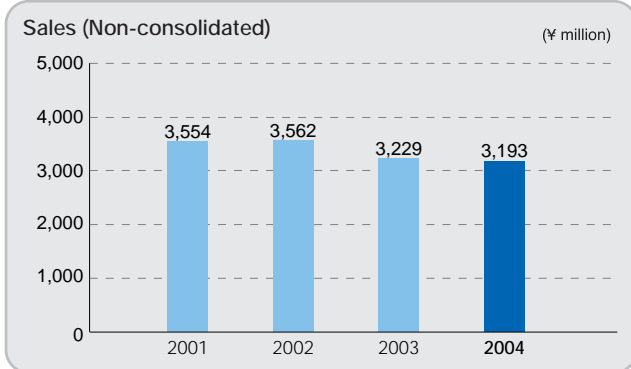
Driven by the proliferation of broadband connections, companies and individuals using the internet are rapidly increasing. Further, companies are becoming increasingly active in making capital investments in response to signs of economic recovery, while they are becoming more and more dependent on systems due to staff cuts. In that sense, the market trends are truly favorable for F&M. In these circumstances, we will offer highly cost-effective services to client companies from fiscal 2004 onwards, by making the most of our wealth of experience and past accomplishments gained through operations inside the Group. We will focus on developing business systems using the Bugyo Series, an accounting software which has been introduced at numerous sites, while offering calculation services –which involve accurately and reliably processing large volumes of information by taking advantage of our experience and past accomplishments–, mail magazine services and so forth.

Further, as a new challenge, we plan to launch a website which will bring together small system companies (tentative name: Soft Tank). The project enables multiple companies to undertake large contracts by cooperating with each other, and realizes high-quality services at a low price. It is also expected to improve the skills of each company by competition. Through this project, we plan to establish our positioning as a leader.



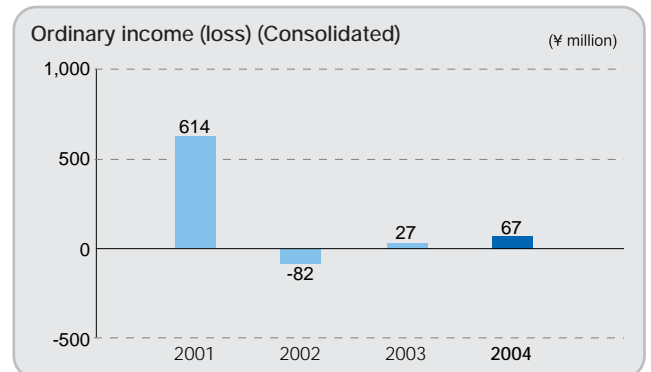
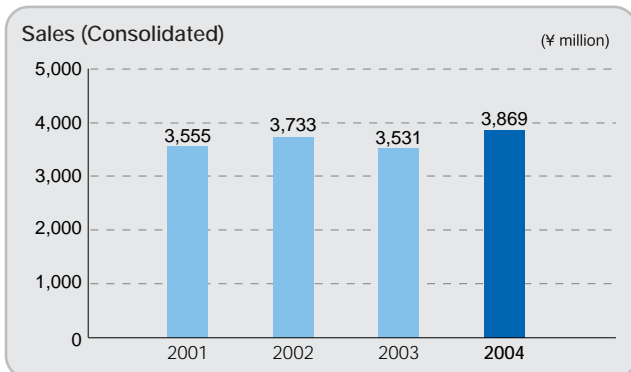
(¥ million)

	2001 (Mar. 31, 2001)	2002 (Mar. 31, 2002)	2003 (Mar. 31, 2003)	2004 (Mar. 31, 2004)
Sales (Non-consolidated)	3,554	3,562	3,229	3,193
Ordinary income (loss) (Non-consolidated)	656	(155)	49	57



(¥ million)

	2001 (Mar. 31, 2001)	2002 (Mar. 31, 2002)	2003 (Mar. 31, 2003)	2004 (Mar. 31, 2004)
Sales (Consolidated)	3,555	3,733	3,531	3,869
Ordinary income (loss) (Consolidated)	614	(82)	27	67



(¥ thousand)

[Consolidated] Balance Sheet Highlights		
Item	As of March 31, 2004	As of March 31, 2003
Assets		
Current assets	1,414,178	1,084,891
Noncurrent assets	3,660,155	3,634,699
Tangible fixed assets	2,011,132	2,024,632
Intangible fixed assets	282,936	212,976
Investments and other assets	1,366,086	1,397,091
Deferred assets	67,377	6,133
Bond issue costs	67,377	6,133
Total assets	5,141,711	4,725,723

(¥ thousand)

[Consolidated] Statement of Operations Highlights		
Item	From April 1, 2003 to March 31, 2004	From April 1, 2002 to March 31, 2003
Sales	3,869,310	3,531,692
Cost of sales	1,130,095	1,147,806
Gross margin on sales	2,739,214	2,383,886
Selling, general, and administrative expenses	2,554,936	2,303,378
Operating income	184,278	80,507
Non-operating revenue	17,105	16,839
Non-operating expenses	134,104	69,779
Ordinary income	67,280	27,567
Extraordinary gain	47,181	-
Extraordinary losses	176,351	170,544
Loss before income Taxes	61,889	142,976
Income taxes – current	9,984	17,911
Income tax – deferred	57,136	87,776
Minority interests	36,584	3,172
Net loss	92,427	245,491

(¥ thousand)

[Consolidated] Balance Sheet Highlights		
Item	As of March 31, 2004	As of March 31, 2003
Liabilities		
Current liabilities	1,222,043	1,127,960
Long-term liabilities	1,758,364	1,570,386
Total liabilities	2,980,408	2,698,346
Minority interests		
Minority interests	247,404	12,075
Shareholders' equity		
Capital stock	826,000	826,000
Capital surplus	1,044,700	1,044,700
Retained earnings	150,250	287,557
Net unrealized losses on available-for-sale securities	(35,720)	(71,625)
Treasury stock	(71,330)	(71,330)
Shareholders' equity	1,913,899	2,015,301
Total liabilities, minority interests and shareholders' equity	5,141,711	4,725,723

(¥ thousand)

[Consolidated] Statement of Retained Earnings		
Item	From April 1, 2003 to March 31, 2004	From April 1, 2002 to March 31, 2003
Capital surplus		
Capital surplus at beginning of the term	1,044,700	1,044,700
Capital surplus at end of the term	1,044,700	1,044,700
Retained earnings		
Retained earnings at beginning of the term	287,557	533,049
Decrease in retained earnings	137,307	245,491
Net loss	92,427	245,491
Dividends	44,880	-
Retained earnings at end of the term	150,250	287,557

(¥ thousand)

[Consolidated] Cash Flow Highlights		
Item	From April 1, 2003 to March 31, 2004	From April 1, 2002 to March 31, 2003
Cash flows from operating activities	(44,244)	(111,900)
Cash flows from investing activities	(63,442)	25,490
Cash flows from financing activities	87,602	(231,884)
Effect of exchange rate changes on cash and cash equivalents	-	-
Decrease in cash and cash equivalents during the term	(20,084)	(318,294)
Cash and cash equivalents at beginning of the term	189,484	507,779
Cash and cash equivalents at end of the term	169,399	189,484

(¥ thousand)

[Non-Consolidated] Balance Sheet Highlights		
Item	As of March 31, 2004	As of March 31, 2003
Assets		
Current assets	1,009,200	1,062,877
Noncurrent assets	3,690,152	3,640,266
Tangible fixed assets	1,943,683	2,014,473
Intangible fixed assets	153,250	203,164
Investments and other assets	1,593,218	1,422,628
Deferred assets	67,377	6,133
Total assets	4,766,730	4,709,276

(¥ thousand)

[Non-Consolidated] Balance Sheet Highlights		
Item	As of March 31, 2004	As of March 31, 2003
Liabilities		
Current liabilities	1,025,914	1,098,593
Long-term liabilities	1,748,894	1,594,044
Total liabilities	2,774,808	2,692,637
Shareholders' equity		
Capital stock	826,000	826,000
Capital surplus	1,044,700	1,044,700
Retained earnings	228,273	288,895
Net unrealized losses on available-for-sale securities	(35,720)	(71,625)
Treasury stock	(71,330)	(71,330)
Shareholders' equity	1,991,922	2,016,639
Total liabilities, minority interests and shareholders' equity	4,766,730	4,709,276

(¥ thousand)

[Non-Consolidated] Statement of Operations Highlights		
Item	From April 1, 2003 to March 31, 2004	From April 1, 2002 to March 31, 2003
Sales	3,193,675	3,229,824
Cost of sales	794,060	1,051,991
Gross margin on sales	2,399,614	2,177,832
Selling, general, and administrative expenses	2,256,701	2,114,863
Operating income	142,913	62,968
Non-operating revenue	17,449	34,509
Non-operating expenses	103,177	48,239
Ordinary income	57,186	49,239
Extraordinary gain	1,539	-
Extraordinary losses	81,437	153,610
Loss before income taxes	22,711	104,371
Income taxes – current	8,054	11,442
Income taxes – deferred	(15,024)	88,090
Net loss	15,741	203,903
Unappropriated retained earnings brought forward	122,947	370,445
Transfer from legal reserve	13,878	-
Unappropriated retained earning	121,084	166,541

(¥ thousand)

Statement of Retained Earnings		
Item	From April 1, 2003 to March 31, 2004	From April 1, 2002 to March 31, 2003
Unappropriated retained earnings for the period	121,084	166,541
Reversal of unappropriate reserve	1,499	1,285
Total	122,583	167,827
Appropriation	11,220	44,880
Dividends	11,220	44,880
Unappropriated retained earnings carried forward	111,363	122,947

Company Outline (as of March 31, 2004)

Established:	1990	Business Lines:	Bookkeeping services for sole proprietors, information provision service for small and medium-sized companies, ASP business operations
Capital:	¥826 million		
President:	Ichiro Morinaka		
Employees:	212	Offices:	Osaka Head Office, Tokyo Head Office, Nagoya Branch, Fukuoka Branch, Sendai Branch, and Sapporo Branch
Average age of employees:	30.8		

Stock Information (as of March 31, 2004)

Number of shares authorized to issue:	42,000
Number of shares issued and outstanding:	11,936
Number of shareholders:	803



Principal shareholders

Name	Number of shares owned	Voting right (%)
Ichiro Morinaka	4,778	42.60
Flower Co., Ltd.	1,000	8.91
Message Co., Ltd.	1,000	8.91
The Nomura Trust and Banking Co., Ltd. (Trust Account)	276	2.46
Mikie Kudo	270	2.40

Name	Number of shares owned	Voting right (%)
Takahiro Nakayama	252	2.24
F&M Employee Shareholding Association	167	1.48
Osaka Securities Finance Co.	144	1.28
Satomi Teraoka	142	1.26
Sumitomo Life Insurance Company (Special account)	100	0.89

*Our company holds 716 treasury shares

Shareholder Information

Account settlement date:	March 31
General meeting of shareholders:	June
Dividend entitlement date:	March 31
Interim dividend entitlement date:	September 30
Transfer agent:	UFJ Trust Bank Limited 4-3, Marunouchi 1-chome, Chiyoda-ku, Tokyo
Agent's office:	Securities Division, Osaka Branch, UFJ Trust Bank Limited (Contact): 6-3, Fushimi-cho 3-chome, Chuo-ku, Osaka 541-8502 Phone: +81-6-6229-3011
Handling offices:	UFJ Trust Bank Limited Head Office and branches nationwide
Stock exchange listed:	Osaka Securities Exchange Nippon New Market-Hercules
Newspaper for public announcements:	The Nihon Keizai Shimbun F&M Co., Ltd. discloses its Balance Sheet and Statements of Operations on its website (<a href="http://www.fmltd.co.jp/ir/accou
nts/index.htm">http://www.fmltd.co.jp/ir/accou nts/index.htm).

*Request for registration forms can be made by phoning the following numbers or via the internet:

Phone (toll-free: available only within Japan)
0120-24-4479 (Securities Division, Tokyo Head Office)
0120-68-4479 (Securities Division, Osaka Branch Office)

Disclaimer: The F&M Group does NOT guarantee the outcome of the forecasts for full-year business performance and other forward-looking statements in this Report, as they may be influenced by various factors, including but not limited to unforeseeable changes in the economic climate.

Please access the website for further information. URL <http://www.fmltd.co.jp>

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