F&M CO.,LTD.

F&M CO., LTD.

Semi Annual Business Report

(April 1, 2004 to September 30, 2004)

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Listed company: 4771

We will ensure the recovery trend attained in the term to sustain, by generating synergies of business operations through expanding market with new businesses.

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

First-Half Operating Environment and Performance

We are steadily making progress in improving towards "profit generating structure"

In the first half of the year, our group further strived for further strengthening group wide low cost operations as well as enhancing our marketing activities in the core businesses, the same as the previous term, to advance improvement towards "profit generating structure."

As a result, we attained consolidated sales of 1,759 million yen (up 4.8% y/y), operating income of 65 million yen, ordinary income of 32 million yen and net income of 26 million yen in the first half of the year. The figures after operating income improved significantly compared to the first half of the previous year which recorded loss. Parent F & M Co., Ltd recorded significant earnings recovery with sales of 1,442 million yen (1,593 million yen in the first half of the previous year), operating income of 160 million yen (21 million yen in the first half of the previous year), ordinary income of 125 million yen (12 million yen in the first half of the previous year) and net income of 80 million yen (20 million yen in the first half of the previous year).

The brisk performance mainly owed to increase in membership of the Outsourcing Business (up 3,386 from the end of the previous year to 33,252), fully capitalizing the merit of the membership system business where sales increase directly leads to margin improvement.

On the cost front, while turning Challenger, Gray & Christmas K.K. into a consolidated subsidiary pushed up initial cost by around 200 million yen, it also contributed to reducing costs by over 200 million yen by covering cost increasing factors through reduction of SG&A expenses.

Although we attained smooth improvement in terms of earnings figures, we view that we are still at the stage of laying foundation for the term. In the future, we will further strengthen the foundation and proactively carry out management that could be stepping stones to make a further "leap."

New Business

We will launch the Voluntary Chain Business based on the unique concept, "Tax House"

One of the major plans implemented in the first half of the year is the launch of our new business "Tax House." We provide a wealth of expertise in accounting and bookkeeping services, and in consulting and marketing for the small to medium sized enterprises we have built up to date under the unified brand name called "Tax House" to tax accountants and chartered accountants at our offices. We have already

*"Voluntary Chain" means the system in which several member offices purchase, develop and advertise jointly while maintaining independency.

opened our first test office in Suita city, Osaka on 21 July 2004.

"Tax House" primarily aims for co-sharing the company's wealth of expertise among member offices and enhancing "Tax House" brand power through joint advertisements and others. In this sense it may be more appropriate to call the business VC (Voluntary Chain*).

Through the "Tax Houses" brand, we intend to develop shops as "local community oriented offices where customers consult any issues with ease" by wiping out conventional image of tax accounting and chartered accounting offices. In the future, we aim to turn them into "one-stop financial shops" where clients can consult and purchase various financial products.

Subsidiaries Business

We expect new business development in which each company can exercise its strength to response to the change in clients' needs

One year has passed since incorporating Challenger, Gray & Christmas K.K into a consolidated subsidiary. In the meantime, in the Outplacement (reemployment support) industry, restructuring of large scale companies appears to have run its course and large scale projects we used to receive are declining. Under these slightly severe business circumstances, the company strived for making the most of its unique wealth of expertise and past accomplishments, and establishing stable earnings base by accumulating repeat orders and focusing on training business which is less affected by the market situation. Consequently, the company recorded consolidated sales of 281 million yen in the first half of the year.

While the economic climate is said to be improving, the unemployment rate is still trending at high level and the outplacement business that meets the needs for those seeking re-employment is expected to be even more important in the future. In addition, we expect the use of outplacement companies to increase not only for restructuring but also for resolving so-called "mismatch" situation in which employees cannot perform to the best of their potential because they cannot adapt to their work environment. Challenger, Gray & Christmas K.K. has strength in HR consulting from a comprehensive perspective including the wealth of expertise in detailed counseling and career and life -planning workshop and is expected to further exercise its strength. We believe that the company will contribute to the group' s earnings performance.

In addition, F&Mnet Co., Ltd. which primarily engages in system development operations also saw new development. Until the previous term, the company had much larger role as an information system segment for F & M Group, but entering the first half of the year, it increased orders from companies outside the Group as it developed the system to provide customer management and accounting systems accumulated inside the Group.

In the future, we intend to provide various solutions to the small and medium sized enterprises, the main client target of the Group, driven by the proliferation of broadband connections.

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Message to Shareholders and Investors

We endeavor to pass on our profits to our shareholders and investors by enhancing enterprise value through further expansion.

Although we have made more solid foundation for earnings performance, we understand that we have not yet sufficiently passed on our profits to our shareholder and investors.

We view that the basic policy of returning profits to shareholders based on our enterprise scale is, first of all, "enhancing enterprise value by increasing earnings." We believe that we need to boost our group value in the stock market by sustaining and accelerating our growth in order to meet expectations of shareholders and investors.

While we believe that stable dividend payment is also an important agenda, our groups is still rather small in size and thus it is more important to balance between profit return to customers including dividends and retaining reserves for the future growth, as the market expects us to realize further growth.

Compared with major companies, we cannot deny that our financial standings are not strong yet. We also expect the management environment to rapidly change in the future. Accordingly we believe that it is too early for us to set target figures such as dividend payout ratio and others. We intend to proactively work on profit return to shareholders and investors, considering our business performance and financial standings at each term, and investment plans for future businesses. Your further understanding and support will be highly appreciated.

Results by Segment

The group's two core businesses are the Outsourcing Business and the F&M Club Business. In the Outsourcing Business, we tapped into other business fields, based on bookkeeping services targeting life insurance sales agents. In the F&M Club Business, we provide high value added services in a wide range of areas including personnel, education, finance and accounting as back office support services targeting small and medium sized enterprises.

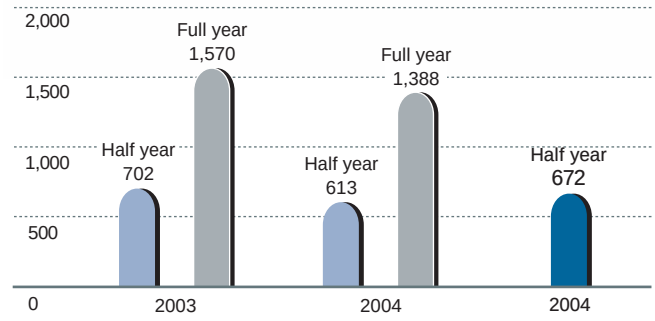
Outsourcing Business

Overview of first half of the year

In the first half of the year as well as the previous term, both the number of members and sales continued increasing thanks to strengthening marketing activities.

We worked on enhancing our marketing activities to increase membership further and in the bookkeeping services targeting life insurance sales agents. We also strived to increase membership in the bookkeeping services targeting small proprietors and small sized firms other than life insurance sales agents, by specializing in certain business fields and expanding the area of service coverage. We also worked on establishing the wealth of expertise in marketing and bookkeeping for the future development into other business fields. As a result, the membership as of the term-end (end-September 2004) continued increasing to 33,252, an increase of 3,386 from the end of the previous year. The membership other than life insurance sales agents increased 300 compared to the end of the previous year, to 805. Accordingly, sales in the Outsourcing Business in the term increased 9.7% y/y to 672 million yen.

Sales trend by business (¥ million)



Future prospects

We expect the growth backed by monopolizing the market and expanding earnings upon collaboration with new businesses.

Although total number of life insurance sales agents is expected to decline in the future, we expect to attain a certain level of growth in the business as we are steadily monopolizing the market. In addition, we intend to proactively working on expanding the business for sole proprietors and small firms other than life insurance sales agents together with developing "Tax House" business in the future (Please refer to p.5 for details).

F&M CO.,LTD.

Group Subsidiaries

Challenger, Gray & Christmas K.K.
F&M net CO., LTD.
Japan Insurance

Outsourcing Business

Customers: Sole proprietors

Accounting service
Tax House

F & M Club Business

Customers: SMEs

Consulting for general affairs and administrative divisions and various examination services
ISO certification acquisition support services

Outplacement Support Business

Customers: Individuals who resigned before retirment age

Reemplayment assistance
Training etc.

F & M Club Business

Overview of first half of the year

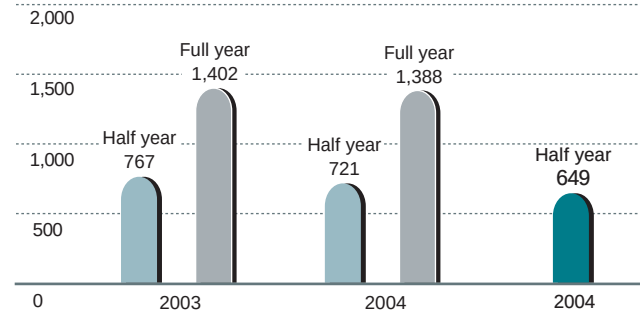
We provide new services including providing financial information feeding services based on our clients' needs.

We focused on accelerating the number of member companies and to create even higher added values in the F&M Club Business in the term. We reviewed our existing customer follow-up system and engaged in activities to improve contract renewal rate and to increase the number of companies introduced by member companies through increasing meetings with member companies.

In addition, we engaged in marketing activities and promoted new services based on needs of our customers, small and medium sized enterprises, including the launch of financial information feeding services by collaborating with local financial institutions.

Consequently, the membership as of the term-end (end-September 2004) increased by 22 compared to the end of the previous year, to 4,563, generating total segment sales of 649 million yen (down 10.0% y/y)

Sales trend by business (¥ million)



Future prospects

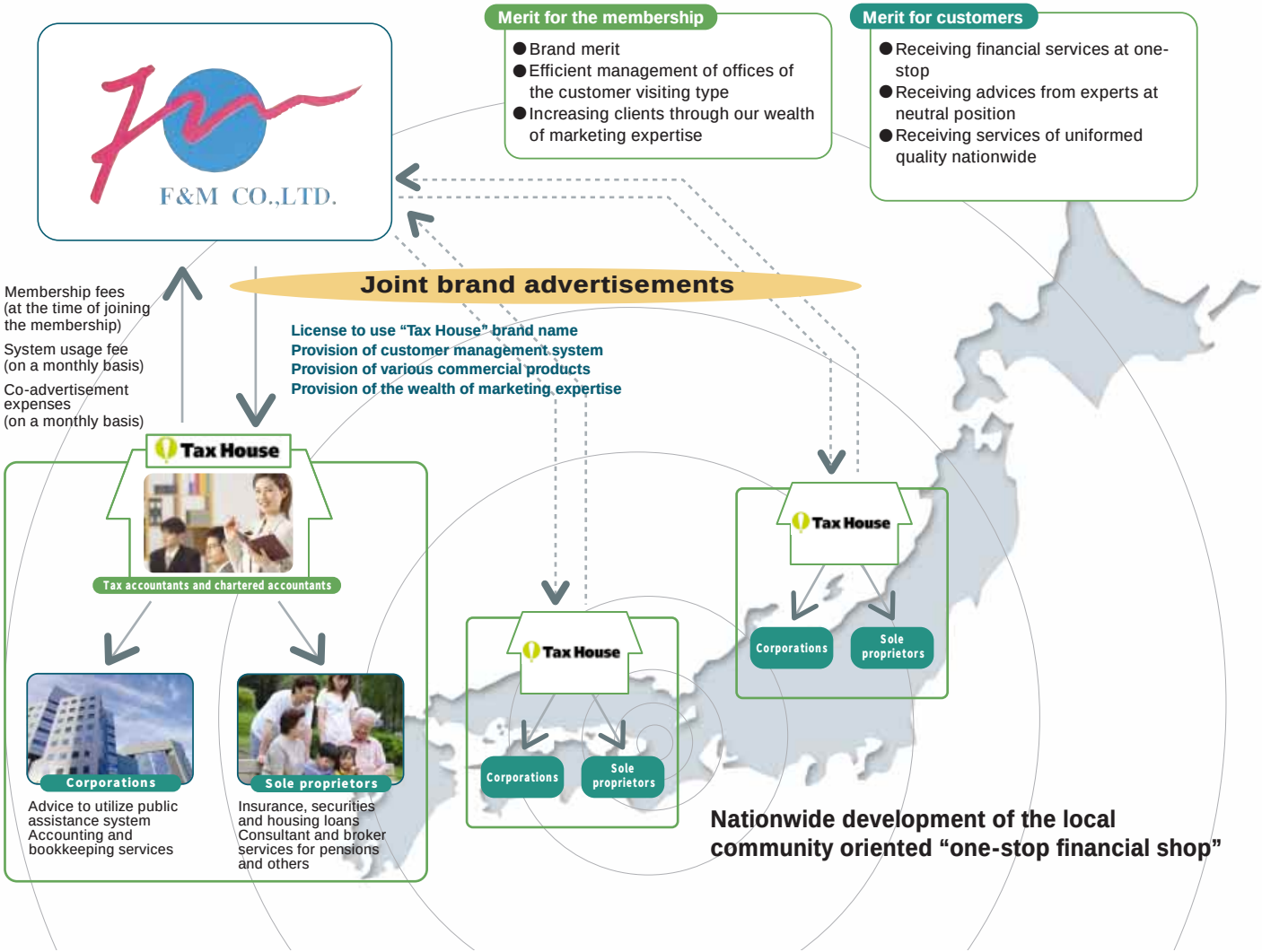
Client base is steadily expanding as "joint purchasing services agent."

Our customer base, small to medium sized enterprises, is steadily expanding as we are enhancing our service line-ups. We will continue expanding and strengthen our position as "agent for joint purchasing services." In addition, we expect earnings to improve in the future as our business opportunity is expected to expand thanks to steady increase in business partners such as local financial institutions.

Support for new business for tax accountants and chartered accountants “Tax House” office development

We provide the wealth of expertise in accounting and bookkeeping services, and in consulting and marketing for the small to medium sized expertise, which we have built up over the years, to tax accountants and chartered accountants. We will set up offices under our “Tax House” brand on nation wide.

One-stop financial shop, “Tax House”



Characteristics of the business

As local community oriented "one-stop financial shop"

With the "Tax House" business, we aim to provide "one-stop financial shop" based on concepts such as "place where customers find easy to visit," "environment where customers consult issues at one-stop" and "quality of services with which customers can relay on without concern." We aim to bring in many clients to our offices by wiping out the existing "difficult to visit" image of certified accountant offices. We opened our first trial office in Suita city in Osaka on 21 July 2004 and are preparing for recruiting member offices which is scheduled to start in December 2004, by discussing on improving our brand power for the future business development and fact-finding for office management know-how.

The role of F & M Co., Ltd.

F & M Co., Ltd. takes headquarters' role of the Voluntary Chain business (Please refer to p.2). It provides license to use "Tax House" brand to tax accountants and chartered accountants and provides marketing training to acquire customers and customer management system which are essential for office management. In addition, we enhance our brand power through co-advertisements on various media.

Merit for member offices

With "Tax House" brand and new office format, member offices can take in new customers including sole proprietors and small firms, which are different from existing client bracket, through new store front. The member offices can also receive excellent products and efficient operational system from F & M, the headquarter of VC.

Merit for users

Users can receive a wide range of services from tax return declaration to financial planning at one stop.

Business Strategies

We aim to open 1,000 offices in three years by absorbing new agendas

We target to open 1,000 offices in three years for upcoming development of "Tax House". However, we intend to not only increase the number of offices but also expand the business by solving issues such as brand penetration and service line-ups.

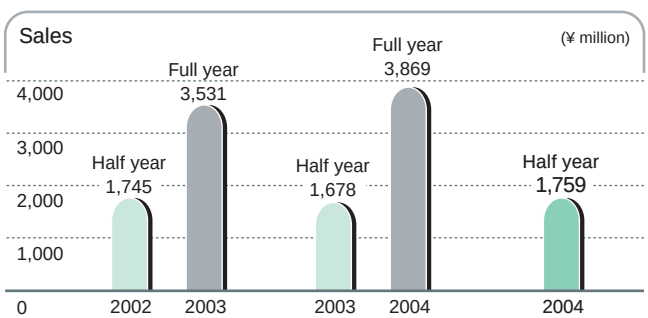
For example, consumer tax exemption level was lowered from sales of 30 million to 10 million yen, effective from this year, consequently creating over 1.4 million new taxable business enterprisers nationwide. The bracket of enterprisers which had little to do with certified tax accountant offices will newly emerge in the market. Our local community oriented "Tax House" will provide such bracket of enterprises with the environment where they can visit and consult with ease. We will also establish "one-stop financial shop" considering that "income tax returns of salary earners are likely to be mandatory" in the future.

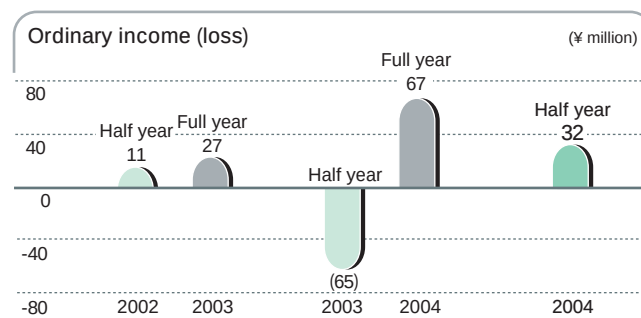
Financial Highlights

Consolidated

(¥ million)

	2002 (Sep. 30, 2002)	2003 (Mar. 31, 2003)	2003 (Sep. 30, 2003)	2004 (Mar. 31, 2004)	2004 (Sep. 30, 2004)
Sales	1,745	3,531	1,678	3,869	1,759
Ordinary income (loss)	11	27	(65)	67	32

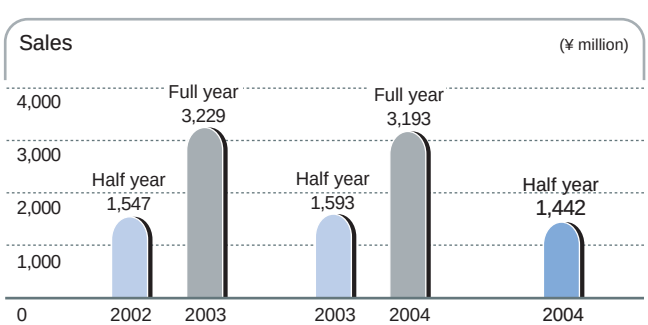


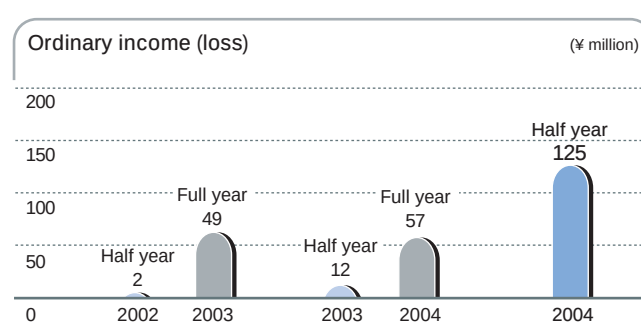


Non-consolidated

(¥ million)

	2002 (Sep. 30, 2002)	2003 (Mar. 31, 2003)	2003 (Sep. 30, 2003)	2004 (Mar. 31, 2004)	2004 (Sep. 30, 2004)
Sales	1,547	3,229	1,593	3,193	1,442
Ordinary income (loss)	2	49	12	57	125





Consolidated Financial Statements

Balance Sheet Highlights

(¥ thousand)

Item	Sept. 30, 2004	Sept. 30, 2003
Assets		
Current assets	1,335,396	1,476,382
Noncurrent assets	3,894,425	4,064,327
Tangible fixed assets	1,974,174	2,054,042
Intangible fixed assets	252,340	377,757
Investments and other assets	1,667,909	1,632,528
Deferred assets	60,581	15,100
Total assets	5,290,403	5,555,810

(¥ thousand)

Item	Sept. 30, 2004	Sept. 30, 2003
Deferred assets		
Current liabilities	1,284,724	1,788,820
Long-term liabilities	1,879,469	1,569,208
Total liabilities	3,164,193	3,358,029
Deferred assets		
Minority interests	218,361	270,123
Deferred assets		
Capital stock	826,000	826,000
Capital surplus	1,044,700	1,044,700
Retained earnings	165,798	178,396
Net unrealized losses on available-for-sale securities	(57,319)	(50,107)
Treasury stock	(71,330)	(71,330)
Shareholders' equity	1,907,848	1,927,657
Total liabilities, minority interests and shareholders' equity	5,290,403	5,555,810

Statement of Operations Highlights

(¥ thousand)

Item	Sept. 30, 2004	Sept. 30, 2003
Sales	1,759,562	1,678,688
Cost of sales	648,737	450,235
Gross margin on sales	1,110,824	1,228,452
Selling, general, and administrative expenses	1,045,484	1,249,243
Operating income	65,340	–
Operating income (loss)	–	20,840
Non-operating revenue	5,474	14,048
Non-operating expenses	38,416	58,510
Ordinary income	32,398	–
Ordinary income (loss)	–	65,302
Extraordinary gain	–	1,539
Extraordinary losses	51,200	18,280
Loss before income Taxes	18,801	82,043
Income taxes – current	22,557	3,870
Income tax – deferred	(19,928)	(11,463)
Minonty interests	48,198	10,168
Net loss	–	64,281
	26,767	–

Cash Flow Highlights

(¥ thousand)

Item	April 1, 2004 to Sept. 30, 2004	April 1, 2003 to Sept. 30, 2003
Cash flows from operating activities	54,895	(124,957)
Cash flows from investing activities	(145,515)	(287,070)
Cash flows from financing activities	203,115	351,235
Effect of exchange rate changes on cash and cash equivalents	–	–
Increase in cash and cash equivalents	112,495	(60,793)
Cash and cash equivalents at beginning of the term	169,399	189,484
Balance in cash and cash equivalents at end of the term	281,895	128,691

Balance Sheet Highlights

(¥ thousand)

Item	April 1, 2004 to Sept. 30, 2004	April 1, 2003 to Sept. 30, 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	150,250	287,557
Increase in retained earnings	26,767	–
Decrease in retained earnings	11,220	109,161
Balance in retained earnings at end of the term	165,798	178,396

Non-Consolidated Financial Statements

Balance Sheet Highlights

(¥ thousand)

Item	Sept. 30, 2004	Sept. 30, 2003
Assets		
Current assets	1,000,686	1,089,473
Noncurrent assets	3,927,436	3,961,925
Tangible fixed assets	1,914,118	1,984,038
Intangible fixed assets	127,104	183,833
Investments and other assets	1,886,213	1,794,054
Deferred assets	60,581	15,100
Total assets	4,988,704	5,066,499

(¥ thousand)

Item	April 1, 2004 to Sept. 30, 2004	April 1, 2003 to Sept. 30, 2003
Deferred assets		
Current liabilities	1,081,086	1,531,016
Long-term liabilities	1,867,573	1,521,885
Total liabilities	2,948,659	3,052,901
Deferred assets		
Capital stock	826,000	826,000
Capital surplus	1,044,700	1,044,700
Retained earnings	297,994	264,336
Net unrealized losses on available-for-sale securities	(57,319)	(50,107)
Treasury stock	(71,330)	(71,330)
Shareholders' equity	2,040,044	2,013,598
Total liabilities, minority interests and shareholders' equity	4,988,704	5,066,499

Statement of Operations Highlights

(¥ thousand)

Item	Sept. 30, 2004	Sept. 30, 2003
Sales	1,442,266	1,593,304
Cost of sales	406,523	398,119
Gross margin on sales	1,035,742	1,195,185
Selling, general, and administrative expenses	875,591	1,173,619
Operating income	160,151	21,565
Non-operating revenue	4,705	19,930
Non-operating expenses	38,974	29,072
Ordinary income	125,882	12,424
Extraordinary gain	–	1,539
Extraordinary losses	43,484	2,476
Net income before income tax for the term	82,397	11,486
Income taxes – current	21,676	3,553
Income tax – deferred	(20,220)	(12,387)
Net income for the term	80,941	20,321
Unappropriated retained eamings brought forward	111,363	122,947
Transfer from legal reserve	–	13,878
Unappropriated retained earnings for the term	192,304	157,146

Company Outline

(as of Sep.30, 2004)

Established:	1990
Capital:	¥826 million
President:	Ichiro Morinaka
Employees:	202
Average age of employees:	31.8

Business Lines:	Bookkeeping services for sole proprietors, information provision service for small and medium-sized companies, ASP business operations
Offices:	Osaka Head Office, Tokyo Head Office, Nagoya Branch, Fukuoka Branch, Sendai Branch, and Sapporo Branch

Osaka Head Office

Stock Information

(as of Sep.30, 2004)

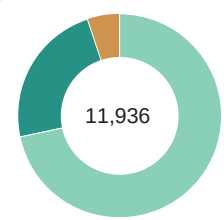
Number of shares authorized to issue:	42,000
Number of shares issued and outstanding:	11,936
Number of shareholders:	884

Principal shareholders

Name	Number of shares owned	Voting right (%)
Ichiro Morinaka	4,778	42.59
Flower Co., Ltd.	1,000	8.91
Message Co., Ltd.	1,000	8.91
Mikie Kudo	270	2.40
Osaka Securities Finance Co.	229	2.04
F&M Employee Shareholding	163	1.45
Satomi Teraoka	100	0.89
Sumitomo Life Insurance Campany (Special account)	100	0.89
Hiroaki Kobayashi	67	0.59
	61	0.54

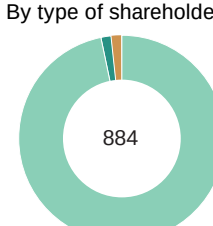
*Our company holds 716 treasury shares

By number of shares owned



- Individuals/others 8,552 (71.65%)
- Other companies 2,711 (23.2%)
- Financial institutions 611 (5.12%)
- Companies 2 (0.02%)

By type of shareholders



- Individuals/others 855 (96.72%)
- Other companies 14 (1.58%)
- Financial institutions 14 (1.58%)
- Companies 1 (0.11%)

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 (http://www.fmltd.co.jp/ir/accounts/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)
0120-244-479 (Securities Division, Tokyo Head Office)
0120-684-479 (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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Phone: +81-22-728-7844 Fax: +81-22-728-7855

Sapporo Branch:
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