Saison Information Systems Co., Ltd.

Annual Report 2003

Knowledge Creation Systems for Tomorrow

Profile

Saison Information Systems Co., Ltd., was established in 1970 as the information processing arm of the Seibu Retail Distribution Group, predecessor of the Saison Group, one of Japan's leading retail and financial services group. Since then, the Company has built up a niche position as a specialized provider of information solutions to companies in the retail distribution and financial services industries. Today, Saison Information Systems defines its mission as being to provide new information services that will pave the way for the "knowledge creation systems of the future." To this end, the Company is maximizing its distinctive capabilities to cultivate new clients and provide solutions that help companies in a wide range of industries expand opportunities and create new business models, based on the concept of "open and secure solutions."*

** Saison Information Systems developed the phrase "open and secure solutions" to describe its vision of the Company's future, which is to provide clients with solutions that integrate various functions and businesses, thereby providing ongoing support for the creation of intellectual assets.*

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Disclaimer Regarding Forward-Looking Statements

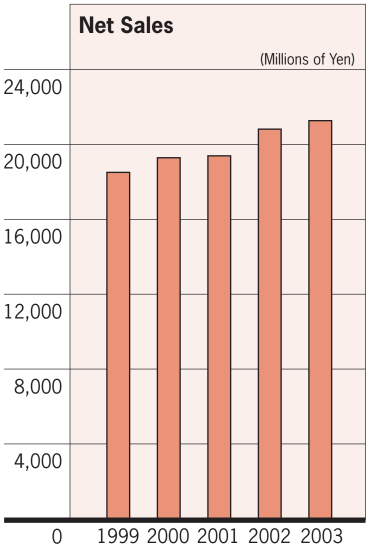
Statements contained in this annual report concerning plans, strategies and beliefs except for those based on historical fact are forward-looking statements and reflect rational judgments made by management based on information currently available. Owing to various uncertainties, actual results may differ materially from these forward-looking statements.

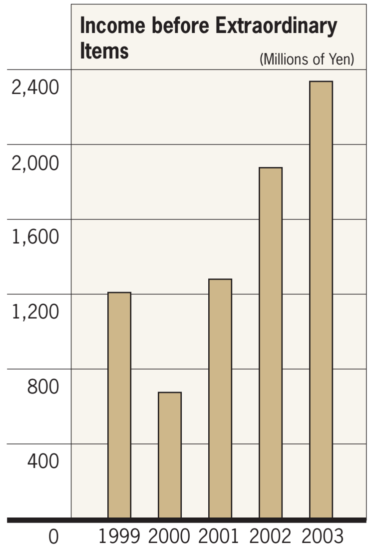
Financial Highlights

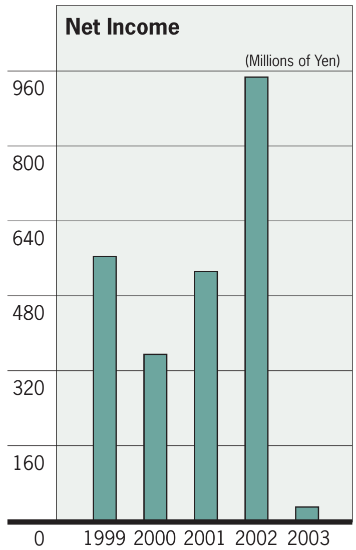
For the years ended March 31, 2003 and 2002

	Thousands of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2002	**2003**
For the Year:			
Net sales	**¥21,273,502**	¥20,820,129	**$176,984**
Income from operations	**2,298,882**	1,849,126	**19,125**
Income before extraordinary items	**2,337,525**	1,876,889	**19,446**
Net income	**29,817**	947,942	**248**
At Year-End:			
Total assets	**¥13,507,432**	¥14,816,152	**$112,374**
Total shareholders' equity	**7,135,813**	7,379,140	**59,366**
	Yen		U.S. Dollars (Note 3)
Per Share:			
Net income	**¥ 0.13**	¥117.04	**$0.00**
Cash dividends	**15.00**	15.00	**0.12**

Note: U.S. dollar amounts represent translations of yen amounts at the rate of ¥120.20=US$1, the approximate rate of exchange prevailing at March 31, 2003.







Our mission:
To provide new information services
that will pave the way for
the knowledge creation systems of the future

Although official efforts to promote investment in information technology (IT) is prompting companies to place a higher priority on enhancing IT capabilities, flagging economic conditions continue to encourage caution. This situation has been exacerbated by increasingly harsh competition in the marketplace. In this environment, Saison Information Systems remains committed to evolving and expanding, enabling it to fulfill its mission as Japan's first provider of open and secure solutions by offering innovative products and services and contributing to the development of the knowledge creation systems of the future.

The Year in Review

Harsh operating conditions prompted many of Japan's information services companies to revise performance forecasts downward in fiscal 2003, ended March 31, 2003, as orders fell and our efforts to slash fixed costs met with mixed results. We responded by stepping up efforts to reinforce our operating foundation. These efforts focused on increasing income by restructuring our operations—through, among others, the elimination of unprofitable businesses; ensuring a sound financial position and enhancing our infrastructure, namely, our human resources and security and technology capabilities.

Information processing, systems maintenance and other services provided on an ongoing basis account for approximately 60% of our consolidated net sales. During the period under review, we capitalized on the excellent, consistent reputation these services enjoy to secure new orders. As a consequence, we registered sales gains across this category. Our performance was further bolstered by brisk sales of *HULFT*, our high-margin, top-selling Transmission Control Protocol/Internet Protocol (TCP/IP)-based communication middleware package, as well as ongoing efforts to improve operating efficiency and minimize selling, general and administrative (SG&A) expenses. While consolidated net sales edged up 2.2%, to ¥21.2 billion, income before extraordinary items climbed 24.5%, to a record ¥2.3 billion, equivalent to 11.0% of net sales, up sharply from 3.5% just three years earlier and significantly higher than the industry average of 6.0%. We see this improvement primarily as the outcome of the income-oriented strategic approach that has guided us in recent years.

Looking Ahead

The management of Saison Information Systems will continue to place a high priority on reinforcing the Company's operating foundation by increasing income, ensuring a sound financial position and enhancing infrastructure. Brisk sales of the *HULFT* series, supported by the release of two new products, *HULFT5 for ACOS* and *HULFT6*, and a major financial systems solutions order are expected to bolster income. We will also strive to bolster sales of *Bulas*, *ICHIBAN-TEN* and other outsourcing services by expanding efforts to cultivate new clients. The introduction of a voluntary transfer program in May 2003 and the return of the company-paid portion of the employees' pension fund to the government—a result of public pension reform in Japan—in the second half of the period will contribute to efforts to more effectively position human resources.

In line with our commitment to the concept of open and secure solutions, we will continue to provide new information services that will pave the way for the knowledge creation systems of the future. At the same time, we will work to maximize shareholders' equity and strengthen competitiveness by ensuring steady growth in income and a solid operating foundation. In these and other efforts, we look forward to the continued support of all stakeholders.

October 2003

Tadao Joyama

Tadao Joyama
Chairman

Kazuo Kura

Kazuo Kura
President

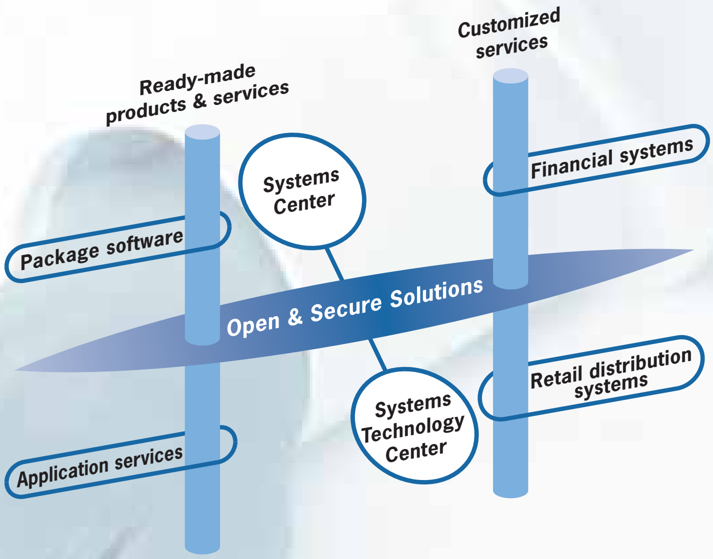
Q. The Company recorded a significant extraordinary loss in fiscal 2003. To what was this attributable?

A. Saison Information Systems previously held 1,500,000 shares in the Seibu Department Stores, Ltd., valued at ¥1.9 billion. On February 26, 2003, all relevant creditors of the Seibu Department Stores decided to provide the company with financial assistance upon the completion of a reorganization plan under the Guideline for Multi-Creditor Out-of-Court Workouts. A subsequent revaluation of our shares in the Seibu Department Stores reduced the value of our 1,500,000 shares in the company to ¥30 million, or ¥20 per share—prompting a one-time loss of ¥1.9 billion. An obligatory capital reduction in May 2003 lowered our holding to 150,000 shares, valued at ¥30 million, or ¥200 per share. We were also obliged to revalue shares in banks and other companies at fiscal year-end. As a consequence, we registered a loss on write-down of investments in securities—which also includes the carrying amount on the balance sheets—of ¥2.0 billion.

On the positive side, this loss prompted decreases in total assets and total shareholders' equity, as a result of which the equity ratio improved to 52.8%, up 3.0 percentage points from the fiscal 2002 year-end. We also reduced the proportion of risky assets in our portfolio, meaning that future efforts to bolster earnings will also strengthen our operating foundation.

The reorganization plan arranged for the Seibu Department Stores contains several elements that are likely to have a negative impact on our earnings going forward. These include the liquidation of certain affiliated companies of the Seibu Department Stores, store closures, staff reductions and the integration of the information systems of the Millennium Retailing Group—created through the consolidation of the businesses of the Seibu Department Stores and Sogo Co., Ltd., in June 2003. Nonetheless, we believe that the potential for damage is significantly less than it would have been had creditors not agreed to a solution under the Guideline for Multi-Creditor Out-of-Court Workouts and the Seibu Department Stores' been forced to file for protection from creditors.

The Seibu Department Stores remains a valued client. We are confident that the progress of reorganization efforts will eventually lead to a recovery in the Seibu Department Store's information-related investment, and we look forward to continuing to work with the company.



Q. What strategies are you implementing to cope with the current harsh operating environment?

A.

We strive to act as a partner for existing clients, and to tailor solutions to their specific needs. At the same time, we endeavor to maximize our accumulated expertise to develop new products and services that will enable us to cultivate new clients. Accordingly, for strategic planning purposes we group our operations into two categories, each of which encompasses two businesses.

The first category—ready-made products and services—comprises package software, such as our mainstay *HULFT* series, and application services, including outsourcing services such as *Bulas*, an outsourced payroll service that we expect to evolve into a new profit pillar, and *ICHIBAN-TEN*, a comprehensive outsourced service designed primarily for supermarkets. We expect ready-made products and services to play an increasingly crucial role in efforts to cultivate new clients, and thus plan to step up investment in product and service development and accelerate new launches.

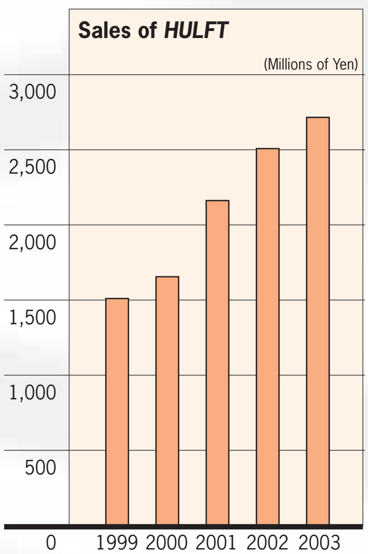
Our second operating category is customized services. We develop systems integration, outsourcing and a broad range of other solutions tailored to the specific needs of clients. Traditionally the backbone of our operations, this category focuses on financial systems, notably those for credit card companies, and retail distribution systems, primarily for department stores and supermarkets. Our capabilities in these areas reflect a wealth of experience and expertise in the financial and retail distribution fields accumulated over the years since our establishment. We will continue to build on this experience and expertise—our key competitive advantages—and to improve cost effectiveness to reinforce our operating foundation and ensure stable income in both businesses.

These categories and businesses are supported by our Systems Center, which processes important client data, and our Systems Technology Center, which is responsible for research and product development.

Q. Tell us about *HULFT*. What differentiates it from other products and how will you expand this series in the coming years?

A.

HULFT is a middleware package developed and marketed by Saison Information Systems to accommodate the rapid move toward open networks. *HULFT* enables automatic, seamless file transfers using TCP/IP across mainframe, UNIX, Linux, midrange and Windows PC platforms. Our impartial position—we are not affiliated with computer manufacturers or software vendors—and multivendor responsiveness, as well as *HULFT*'s value-added features, such as character code interchanging, file compression and high security, have earned both us and the product a solid reputation from clients. As of the fiscal 2003 year-end, we had sold cumulative total of 50,000 units to approximately 3,000 companies, mostly in Japan, making us the unchallenged market leader. Indirect distribution channels—comprising 72 approved agents in Japan and system integrators selling our products on a spot basis—accounted for 90% of all *HULFT* distribution channels.



Recent achievements include the addition of two new products. In March 2003, we introduced *HULFT5 for ACOS*, with the aim of cultivating new clients, primarily federal government ministries and local government offices—the majority of which use mainframes manufactured by NEC Corporation. The following month, we launched an updated version of our top-selling *HULFT6*. We are also cooperating with other firms to develop IT solutions in such areas as storage area networks (SANs), messaging, digital document distribution, business intelligence (BI) and system management tools.

To accommodate the increasing number of Japanese firms establishing operations elsewhere in Asia, in April 2002 we opened a *HULFT* support service center in Hong Kong, in cooperation with the TIS Group, a Tokyo-based IT service provider. As a result, our *HULFT* support network in the region now covers eight locations. In February 2003, NTT DATA Corporation, a leading Japanese systems integrator, began providing its Credit Data transfer System (CDS)—an online sales and credit card information transmission service provided to credit card companies and member merchant outlets—with *HULFT* compatibility.

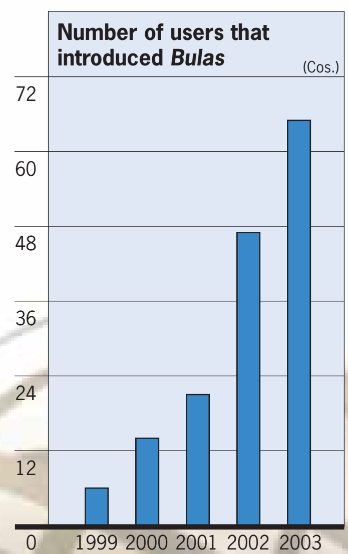
HULFT6

Going forward, we plan to make *HULFT6* with extensible markup language (XML) and Internet Protocol Version 6 (Ipv6) compatibility, to promote expanded use for business-to-business (B2B) applications. We will also introduce net installer functions, facilitating use with automated teller machines (ATMs) and other backbone networks and enabling us to foster new and repeat orders from existing clients. *HULFT* versions for ACOS and Linux will position us to cultivate demand in the public sector. We will actively solicit input from clients to facilitate the development of products that accommodate new technologies. Over the medium term, we expect to see sales of the *HULFT* series increase by approximately 13%. Growth in sales of *HULFT*, which boasts a gross profit margin of 74%, will play a key role in efforts to boost overall income.

Q. What about *Bulas*?

A.

Bulas is an outsourced payroll service for businesses that we introduced in 1998. *Bulas* is actually based on the payroll systems we have provided for the Saison Group since our establishment in 1970. Our Systems Center processes payroll information received from a client's personnel department and delivers payslips—either hard copies or portable document format (PDF) files—on the day it is advised of required payments. If given the authority, we will also deliver payslips directly to employees on behalf of the personnel department and respond to any questions from employees. We will also work with social insurance labor consultants and liaise with government authorities as required. The benefit for clients is that outsourcing noncore, support functions such as payroll allows them to focus on core strategic businesses. In this way, *Bulas* is really a business process outsourcing (BPO) service.



Japan's market for BPO services is still young compared to those of Europe and North America, and many companies are still hesitant to take advantage of services like *Bulas*. That said, interest is definitely rising as companies recognize payroll and personnel outsourcing services as a way to reduce, for example, the time and cost needed to handle regulatory compliance procedures in-house—resources that can then be allocated to core businesses. According to Gartner Japan, Ltd., part of the Gartner, Inc., IT consulting and research group, Japan's BPO services market has risen approximately 18% annually since 1999 and is expected to reach ¥1.4 trillion in 2004—more than double the size it was in 1999.

We will continue working to build *Bulas* into a leader in the BPO services market. Our principal competitors at present are bank-affiliated IT service firms and recruiting agencies. As of the end of fiscal 2003, 65 companies had introduced *Bulas*, positioning us well to capitalize on emerging demand. To facilitate efforts to foster new clients and strengthen profitability, we have made the decision to invest in a new support system, which we expect to be operational in fiscal 2005. Our costs will rise sharply during the development and changeover period, as we will continue to operate the existing system, but we expect income to recover rapidly in fiscal 2006—once we have switched entirely to the new system—and continue growing thereafter.

Q. How are you growing your financial services and retail distribution services businesses? What is your outlook for these businesses?

A. In the financial services business, we have been contracted by Credit Saison, Ltd., to create and operate a comprehensive information system that also encompasses the company's database of information on 14.9 million holders of the Saison Card—the leading credit card in Japan in terms of the number of active cards.

The system links Credit Saison with merchants, cash dispensers, ATMs, major international credit card firms with which the company has dual-issue agreements, namely Visa, MasterCard, Japan Credit Bureau (JCB) and American Express (AMEX), affinity card issuers, banks, Japan Post, other credit card firms and credit rating agencies, providing comprehensive support for the company's credit card business, from credit evaluation to sales, invoicing, payment and collection. With Credit Saison continuing to expand its operations, service menu and ties with other firms, we anticipate continued demand for system construction. We are also capitalizing on our accumulated expertise in this area to develop an installment payment collection system.

In the retail distribution business, we are currently building and managing a variety of systems for department stores, general merchandise stores, specialty shops, convenience stores, drugstores, restaurants and other clients.

In recent years, we have expanded efforts to apply our accumulated expertise in the retail distribution business to the development of a general-purpose system for marketing on an application services provider (ASP) basis as outsourced services. Of particular note is *ICHIBAN-TEN*, developed for supermarkets, and *New ICHIBAN-TEN*, an updated version for use in open networks, which offers broad scope for expansion and which we expect to grow into one of our core outsourcing products.

Q. What is your client portfolio development strategy and how do you see this evolving in the future?

A. Each company in the Saison Group has formulated a new plan for capitalization, as a consequence of which the framework of the Group has relaxed considerably. For us, this will mean a change in the way we evaluate our sales. In other words, rather than calculating sales to Group companies versus sales to external clients, we will look at sales to our four biggest clients—Credit Saison, the Seiyu, Ltd., the Seibu Department Stores and Sogo—and sales to other clients.

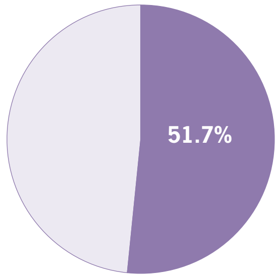
In addition to cultivating new outsourcing service orders from existing clients, we will strive to attract new clients by stepping up marketing of core products and services, such as the *HULFT* series, *Bulas* and *ICHIBAN-TEN*. Clients other than the four companies listed above currently account for 43.3% of consolidated net sales. Our goals are to boost sales 14% annually and for these companies to account for 52.0% of consolidated net sales by 2006.

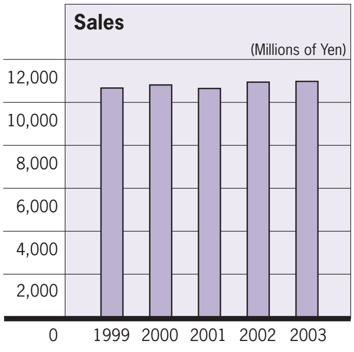
Saison Information System's principal strengths are its 30 years of accumulated experience and expertise in the retail distribution and credit card businesses and such market-leading niche products as *HULFT*. We will continue to maximize these strengths to achieve steady growth in our outsourcing services business. At the same time, we will focus on establishing new business and capital alliances and developing new products and services to attract orders from new clients.

Information Services

INFORMATION PROCESSING SERVICES

Share of Net Sales





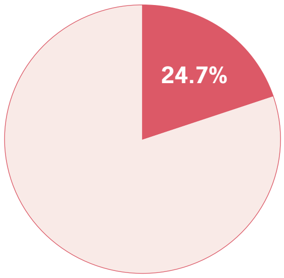
Information processing services encompass contracted computer calculation and computer system operation, data input/output, business operation proxy services, data communications and Internet services. Despite higher sales of *Bulas*, an outsourced payroll service, and *ICHIBAN-TEN*, a comprehensive outsourced service primarily for supermarkets, and firm sales in our financial systems business, flagging sales of other services to existing clients held sales in this area to a 0.3% increase, to ¥10.9 billion. Efforts to improve the efficiency of computers and other equipment contributed to an 11.8% increase in gross profit, to ¥2.5 billion, boosting the gross profit margin 2.4 percentage points, to 23.5%.

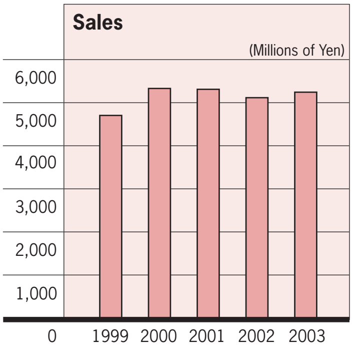
Note: Until fiscal 2002, Information Services included information processing services, software development, package software sales and communications services. As communications services lacks a strong, independent presence, however, effective from fiscal 2003 it has been divided into two components: data communications, which has been incorporated into information processing services, and network construction, which has been included in software development. As well, sales of package software from other developers, previously part of package software sales, has been shifted to systems/equipment sales. Figures for previous periods have been restated to facilitate comparison.

SOFTWARE DEVELOPMENT

Software development includes contracted software development, system maintenance services and local-area network (LAN) construction. A major new project order in the financial services field contributed to a 5.8% increase in orders received, to ¥5.2 billion, prompting a 2.5% increase in the balance of orders, to ¥995 million. Sales in this area advanced 2.5%, to ¥5.2 billion. Although we significantly reduced works in progress, successful efforts to secure new clients for *Bulas* necessitated an increase in outsourcing costs for the development of customized services, pushing gross profit down 6.4%, to ¥594 million. As a consequence, the gross profit margin slipped 1.1 percentage points, to 11.3%.

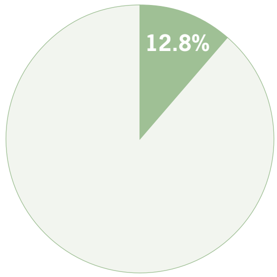
Share of Net Sales

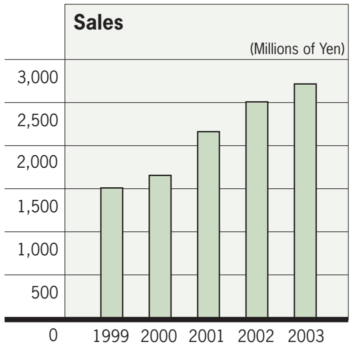




PACKAGE SOFTWARE SALES

Share of Net Sales



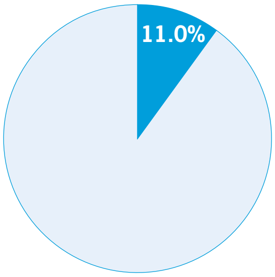


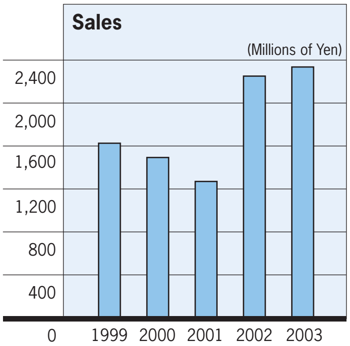
Package software sales comprises sales of products developed in-house. In fiscal 2003, sales of mainstay *HULFT5* were brisk, particularly to the manufacturing and retail distribution industries. Orders from the public sector also rose. Orders received during the period rose 6.8%, to ¥2.6 billion. Owing to a change in our basis for recording sales—to shipping point from client's inspection point—the balance of orders dropped 85.0%, to ¥6 million. Nonetheless, sales in this area advanced 8.3%, to ¥2.7 billion. Although outsourcing costs rose, owing to efforts to reinforce product development and strengthen call center functions, a decline in work in progress supported a 1.9% increase in gross profit, to ¥2.0 billion. As a consequence of higher sales, however, the gross profit margin slipped 4.7 percentage points, to 74.0%.

SYSTEMS/ EQUIPMENT SALES

Systems/equipment encompasses the sale and maintenance of procured hardware and software. In the period under review, we secured a major order from a client in the financial services sector and registered an increase in sales of middleware solutions-related products from other developers. This and other factors supported a 3.8% increase in sales, to ¥2.3 billion. Gross profit rose 6.6%, to ¥277 million. The gross profit margin edged up 0.3 percentage point, to 11.9%.

Share of Net Sales





Saison Information Systems views transparency and accountability to shareholders and other stakeholders as the cornerstones of corporate governance. To enhance our performance on both counts, we are reinforcing the capabilities of our Board of Directors and auditors by appointing individuals from outside the Company, thereby ensuring an effective governance system and adequate disclosure. In fiscal 2003, we increased the number of external auditors by one, to three.

We are also taking steps to enhance compliance and strengthen our ability to manage risk in all aspects of our operations. These efforts are spearheaded by our risk management committee, which was established in fiscal 2002.

Board of Directors

Chairman

Tadao Joyama*

President

Kazuo Kura*

Senior Managing Director

Toshiyuki Furuta

Managing Directors

Yoshio Futagawa

Minoru Itakura

Directors

Keisuke Tanabe

Fumio Nagasawa

Shoji Kondo

Taisuke Kishi

Hiroo Notsu

Masahisa Kubota

Shinji Nishikawa

Makoto Kasai

Toshiharu Yamamoto

Kazuhiko Adachi

Standing Statutory Auditors

Takeshi Kokubu

Masayoshi Ohtake

Statutory Auditors

Yoshiaki Yonekura

Junichi Yamamoto

Shigeru Miki

*Representative Directors

Six-Year Financial Summary

For the years ended March 31, 2003, 2002, 2001, 2000, 1999 and 1998

Thousands of Yen

	2003	2002	2001	2000	1999	1998
For the Year:						
Net sales	**¥21,273,502**	¥20,820,129	¥19,393,044	¥19,291,874	¥18,509,662	¥18,505,918
Income from operations	**2,298,882**	1,849,126	1,263,462	662,542	1,187,620	892,359
Income before extraordinary items	**2,337,525**	1,876,889	1,280,665	675,922	1,209,260	909,979
Net income	**29,817**	947,942	532,857	355,348	564,956	453,894
Net cash provided by operating activities	**1,325,774**	1,852,800	1,660,669	992,138	—	—
Net cash provided by (used in) investing activities	**(921,070)**	(2,453,231)	1,835,586	(497,869)	—	—
Net cash provided by (used in) financing activities	**(121,485)**	(121,990)	(707,194)	406,440	—	—
Free cash flows	**404,704**	(600,431)	3,496,255	494,269	—	—

Yen

	2003	2002	2001	2000	1999	1998
At Year-End:						
Total assets	**¥13,507,432**	¥14,816,152	¥14,787,326	¥10,915,525	¥10,056,147	¥ 9,083,880
Total shareholders' equity	**7,135,813**	7,379,140	6,593,460	6,096,167	5,863,084	5,236,634
Per Share:						
Net income	**¥ 0.13**	¥117.04	¥ 65.79	¥ 43.87	¥ 69.75	¥ 56.05
Shareholders' equity	**877.52**	911.12	814.06	752.66	723.84	646.66
Cash dividends	**15.00**	15.00	15.00	12.00	12.00	10.00
Other Information:						
Return on sales (ROS) (%)	**11.0**	9.0	6.6	3.5	6.5	4.9
Return on equity (ROE) (%)	**0.4**	13.6	8.4	5.9	10.2	—
Return on assets (ROA) (%)	**16.5**	12.7	10.0	6.4	12.6	—
Equity ratio (%)	**52.8**	49.8	44.6	55.8	58.3	57.6
Number of employees	**788**	767	707	711	—	—
Net sales per employee (Yen)	**27,361**	28,249	27,352	—	—	—

Notes: (1) ROS = Income before extraordinary items ÷ Net sales x 100
(2) ROE = Net income ÷ Average total shareholders' equity x 100
(3) ROA = Income before extraordinary items ÷ Average total assets x 100
(4) Equity ratio = Total shareholders' equity ÷ Total assets x 100
(5) Net sales per employee = Net sales ÷ Average number of employees

Overview

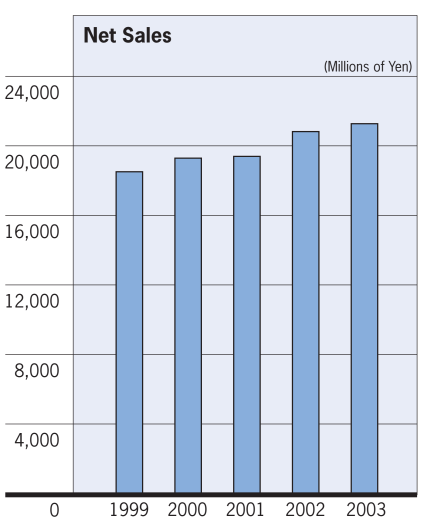
The Japanese economy remained sluggish in fiscal 2003, ended March 31, 2003, reflecting slack capital investment and consumer spending and persistently low stock prices. In the information services sector, companies faced increasingly harsh conditions as an increasing number of companies reassessed IT investment plans, while the entry of competitors from other fields into the market intensified competition.

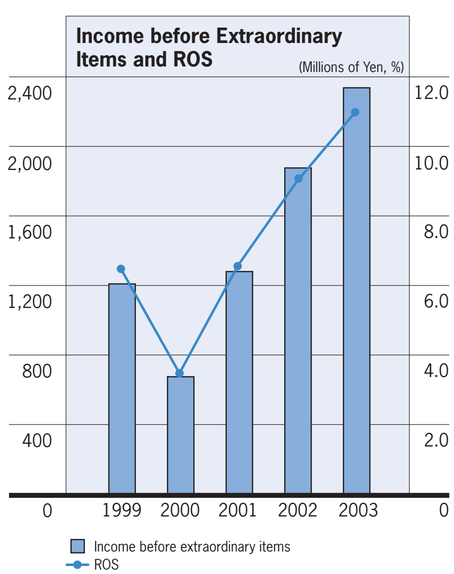
In this environment, we reinforced our organization, which comprises the *HULFT*, *Bulas*, Financial Systems Business, Retail Systems Business and Systems Integration Business divisions, as well as the Systems Center and the Systems Technology Center. This move was in line with current operating strategies, which focus on growth through alliances and business, market and technological innovation, and innovation that facilitates the establishment of a solid management foundation.

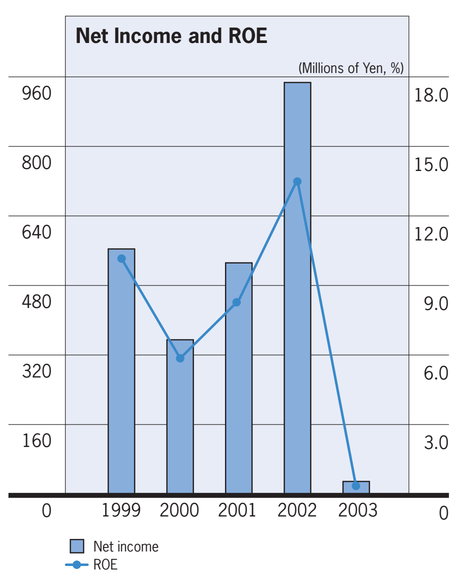
To respond to the demands of Japanese companies establishing operations elsewhere in Asia, in April 2002 we opened a *HULFT* support service center in Hong Kong in cooperation with the TIS Group. With the aim of reinforcing our product lineup, in March 2003 we released *HULFT5 for ACOS* and announced the launch of *HULFT6*. We expanded sales of *Bulas* by cultivating new clients and developing services.

In the Financial Systems Business Division, demand for systems development continued to climb as major client Credit Saison introduced new functions to its credit card, the Saison Card. In a new endeavor, we undertook construction of a new system for the servicer business. In the Retail Systems Business Division, in April 2002 we shifted our department store-related operations to subsidiary Retail Information Solutions Co., Ltd., but continued to maximize our retail knowledge to attract new clients for outsourcing services, such as *ICHIBAN-TEN*, which was developed primarily for supermarkets.

In the Systems Integration Business Division, we continued to scale back unprofitable businesses. The Internet Data Center (iDC)—part of the Systems Center—achieved a notable improvement in its operating rate. In March 2003, the Systems Center obtained accreditation from Information Security Management Systems (ISMS), which has established standards for such systems in Japan comparable to such standards in force elsewhere in the world. The Systems Technology Center focused on R&D in data management technology—aimed at improving cellular phone reliability and convenience—and Java-based state transition software technology, as well as on software engineering for outsourcing businesses.







Earnings and Expenses

Net sales in fiscal 2003 amounted to ¥21.2 billion, an increase of 2.2% from the previous period. Cost of sales was ¥15.8 billion, up 1.1%. Owing to ongoing cost-cutting efforts, selling, general and administrative (SG&A) expenses declined 4.9%, to ¥3.1 billion. As a consequence, income from operations climbed 24.3%, to ¥2.2 billion, and income before extraordinary items was up 24.5%, to ¥2.3 billion.

Owing to a loss on write-down of investments in securities of ¥2.0 billion—attributable largely to the revaluation of the Company's shares in the Seibu Department Stores—income before income taxes and minority interests fell 82.0%, to ¥299 million. Net income dropped 96.9%, to ¥29 million.

Financial Position

Current assets rose 6.9% from the fiscal 2002 year-end, to ¥8.7 billion. This increase was largely attributable to a ¥283 million increase in cash in hand and at bank, to ¥4.5 billion. Investments and advances fell 58.6%, to ¥1.2 billion, owing to a ¥1.8 billion decline in investments in securities.

Current liabilities fell 22.2%, to ¥3.4 billion. Long-term liabilities, that is, the sum of accrued employees' retirement benefits, accrued retirement benefits to directors and corporate auditors and other long-term liabilities, declined 2.4%, to ¥2.8 billion.

Shareholders' equity totaled ¥7.1 billion, down 3.3% from the previous year. As a consequence, the equity ratio rose 3.0 percentage points, to 52.8%.

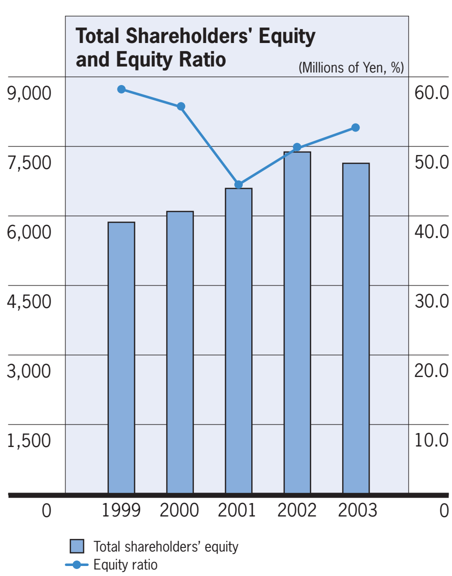
Cash Flows

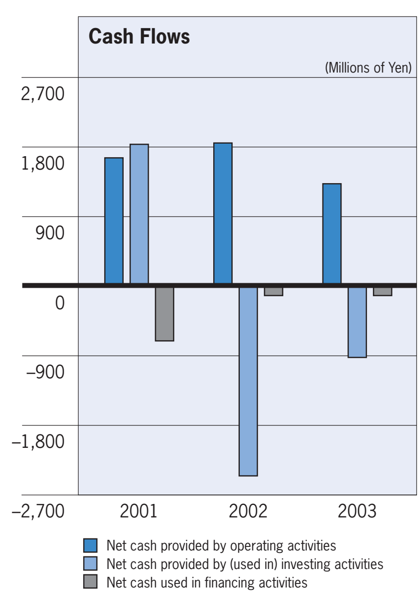
Net cash provided by operating activities amounted to ¥1.3 billion. This was largely attributable to ¥451 million in depreciation and amortization, a ¥2.0 billion loss on write-down of investments in securities and a ¥399 million decrease in notes and accounts payable.

Net cash used in investing activities came to ¥921 million. This outlay was primarily accounted for by payments for purchase of investments in securities and payments for purchase of property, plant and equipment, both of which were significantly lower than in the previous period.

Net cash used in financing activities was ¥121 million. The principal component of this outlay was cash dividends paid.

Owing to the Company's operating, investing and financing activities during the period, cash and cash equivalents at end of year totaled ¥4.5 billion, an increase of 6.7% from the fiscal 2002 year-end.





Consolidated Balance Sheets

As of March 31, 2003 and 2002

	Thousands of Yen		Thousands of U.S. Dollars (Note 3)
ASSETS	**2003**	2002	**2003**
Current Assets:			
Cash in hand and at bank (Note 4)	**¥ 4,524,734**	¥ 4,241,515	**$ 37,643**
Notes and accounts receivable	**2,715,097**	2,921,736	**22,588**
Less: allowance for doubtful accounts	**(4,448)**	(6,394)	**(37)**
	2,710,648	2,915,342	**22,551**
Inventories	**587,350**	589,444	**4,886**
Deferred tax assets (Note 6)	**347,480**	245,300	**2,890**
Other current assets	**602,015**	212,781	**5,008**
Total current assets	**8,772,230**	8,204,385	**72,980**
Investments and Advances:			
Investments in securities (Note 5)	**620,415**	2,431,112	**5,161**
Other investments	**636,393**	635,539	**5,294**
Less: allowance for doubtful accounts	**—**	(31,900)	**—**
	636,393	603,639	**5,294**
Total investments and advances	**1,256,808**	3,034,751	**10,455**
Property, Plant and Equipment:			
Buildings and structures	**2,312,328**	2,192,374	**19,237**
Less: accumulated depreciation	**(1,226,361)**	(1,043,820)	**(10,202)**
	1,085,967	1,148,554	**9,034**
Tools, furniture and fixtures	**1,673,502**	1,729,756	**13,922**
Less: accumulated depreciation	**(1,204,919)**	(1,247,589)	**(10,024)**
	468,583	482,167	**3,898**
Land	**58,641**	58,641	**487**
Other	**1,560**	1,560	**12**
Less: accumulated depreciation	**(1,482)**	(1,454)	**(12)**
	78	105	**0**
Total property, plant and equipment	**1,613,270**	1,689,469	**13,421**
Intangibles and Deferred Charges:			
Intangibles	**647,801**	521,432	**5,389**
Deferred tax assets (Note 6)	**1,217,321**	1,366,113	**10,127**
Total intangibles and deferred charges	**1,865,123**	1,887,545	**15,516**
Total Assets	**¥13,507,432**	¥14,816,152	**$112,374**

The accompanying notes are an integral part of the financial statements.

LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	Thousands of Yen 2003	Thousands of Yen 2002	Thousands of U.S. Dollars (Note 3) 2003
Current Liabilities:			
Notes and accounts payable	¥ 1,558,094	¥ 1,957,642	$ 12,962
Accrued income taxes (Note 6)	111,079	520,152	924
Accrued bonuses to employees	598,495	579,722	4,979
Accrued expenses	626,330	805,426	5,210
Other current liabilities	599,401	625,762	4,986
Total current liabilities	3,493,402	4,488,706	29,063
Accrued Employees' Retirement Benefits (Note 7)	2,688,989	2,726,990	22,370
Accrued Retirement Benefits to Directors and Corporate Auditors	173,060	208,860	1,439
Other Long-Term Liabilities	16,166	12,456	134
Total long-term liabilities	2,878,215	2,948,306	23,945
Minority Interests	—	—	—
Shareholders' Equity (Note 11):			
Common stock:			
Authorized: 30,000,000 shares at March 31, 2003 and 2002			
Issued: 8,100,000 shares at March 31, 2003 and 2002	1,367,687	1,367,687	11,378
Additional paid-in capital	1,461,277	1,461,277	12,157
Retained earnings	4,332,564	4,467,372	36,044
	7,161,529	7,296,336	59,580
Valuation gain/(loss) on available-for-sale securities	(24,768)	83,750	(206)
Less: treasury stock	(947)	(947)	(7)
Total shareholders' equity	7,135,813	7,379,140	59,366
Total Liabilities, Minority Interests and Shareholders' Equity	¥13,507,432	¥14,816,152	$112,374

Consolidated Statements of Income

For the years ended March 31, 2003 and 2002

	Thousands of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2002	2003
Net Sales (Note 12)**:**			
Systems integration services revenue	¥18,937,331	¥18,714,156	$157,548
Merchandise sales	2,336,171	2,105,973	19,435
	21,273,502	20,820,129	176,984
Cost of Sales:			
Cost of systems integration services revenue	13,752,147	13,772,186	114,410
Cost of merchandise sales	2,057,845	1,871,527	17,120
	15,809,992	15,643,713	131,530
Gross profit	5,463,509	5,176,415	45,453
Selling, General and Administrative Expenses (Notes 9 and 10)	3,164,627	3,327,289	26,328
Income from operations	2,298,882	1,849,126	19,125
Other Income/(Expenses):			
Interest and dividend income	4,910	7,218	40
Insurance dividend income	4,449	4,117	37
Lease income	24,775	10,127	206
Interest expense	(2,637)	(1,988)	(21)
Loss on cancelled insurance contract	—	(3,129)	—
Other—net	7,145	11,416	59
Income before extraordinary items	2,337,525	1,876,889	19,446
Extraordinary Profit/(Loss):			
Reversal of allowance for doubtful accounts	2,413	—	20
Loss on disposal of property, plant and equipment	(33,549)	(155,267)	(279)
Loss on write-down of investments in securities	(2,006,622)	(16,370)	(16,694)
Loss on devaluation of golf club memberships	—	(34,030)	—
Loss on sale of investments in securities	—	(2,129)	—
Income before income taxes and minority interests	299,766	1,669,091	2,493
Income Taxes (Note 6)**:**			
Current	146,193	789,610	1,216
Deferred	123,755	(68,461)	1,029
	269,949	721,148	2,245
Minority Interests	—	—	—
Net Income	¥ 29,817	¥ 947,942	$ 248
	Yen		U.S. Dollars (Note 3)
Per Share (Note 2(14))**:**			
Net income:			
Basic	¥ 0.13	¥117.04	$0.00
Diluted	—	—	—
Cash dividends:			
Common shares	¥15.00	¥ 15.00	$0.12

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Shareholders' Equity

For the years ended March 31, 2003 and 2002

	Thousands of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2002	**2003**
Common Stock:			
Balance at beginning of year	**¥1,367,687**	¥1,367,687	**$11,378**
Balance at end of year	**¥1,367,687**	¥1,367,687	**$11,378**
Additional Paid-in Capital:			
Balance at beginning of year	**¥1,461,277**	¥1,461,277	**$12,157**
Balance at end of year	**¥1,461,277**	¥1,461,277	**$12,157**
Retained Earnings:			
Balance at beginning of year	**¥4,467,372**	¥3,672,721	**$37,166**
Net income	**29,817**	947,942	**248**
Cash dividends	**(121,485)**	(121,492)	**(1,010)**
Bonuses to directors and corporate auditors	**(43,140)**	(31,800)	**(358)**
Balance at end of year	**¥4,332,564**	¥4,467,372	**$36,044**
Valuation Gain/(Loss) on Available-for-Sale Securities:			
Balance at beginning of year	**¥ 83,750**	¥ 92,223	**$ 696**
Net change during the year	**(108,519)**	(8,472)	**(902)**
Balance at end of year	**¥ (24,768)**	¥ 83,750	**$ (206)**
Treasury Stock, at Cost	**¥ (947)**	¥ (947)	**$ (7)**

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Cash Flows

For the years ended March 31, 2003 and 2002

	Thousands of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2002	**2003**
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	**¥ 299,766**	¥1,669,091	**$ 2,493**
Adjustments for:			
Depreciation and amortization	**451,056**	422,582	**3,752**
Increase/(Decrease) in allowance for doubtful accounts	**(33,845)**	1,396	**(281)**
Loss on disposal of property, plant and equipment	**33,549**	155,267	**279**
Increase in accrued bonuses to employees	**18,773**	49,106	**156**
Increase/(Decrease) in accrued employees' retirement benefits	**(38,000)**	236,544	**(316)**
Decrease in accrued retirement benefits to directors and corporate auditors (Note 13)	**(35,800)**	—	**(297)**
Interest and dividend income	**(4,910)**	(7,218)	**(40)**
Interest expenses	**2,637**	1,988	**21**
Bonuses to directors and corporate auditors	**(43,140)**	(31,800)	**(358)**
Loss on devaluation of golf club memberships	**—**	34,030	**—**
Loss on sale of investments in securities	**—**	2,129	**—**
Loss on write-down of investments in securities	**2,006,622**	16,370	**16,694**
Decrease in notes and accounts receivables	**206,639**	1,028,451	**1,719**
Decrease in inventories	**2,094**	82,293	**17**
Decrease in notes and accounts payable	**(399,547)**	(554,204)	**(3,324)**
Decrease/(Increase) in other current assets	**(146,690)**	87,582	**(1,220)**
Increase/(Decrease) in other current liabilities	**(116,098)**	346,316	**(965)**
Subtotal	**2,203,107**	3,539,927	**18,328**
Interest and dividend received	**4,910**	8,885	**40**
Interest paid	**(2,637)**	(1,988)	**(21)**
Income taxes paid	**(879,605)**	(1,694,024)	**(7,317)**
Net cash provided by operating activities	**1,325,774**	1,852,800	**11,029**
Cash Flows from Investing Activities:			
Payments for purchase of investments in securities	**(379,823)**	(1,294,875)	**(3,159)**
Proceeds from sale of investments in securities	**—**	13,262	**—**
Payments for purchase of property, plant and equipment	**(384,340)**	(915,137)	**(3,197)**
Proceeds from sale of property, plant and equipment	**7,916**	4,824	**65**
Payments for purchase of other investments	**(164,823)**	(261,306)	**(1,371)**
Net cash used in investing activities	**(921,070)**	(2,453,231)	**(7,662)**
Cash Flows from Financing Activities:			
Cash dividends paid	**(121,485)**	(121,492)	**(1,010)**
Purchases of treasury common stock	**—**	(497)	**—**
Net cash used in financing activities	**(121,485)**	(121,990)	**(1,010)**
Net Increase/(Decrease) in Cash and Cash Equivalents	**283,218**	(722,421)	**2,356**
Cash and Cash Equivalents at Beginning of Year	**4,241,515**	4,963,936	**35,287**
Cash and Cash Equivalents at End of Year	**¥4,524,734**	¥4,241,515	**$37,643**

The accompanying notes are an integral part of the financial statements.

Notes to the Consolidated Financial Statements

For the years ended March 31, 2003 and 2002

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared based on the accounts maintained by SAISON INFORMATION SYSTEMS CO., LTD. and its consolidated subsidiaries (the "Companies") in accordance with the provisions set forth in the Commercial Code of Japan and the Securities and Exchange Law, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Accounting Standards.

Certain items presented in the consolidated financial statements submitted to the Director of Kanto Finance Bureau in Japan have been reclassified in these accounts for the convenience of readers outside Japan.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

2. Summary of Significant Accounting Policies

(1) Principles of Consolidation

As of March 31, 2003, the consolidated financial statements include the accounts of the Company and its two subsidiaries (two domestic subsidiaries). All significant intercompany accounts and transactions and unrealized profit among the Companies, if any, have been eliminated in consolidation.

There are no unconsolidated subsidiaries or affiliates.

(2) Remeasurement of Assets and Liabilities of the Subsidiaries

The assets and liabilities of the subsidiaries are marked to fair value as at the point of acquisition of control.

(3) Translation of Foreign Currency

Assets and liabilities denominated in foreign currencies are translated into yen at the current exchange rate.

(4) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash in hand, bank deposits able to be withdrawn on demand and short-term investments with an original maturity of three months or less and subject to a minor risk of fluctuation in value.

(5) Allowance for Doubtful Accounts

Receivables are required to be categorized into "normal receivables" and "doubtful receivables" for the purpose of providing an allowance for doubtful accounts under prevailing accounting practice in Japan. An allowance for doubtful accounts is provided for normal receivables, based on the Company's historical write-off experience, and an allowance for doubtful accounts is provided for doubtful receivables, based on an estimate of irrecoverable amounts on an individual account basis.

(6) Inventories

Inventories are valued at cost as determined by the following methods:

Merchandise	individual cost method
Work-in-process	individual cost method
Supplies	first-in, first-out method

(7) Investments in Securities

Available-for-sale securities with a market quotation on a stock exchange are valued at market value. Unrealized holding gains and losses, net of tax, are recognized in "Valuation gain/(loss) on available-for-sale securities" as a separate component of shareholders' equity.

Available-for-sale securities without a market quotation are recorded at cost. The cost of available-for-sale securities sold is principally based on the moving-average cost method.

(8) Property, Plant and Equipment

Depreciation of property, plant and equipment is computed principally using the declining-balance method at rates based on the estimated useful lives of the assets. Normal repairs and maintenance, including minor renewals and improvements, are charged to income as incurred.

(9) Intangible Fixed Assets and Long-Term Prepaid Expenses

Amortization of intangible fixed assets and long-term prepaid expenses is computed using the straight-line method over the estimated useful lives of the assets.

The amortization costs of software developed for external sales are computed at a ratio based on sales during the year to the total estimated sales. However, the amortization costs should not be lower than the amount computed on asset purchase value on a straight-line basis over the estimated remaining useful life of the asset, which is three years.

Software developed for internal use is amortized on a straight-line basis over the estimated useful life of the asset, which is five years.

(10) Income Taxes

Income taxes of the Company and its subsidiaries consist of corporate income taxes, local inhabitants taxes and enterprise taxes.

Income taxes were determined using the asset and liability approach, whereby deferred tax assets and liabilities were recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the consolidated financial statements.

(11) Retirement Benefit Plans

(a) Employees' Retirement Benefits

The employees of the Company and its subsidiaries are generally covered by the retirement benefit plans under which the retiring employees are entitled to lump-sum payments determined by reference to the current rates of pay, length of services, and conditions under which the terminations occur.

Accrued employees' retirement benefits of the Company are provided based on the estimated present value of projected benefit obligations less plan assets. For its subsidiaries, accrued employees' retirement benefits are provided using a simple method, as permitted by "Opinion Concerning Establishment of Accounting Standard for Retirement Benefits," based on the estimated amount which would be payable if all employees voluntarily retired at the relevant balance sheet date.

The unrecognized prior service costs are amortized on a straight-line basis over the period of 10 years and unrecognized actuarial differences are amortized on a straight-line basis over the period of 10 years from the next year in which they arise.

Many large Japanese corporations have Employees' Pension Fund (EPF) plans, which are defined benefit pension plans established under the Japanese Welfare Pension Insurance Law (JWPIL). These plans are composed of (a) a substitutional portion based on the pay-related part of the old-age pension benefits prescribed by JWPIL and (b) a corporate portion based on a contributory defined benefit pension arrangement established at the discretion of each employer. An employer with an EPF and its employees are exempted from contributions to Japanese Pension Insurance (JPI) that would otherwise be required if they had not elected to fund the substitutional portion of the benefit through an EPF arrangement. The EPF, in turn, pays both the corporate and the substitutional pension benefits to retired beneficiaries out of its plan assets.

In June 2001, the JWPIL was amended to permit each employer/EPF to separate the substitutional portion from its EPF and transfer the obligation and related assets to the government. Upon completion of the separation, the remaining substitutional obligation and related plan assets, determined pursuant to a government formula, are transferred to a government agency, and the employer/EPF is released from paying the remaining substitutional portion of the benefits to EPF beneficiaries. After the separation, both the employer and the employees are required to make periodic contributions to JPI, and the Japanese government is responsible for all benefit payments earned under JWPIL.

In the process of separating the substitutional portion from the corporate portion, two governmental approvals are required. On or after April 1, 2002 (when the June 2001 amendment to JWPIL became effective), the Japanese government gives each employer/EPF an approval of exemption from the obligation for benefits related to future employee service under the substitutional portion (the "first approval"). Once the first approval is obtained, the employer begins making JPI payments directly to the government. Within two and a half years from the enactment date of the JWPIL amendment (June 15, 2001), the Japanese government will grant each employer/EPF the final approval of separation. On obtaining the final approval, the remaining benefit obligation of the substitutional portion (that amount earned by past services) as well as the related government-specified portion of the plan assets of the EPF will be transferred to JPI.

On April 23, 2002, the Company and its subsidiaries obtained the governmental approval of exemption from the obligation for benefits related to future employee service under the substitutional portion (first approval) from the Ministry of Health, Labour and Welfare. The Company did not adopt the transitional treatment of separation of the substitutional portion which is permitted by Article 47-2 of "Practical Guidelines on Accounting for Post-Retirement Benefits (Interim Report)" issued by the Japanese Institute of Certified Public Accountants (JICPA), and will recognize the elimination of the substitutional portion of the benefit obligation and related assets transferred to the Japanese government on the date of the final approval, together with the recognition of the proportionate amount of the unrecognized items (i.e. transition obligation, past service costs, and net unrecognized gain or loss). As a result of the separation of the substitutional portion of the EPF, a one-off profit to be recorded is estimated at ¥566,832 thousand ($4,715 thousand).

(b) Retirement Benefits to Directors and Corporate Auditors

Accrued retirement benefits to directors and corporate auditors of the Company and its consolidated subsidiaries are provided based on the Companies' internal rules and are based on the estimated amount which would be payable if all directors and corporate auditors retired at the relevant balance sheet date.

(12) Accrued Bonuses to Employees

Accrued bonuses to employees are provided at the estimated amount which the Company is obliged to pay to employees after the year-end, based on their service for the six-month period ended on the relevant balance sheet date.

(13) Accounting for Finance Leases

Finance leases other than those which are deemed to transfer the ownership of the leased assets to lessees are accounted for by a method similar to that used for ordinary operating leases.

(14) Net Income per Share

Net income per share of common stock is computed based on the weighted-average number of outstanding shares of common stock during the respective years. Since no convertible bonds or warrants were issued and outstanding, there was no dilutive effect on net income per share during these periods.

Effective from the year ended March 31, 2003, the Company adopted the Statement of Financial Accounting Standard No. 2 "Earnings per Share" issued by the Accounting Standards Board of Japan. Prior to adopting the new statement, earnings per share were calculated based on the net income shown on the Statements of Income. The earnings per share calculation therefore excluded bonuses to directors and corporate auditors, since under the Japanese Commercial Code, these are recognized as an appropriation of retained earnings, in the Statements of Shareholders' Equity, rather than as expenses in the Statements of Income. However, the new statement requires that net income should be adjusted by deducting bonuses paid to directors and corporate auditors as well as the payment of dividends to shareholders of preferred stocks to be recognized as an appropriation of retained earnings, from net income shown in the Statements of Income, and the calculation of earnings per share be made on that adjusted net income basis. Earnings per share for the year ended March 31, 2003, calculated using the previous method and under the new statement are ¥3.68 ($0.03) and ¥0.13 ($0.00), respectively.

Cash dividends per share shown in the statements of income are the amounts applicable to the respective years.

(15) Accounting for Consumption Tax

Consumption tax withheld by the Company and its subsidiaries on revenues and consumption tax paid by the Company and its subsidiaries on the purchase of goods and on expenses is recorded as an asset or a liability and is not included in the respective account items on the consolidated statements of income.

3. United States Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥120.20=US$1, the approximate rate of exchange prevailing at March 31, 2003, has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at this rate or any other rates.

4. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2003 and 2002, consisted of:

	Thousands of Yen		Thousands of U.S. Dollars (Note 3)
March 31	2003	2002	2003
Cash in hand and at bank	¥4,524,734	¥4,241,515	$37,643
Short-term investments	—	—	—
Cash and cash equivalents	¥4,524,734	¥4,241,515	$37,643

5. Investments in Securities

Investments in securities as of March 31, 2003 and 2002, were as follows:

(1) Marketable Securities Classified as Available-for-Sale Securities

The aggregate acquisition cost, gross unrealized gains and losses, and carrying amount on the balance sheet, which were re-valued to the related fair value, of available-for-sale securities with market quotations at March 31, 2003 and 2002, are as follows:

				Thousands of Yen
March 31, 2003	Acquisition Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Amount
Equity securities	¥590,778	¥7,361	¥(49,129)	¥549,010
Others	—	—	—	—
Total	¥590,778	¥7,361	¥(49,129)	¥549,010

				Thousands of U.S. Dollars (Note 3)
March 31, 2003	Acquisition Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Amount
Equity securities	$4,914	$61	$(408)	$4,567
Others	—	—	—	—
Total	$4,914	$61	$(408)	$4,567

				Thousands of Yen
March 31, 2002	Acquisition Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Amount
Equity securities	¥251,395	¥176,438	¥(32,544)	¥395,289
Others	—	—	—	—
Total	¥251,395	¥176,438	¥(32,544)	¥395,289

(2) Sold Securities Classified as Available-for-Sale Securities

The following is a summary of securities sold:

			Thousands of Yen
March 31, 2003	Amount of Sales	Gain on Sales	Loss on Sales
	—	—	—

			Thousands of U.S. Dollars (Note 3)
March 31, 2003	Amount of Sales	Gain on Sales	Loss on Sales
	—	—	—

			Thousands of Yen
March 31, 2002	Amount of Sales	Gain on Sales	Loss on Sales
	¥13,262	¥1,091	¥(3,220)

(3) Non-Marketable Securities Classified as Available-for-Sale Securities

The following is a summary of non-marketable securities:

March 31, 2003	Thousands of Yen Acquisition Cost	Thousands of U.S. Dollars (Note 3) Acquisition Cost
Unlisted equity securities	**¥71,404**	**$594**
Total	**¥71,404**	**$594**

March 31, 2002	Thousands of Yen Carrying Amount
Unlisted equity securities	¥2,035,823
Total	¥2,035,823

6. Income Taxes

The Company and its subsidiaries are subject to several taxes based on income, which in the aggregate resulted in the statutory tax rate of approximately 41.7% for the fiscal years ended March 31, 2003 and 2002.

On March 31, 2003, the Japanese National Diet approved various changes to the calculation of the statutory local enterprise tax for companies with capital in excess of ¥100 million, effective April 1, 2004. As a result of this amendment, the tax rate to be applied to temporary differences between the carrying amount and tax basis of assets and liabilities that are expected to reverse in the years beginning April 1, 2004, decreased from 41.7% to 40.7% as of March 31, 2003. For the temporary differences that are expected to reverse in the year ending March 31, 2004, the tax rate of 41.7% has been used at that date. This resulted in a reduction in deferred tax assets at March 31, 2003, by ¥32,422 thousand ($269 thousand), compared with the assets that would have been recognized had the tax rate of 41.7% been fully applied to all temporary differences. Net income for the year ended March 31, 2003, reduced by ¥31,964 thousand ($265 thousand) as a result of these changes in local enterprise tax regulations.

At March 31, 2003 and 2002, significant components of deferred tax assets and liabilities were as follows:

	Thousands of Yen		Thousands of U.S. Dollars (Note 3)
March 31	**2003**	2002	**2003**
Deferred tax assets:			
Accrued enterprise tax	**¥ —**	¥ 54,013	**$ —**
Accrued bonuses to employees	**207,488**	163,243	**1,726**
Accrued retirement benefits to directors and corporate auditors	**73,469**	86,779	**611**
Accrued employees' retirement benefits	**1,070,414**	1,131,393	**8,905**
Amortization of software costs	**45,091**	70,022	**375**
Amount of loss carried forward	**78,543**	—	**653**
Other	**197,630**	168,813	**1,644**
Total gross deferred tax assets	**1,672,638**	1,674,268	**13,915**
Less valuation allowance	**(78,543)**	—	**(653)**
Net deferred tax assets	**1,594,095**	1,674,268	**13,262**
Deferred tax liabilities:			
Valuation gain on available-for-sale securities	**—**	(60,143)	**—**
Other accounts receivable of enterprise tax	**(29,293)**	—	**(243)**
Other	**—**	(2,710)	**—**
Total gross deferred tax liabilities	**(29,293)**	(62,853)	**(243)**
Net deferred tax assets	**¥1,564,802**	¥1,611,414	**$13,018**

A reconciliation between the statutory tax rate and the effective tax rate for the year ended March 31, 2003, is as follows:

March 31, 2003	Percent
Statutory tax rate	**41.7**
Non-deductible expenses	**9.6**
Inhabitants tax	**1.7**
Effect of change in the statutory tax rate	**10.7**
Valuation allowance of deferred tax assets	**26.2**
Others	**0.2**
Effective income tax rate	**90.1**

Since the difference between the statutory tax rate and the effective tax rate for the fiscal year ended March 31, 2002, is less than 5%, a reconciliation of these two rates is not presented.

In assessing the realizability of deferred tax assets, management of the Company considers whether it is more likely than not that some portion will not be realized. The ultimate realization of deferred tax assets is entirely dependent on the generation of future taxable income in specific tax jurisdictions during the periods in which those temporary differences become deductible. Although realization is not assured, management considered the projected future taxable income in making this assessment. Based on these factors, management believes it is more likely than not that the Company will realize the benefit of these deductible differences, net of the existing valuation allowances, as of March 31, 2003.

7. Retirement Benefits

(1) Retirement Benefit Plan

The Company and its subsidiaries adopted a welfare pension plan and termination allowance plan as defined-benefit pension plans.

(2) Accrued Employees' Retirement Benefits

Accrued employees' retirement benefits as of March 31, 2003 and 2002, are calculated below:

	Thousands of Yen		Thousands of U.S. Dollars (Note 3)
March 31	2003	2002	2003
Retirement benefit obligation	¥(5,807,945)	¥(7,165,095)	$(48,319)
Plan assets	2,918,251	3,351,416	24,278
Funded status	(2,889,693)	(3,813,678)	(24,040)
Unrecognized actuarial differences	1,617,317	1,104,333	13,455
Unrecognized prior service costs	(1,416,614)	(17,645)	(11,785)
Accrued employees' retirement benefits	¥(2,688,989)	¥(2,726,990)	$(22,370)

The above table includes the amounts related to the portion subject to the Japanese Welfare Pension Insurance Law.

(3) Retirement Benefit Expenses

Retirement benefit expenses for the year ended March 31, 2003 and 2002, are calculated below:

	Thousands of Yen		Thousands of U.S. Dollars (Note 3)
March 31	2003	2002	2003
Service costs	¥ 202,551	¥317,059	$ 1,685
Interest costs	80,279	188,073	667
Expected return on plan assets	(67,004)	(90,419)	(557)
Recognized actuarial differences as expenses	118,277	78,443	984
Prior service costs accounted for as expenses	(157,747)	(2,075)	(1,312)
Retirement benefit expenses	¥ 176,356	¥491,080	$ 1,467

Service cost includes pension costs of subsidiaries under simple method.

(4) The Assumptions Used in the Actuarial Computation

The assumptions used in the actuarial computation for the years ended March 31, 2003 and 2002, above are as follows:

March 31	2003	2002
Method of benefit attribution	**Standard of fixed-amount for period**	Standard of fixed-amount for period
Discount rate	**2.0%**	2.0%
Expected return on plan assets	**2.0%**	2.0%
Period of amortization of unrecognized actuarial differences	**10 years from the next year in which they arise**	10 years from the next year in which they arise
Period of amortization of unrecognized prior service costs	**10 years**	10 years

8. Leases

Leased assets, and related expenses in respect of the Company's and its subsidiaries' finance leases, other than those which transfer ownership of the leased assets, are accounted for using a method similar to that used for regular operating leases. Finance lease charges of the Companies for the years ended March 31, 2003 and 2002, were ¥889,260 thousand ($7,398 thousand) and ¥1,162,806 thousand, respectively. Had they been capitalized, the following items would have been recognized on the consolidated balance sheets and the consolidated statements of income as at and for the fiscal years ended March 31, 2003 and 2002:

	Thousands of Yen			Thousands of U.S. Dollars (Note 3)
March 31, 2003	Acquisition Costs	Accumulated Depreciation	Balance	Balance
Tools, furniture and fixtures	¥3,782,599	¥2,103,713	¥1,678,886	$13,967
	¥3,782,599	¥2,103,713	¥1,678,886	$13,967

March 31, 2002	Acquisition Costs	Accumulated Depreciation	Balance
	Thousands of Yen		
Tools, furniture and fixtures	¥5,535,988	¥3,648,742	¥1,887,245
	¥5,535,988	¥3,648,742	¥1,887,245

March 31	Thousands of Yen 2003	2002	Thousands of U.S. Dollars (Note 3) 2003
Depreciation expense	**¥825,718**	¥1,064,023	**$6,869**
Interest expense	**¥ 45,937**	¥ 66,715	**$ 382**

Depreciation is computed using the straight-line method over the lease period of leased assets, with no residual value at the end of the lease period. The interest expense portion is determined by subtracting an amount equivalent to the acquisition cost from the total lease fee. Total interest payments over the lease period are allocated to each period using the interest method.

The present values of future lease payments at March 31, 2003 and 2002, are as follows:

March 31	Thousands of Yen 2003	2002	Thousands of U.S. Dollars (Note 3) 2003
Due within one year	**¥ 646,790**	¥ 820,252	**$ 5,380**
Due over one year	**1,063,618**	1,094,090	**8,848**
	¥1,710,408	¥1,914,343	**$14,229**

Future operating lease payments under non-cancelable lease contracts at March 31, 2003 and 2002, are as follows:

March 31	Thousands of Yen 2003	2002	Thousands of U.S. Dollars (Note 3) 2003
Due within one year	**¥91,008**	¥23,936	**$757**
Due over one year	**4,990**	9,243	**41**
	¥95,999	¥33,180	**$798**

9. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses for the fiscal years ended March 31, 2003 and 2002, are as follows:

	Thousands of Yen 2003	2002	Thousands of U.S. Dollars (Note 3) 2003
Allowance for doubtful accounts	**¥ —**	¥ 2,396	**$ —**
Directors' compensation	**172,646**	153,226	**1,436**
Payroll and bonuses	**1,243,623**	1,353,088	**10,346**
Accrued bonuses to employees	**183,814**	193,386	**1,529**
Accrued employees' retirement benefits	**52,406**	150,667	**435**
Accrued retirement benefits to directors and corporate auditors	**47,490**	52,860	**395**
Welfare expense	**183,647**	172,177	**1,527**
Depreciation expense	**104,416**	85,161	**868**

10. Research and Development Costs

Research and development costs charged to income for the fiscal years ended March 31, 2003 and 2002, were ¥108,879 thousand ($905 thousand) and ¥109,872 thousand, respectively.

11. Shareholders' Equity

The Commercial Code of Japan provides that an amount equivalent to at least 10% of any appropriations of retained earnings paid in cash for each fiscal year, be appropriated as a legal reserve until such legal reserve reaches a certain limit, which was 25% of common stock for periods prior to October 1, 2001, but changed to 25% of common stock, less additional paid-in capital, effective from that date, in accordance with an amendment to the Commercial Code. The legal reserve is not available for distribution as cash dividends, but may be used to reduce a deficit or transferred to common stock.

The legal reserve included in retained earnings was ¥137,864 thousand ($1,146 thousand) and ¥136,264 thousand, respectively, at March 31, 2003 and 2002.

12. Change of Disclosure on Consolidated Statements of Income

Sales of package products purchased from other companies were included and disclosed in "Systems integration services revenue" in the previous fiscal year, but is now included and disclosed in "Merchandise sales" from this fiscal year. Moreover, the classification of the cost of sales has similarly changed in relation to this product. The sales amount of the package products purchased from other companies included in "Systems integration services revenue" and the cost of sales amount for the same products included in "Cost of systems integration services revenue" in the previous fiscal year are ¥145,080 thousand ($1,206 thousand) and ¥118,128 thousand ($982 thousand), respectively.

13. Subsequent Events

Based on the circumstances surrounding the Company's future, the board of directors approved the implementation of a turnover support program at the meeting on April 25, 2003, aimed at heightening competition in the business by averaging the employee age composition. Moreover, at the board of directors' meeting on May 16, 2003, the employees who would apply to this program were finally determined. Such employees retired as of June 10, 2003. For those employees who applied to the turnover support program, a special allowance of ¥387,132 thousand ($3,220 thousand) in total was paid, in addition to the normal retirement benefits.

14. Segment Information

(1) Industry Segment Information
The Companies' supply information services range from information system planning to software development, hardware selection, system operation and system support. Based on the similarities in the type and nature of business, the Companies' business constitutes a single segment and, accordingly, industry segment information is not disclosed.
(2) Geographic Segment Information
Segment information classified by geographic area has been omitted because the Companies' operations were all performed in Japan.
(3) Export Sales and Sales by Overseas Subsidiaries
The overseas share of consolidated net sales is less than 10%. Accordingly, overseas sales information is not separately disclosed.

15. Related Party Transactions

Material transactions of the Company with its related companies and individuals, excluding transactions with consolidated subsidiaries which are eliminated in the consolidated financial statements and other than those disclosed elsewhere in these financial statements, for the years ended March 31, 2003 and 2002, were as follows:

(1) Main Shareholder

March 31	2003	2002
Name of the company	**Credit Saison Co., Ltd.**	Credit Saison Co., Ltd.
Address	**Toshima-ku, Tokyo**	Toshima-ku, Tokyo
Common stock amount	**¥61,302 million**	¥61,302 million
Type of business	**Credit card businesses**	Credit card businesses
Equity share percentage of the Company	**46.86%**	46.86%
Relationship:		
Number of directors and auditors who have a position in both companies	**2**	2
Operational relationship	**Systems integration services revenue** **Rental of machinery**	Systems integration services revenue Rental of machinery
Transaction amounts:		
Systems integration services revenue	**¥5,954,178 thousand ($49,535 thousand)**	¥5,765,363 thousand
Machinery rental fee	**¥441,192 thousand ($3,670 thousand)**	¥748,645 thousand
Labor cost payments for seconded employees from Credit Saison	**¥46,885 thousand ($390 thousand)**	¥13,219 thousand
Credit card services' fee	**—**	¥25,498 thousand
Balances at fiscal year-end:		
Notes and accounts receivable	**¥629,984 thousand ($5,241 thousand)**	¥961,142 thousand
Notes and accounts payable	**¥19,779 thousand ($164 thousand)**	¥39,768 thousand
Accrued liability	**¥286 thousand ($2 thousand)**	¥4,973 thousand
Accrued expenses	**¥3,540 thousand ($29 thousand)**	¥937 thousand

March 31	2003	2002
Name of the company	—	The Seiyu, Ltd.
Address	—	Toshima-ku, Tokyo
Common stock amount	—	¥29,553 million
Type of business	—	Operation of shopping centers, supermarkets, department stores and general merchandise stores
Equity share percentage of the Company	—	3.94%
Relationship:		
Number of directors and auditors who have a position in both companies	—	2
Operational relationship	—	Sales of systems integration services
Transaction amount:		
Systems integration services revenue	—	¥2,261,479 thousand

The Seiyu, Ltd., was not classified as a main shareholder at March 31, 2002, owing to the partial transfer of its shares in the Company on February 27, 2002. Transaction amount indicates systems integration services revenue from April 2001 to February 2002.

Report of Independent Auditors

To the Board of Directors and Shareholders of
SAISON INFORMATION SYSTEMS CO., LTD.

We have audited the accompanying consolidated balance sheets of SAISON INFORMATION SYSTEMS CO., LTD. and its subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 SAISON INFORMATION SYSTEMS CO., LTD. and its subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan (see Note 1).

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying consolidated financial statements.

ChuoAoyama Audit Corporation

ChuoAoyama Audit Corporation
Tokyo, Japan
June 27, 2003

Consolidated Subsidiaries

RETAIL INFORMATION SOLUTIONS CO., LTD.
65-18, Ikebukuro 2-chome, Toshima-ku, Tokyo 171-0014, Japan
Tel: +81-3-5952-5201
URL: http://www.ris-ris.co.jp/
Business area: Information services

Facility Expert Services co., ltd.
34-5, Higashi-Ikebukuro 1-chome, Toshima-ku, Tokyo 171-0013, Japan
Tel: +81-3-3980-4811
URL: http://www.e-fess.co.jp/
Business area: Information processing operation services

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(As of March 31, 2003)

Investor Information

Company name	SAISON INFORMATION SYSTEMS CO., LTD.
Founded	September 1, 1970
Capital	¥1,367,687,500
Shares	Authorized: 30,000,000
	Issued: 8,100,000
URL	http://home.saison.co.jp/SIS/
Number of employees	581
Initial public offering (Ticker code: 9640)	OTC Registration
Major shareholders	Credit Saison Co., Ltd.
	Intelligent Wave Inc.
	Employees
	The Seiyu, Ltd.
Ordinary general meeting	The Ordinary General Meeting of Shareholders is held annually in June.
Transfer agent	Mizuho Trust & Banking Co., Ltd.
	2-1, Yaesu 1-chome, Chuo-ku, Tokyo 103-8670, Japan
Independent auditors	ChuoAoyama Audit Corporation

(As of March 31, 2003)

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