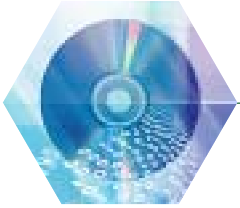
Annual Report 2004
For the Year Ended March 31, 2004


Communications Middleware


Staffing/Payroll BPO


Retail Information Solutions


Card Systems


Center Management Services

SAISON INFORMATION SYSTEMS CO., LTD.

Profile

Saison Information Systems Co., Ltd., was established in 1970 as the information processing arm of the Saison Group. Ever since its founding, the Company has been committed to fostering the development of a prosperous, knowledge-creative society by taking advantage of advanced information technologies (ITs) to deliver innovative services that draw on its specialized, integrated capabilities. Based on this commitment, we have built a business centering on the construction and operation of systems for the credit card industry and the retail distribution industry.

In recent years, we have followed the concept of "open and secure solutions,"* through which we have developed and provided various business solutions. These include *HULFT,* our communications middleware, which is compatible with multiple platforms, and *Bulas* business process outsourcing (BPO) service for personnel and payroll management. In these ways, we continue proposing and delivering original business models and solutions for a broad range of clients.

* Saison Information Systems created the phrase "open and secure solutions" to describe its future vision, which is to deliver solutions that integrate various functions and domains, thereby providing ongoing support for the creation of intellectual assets for our clients.

Contents

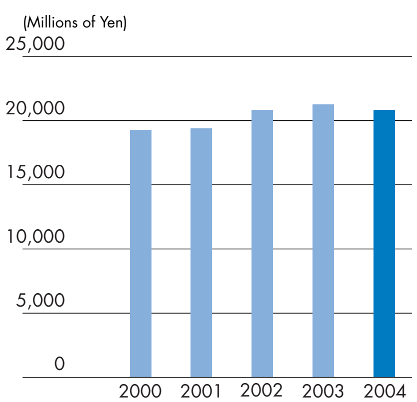
Financial Highlights

SAISON INFORMATION SYSTEMS CO., LTD. and its Subsidiaries
For the years ended March 31, 2004 and 2003

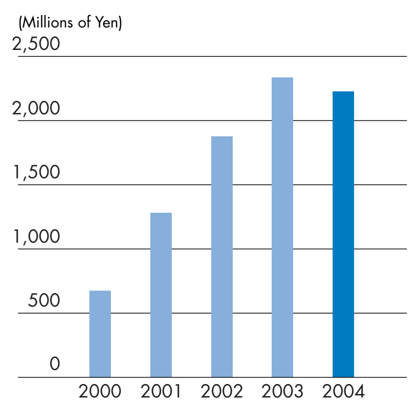
	Thousands of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
For the Year:			
Net sales	**¥20,833,189**	¥21,273,502	**$197,227**
Income from operations	**2,202,563**	2,298,882	**20,851**
Income before extraordinary items	**2,227,581**	2,337,525	**21,088**
Net income	**248,259**	29,817	**2,350**
At Year-End:			
Total assets	**¥15,071,357**	¥13,507,432	**$142,680**
Total shareholders' equity	**7,445,137**	7,135,813	**70,483**
		Yen	U.S. Dollars
Per Share:			
Net income (basic)	**¥28.45**	¥ 0.13	**$0.26**
Cash dividends	**15.00**	15.00	**0.14**

Note: U.S. dollar amounts represent translations of yen amounts at the rate of ¥105.63=US$1, the approximate rate of exchange prevailing at March 31, 2004.

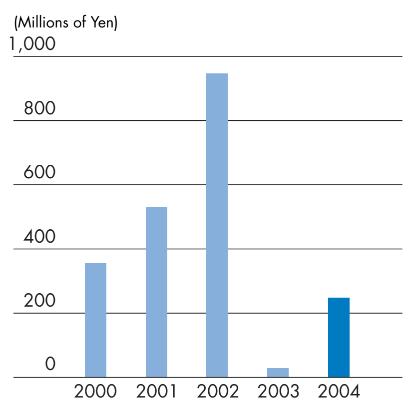
Net Sales



Income before Extraordinary Items



Net Income



The Year in Review

In fiscal 2004, ended March 31, 2004, Japan's information services industry showed signs of moderate recovery, boosted by improvements in corporate earnings in the second half of the period. Severe conditions in the market environment persisted, however, stemming from weak IT-related investments by corporations and pressure to lower prices.

In response to these circumstances, we worked aggressively to secure new clients and otherwise expand our operations, focusing on our core businesses related to *HULFT*, *Bulas* and card systems. A highlight of the year was the launch of an updated version of our top-selling communications middleware package, *HULFT6*, incorporating added functions. We actively pursued business alliances with prominent IT vendors to promote this new version. However, revenues from information processing services for the retail distribution industry declined, and sales of systems and equipment were down significantly from the previous fiscal year, when we secured major orders. As a result, consolidated net sales in fiscal 2004 slipped 2.1%, to ¥20,833 million.

Despite a decline in cost of sales, income before extraordinary items fell 4.7%, to ¥2,227 million, due to an increase in selling, general and administrative (SG&A) expenses arising from higher retirement benefit expenses, as well as increased public welfare costs associated with the transition to the system of social insurance premiums based on full annual income. Moreover, we posted a ¥1,210 million write-down on software assets under development due to the cancellation of a major contract for outsourcing services, which we had put together for a new client. We also recorded ¥416 million in additional retirement benefit payments due to the introduction of a voluntary employee transfer program, as well as a ¥54 million loss on exemption from obligation of the substitutional portion of the Employees' Pension Fund (EPF). These and other losses led to a net extraordinary loss of ¥1,900 million. Consolidated net income for the period surged 732.6%, to ¥248 million.

Chairman Kazuo Kura

President Toshiyuki Furuta

Outlook for Fiscal 2005

In fiscal 2005, we will strive to further expand sales of our highly profitable *HULFT* series while securing major orders in the card systems business. Through these initiatives, we hope to compensate for declining sales to the retail distribution and services sector.

For fiscal 2005, we forecast a 6.9% rise in consolidated net sales, to ¥22,270 million; a 2.4% increase in income before extraordinary items, to ¥2,280 million; and a 413.5% jump in net income, to ¥1,274 million.

We are committed to meeting the expectations of our clients, and we look forward to the continued support of our shareholders and other stakeholders as we embrace the challenges ahead.

July 2004

Kazuo Kura
Chairman

Toshiyuki Furuta
President

Q1 *How has the Saison Information Systems Group's revenue composition changed with respect to breakdown by major client?*

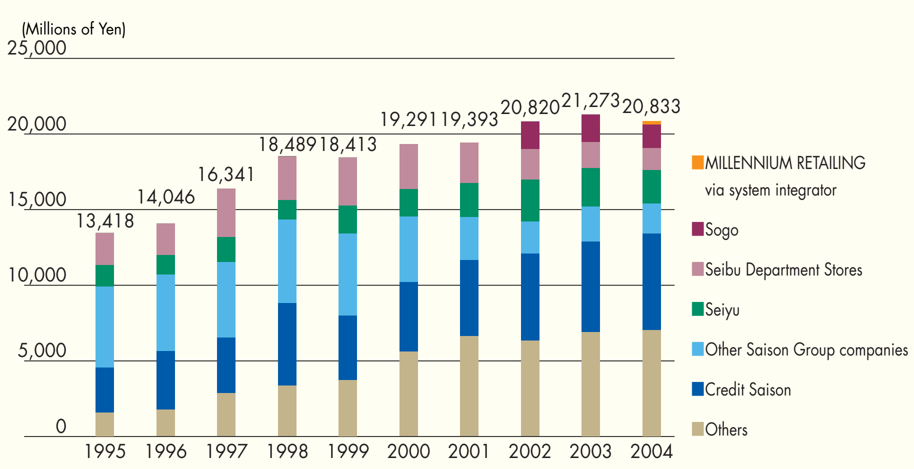
A. Saison Information Systems is a member of the Saison Group, which also includes Credit Saison, Co., Ltd., the Seiyu, Ltd., and Seibu Department Stores, Ltd. Historically, the Company has mainly provided information system construction and operation services to other Group members. Therefore, we have grown and developed in tandem with the Saison Group.

Since the 1990s, however, the end of Japan's bubble economy has forced many Group companies to downsize or withdraw from certain businesses, take measures to address nonperforming assets and form equity alliances with other companies. Therefore, over the past decade, the share of our revenues received from retail distribution companies in the Saison Group has declined.

By contrast, sales to Credit Saison, a major shareholder in the Company, have expanded significantly. Sales to non-Group members have also grown considerably, sparked by strong demand for our original offerings, such as *HULFT* and *Bulas*.

Taking these factors into account, it is now time to reformulate our business strategies in a way that highlights our strengths and minimizes our weaknesses.

Ten-Year Summary of Net Sales* by Client



* Figures prior to fiscal 2000 are non-consolidated.

Q2 *What are the key points of your strategy reformulation plan?*

A. Among its various businesses, Saison Information Systems Group has focused its attention on three areas, all of which are growth businesses: card systems; *HULFT*, communications middleware; and *Bulas*, a BPO service for personnel and payroll management. On the other hand, our existing retail distribution business will decline in importance over the medium term. We will endeavor to streamline this business and reinforce ties with RETAIL INFORMATION SOLUTIONS, CO., LTD., a consolidated subsidiary. Meanwhile, another subsidiary, Facility Expert Services, co., ltd., will spearhead our business development in center management services, a small but important niche where we can demonstrate our unique capabilities. To implement these measures swiftly, we will actively consider forming alliances with other companies.

Over the medium term, we are targeting consolidated income before extraordinary items of ¥2,400 million and return on equity (ROE) of 14% by fiscal 2007. During that time, we intend to make substantial progress in terms of strengthening the Group's growth while attracting new clients, leading to increased profits.

Q3 *What are your strategies for growth businesses, beginning with card systems?*

A. This business centers mainly on development, operation and maintenance of information systems for Credit Saison. That company is one of Japan's Top 3 credit card companies in terms of cardholders, card use and transaction volume, and its business continues to grow steadily. Recently, it has pursued an active alliance strategy aimed at future growth, and the company is also planning to set up contact centers employing the latest technologies. We intend to play an active role in Credit Saison's contact center plans. This will require ongoing investments in systems in the foreseeable future, and, for this reason, we will separate our activities into "offensive" and "defensive" tasks. On the offensive side, we will strengthen our advanced solutions consulting capabilities, as well as our ability to execute large-scale projects. On the defensive front, we will reinforce information security and more effectively address the expanding volume of information to be processed. In these ways, we will strive to aggressively expand our business.

Q4 *Fiscal 2004 was a good year for HULFT. Do you anticipate further growth in the future?*

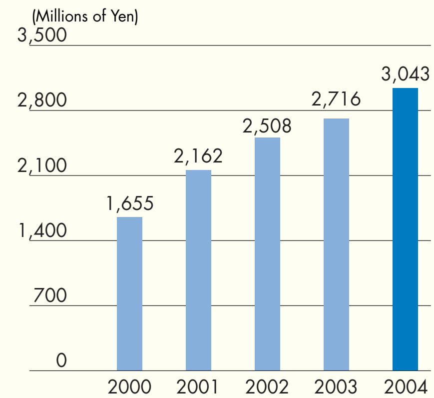
A. In April 2003, we released our latest version of the *HULFT* series, *HULFT6*. This helped boost *HULFT* sales to ¥3,043 million, an increase of 12.0% over fiscal 2003, and firmly place us on a growth track. Related technical support services accounted for more than 35% of *HULFT* sales, contributing significantly to earnings.

In fiscal 2004, we actively targeted alliances with major IT vendors, including Microsoft Co., Ltd. (Japan), EMC Japan K.K. and IBM Japan, Ltd. In February 2004, we opened a *HULFT* support service center in New York. In these and other ways, we made strenuous efforts to broaden our profile.

From the perspective of our clients, *HULFT* is evolving from a "file and data communications tool" into "system foundation middleware." We are also using *HULFT* in combination with other companies' products to expand our solutions business. Our policy for the future is to develop a strong lineup of offerings, including broadband products and solutions for Internet Protocol (IP) and electronic data interchange (EDI) networks, and markets for inter-company transactions. We are already developing a series of products based on the *HULFT* communications platform, and are confident that we can achieve solid growth by consistently meeting the expectations of our clients.

HULFT6

Sales of HULFT



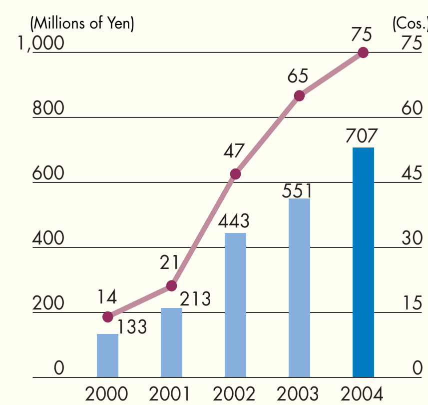
Q5 *What is the status of Bulas?*

A. Thanks to demand from companies faced with increasingly complex personnel and payroll systems, sales of *Bulas* in fiscal 2004 jumped 28.3%, to ¥707 million, and the number of clients grew from 65 to 75. Our *Bulas* services incorporate a broad range of functions, from payroll calculation to such related services as salary payment outsourcing, Web attendance management and payslip systems via the Internet. As a system that fully addresses the outsourcing needs of clients, *Bulas* is attracting widespread attention.

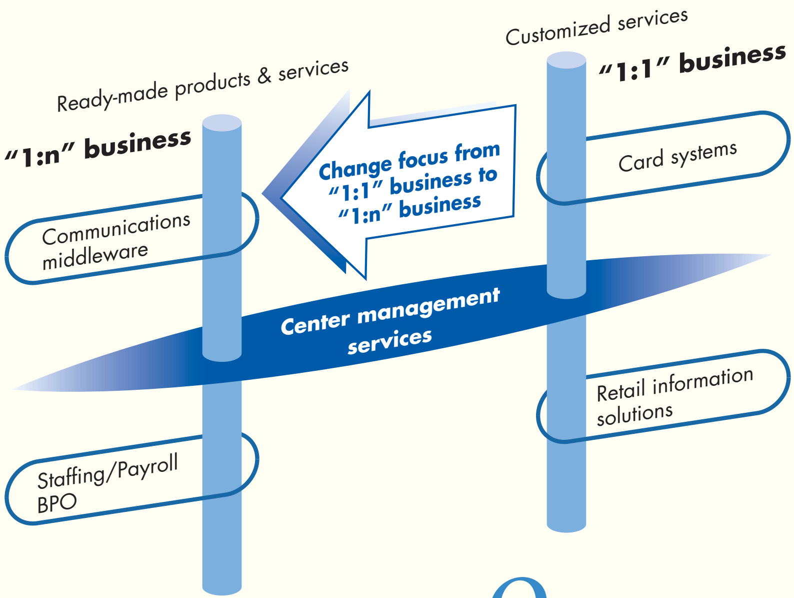
Going forward, we will strive to attract new clients while focusing on raising profitability through streamlining and cost reductions. To maximize profitability, we will concentrate on companies with 1,000 to 3,000 employees, rather than our previous approach of targeting all companies, big and small.

BuLAS

Sales of Bulas and Number of Clients*



*The number of clients that introduced *Bulas* has been adjusted, with consideration given to mergers that took place in previous fiscal years.



Q6 *What are your strengths and strategies for succeeding in the IT industry?*

A. In the past several years, computer manufacturers have focused on strengthening their software and service capabilities. At the same time, new companies have successively entered the market, creating an increasingly intense competitive environment. For a long time, companies have faced pressure from clients to lower their prices. Many have responded by outsourcing functions overseas, taking advantage of production resources in China and India. All of these trends together underscore the growing complexity of client needs with respect to information systems and networks.

To maintain a high profile and succeed against the competition, service providers must attract new clients by clearly demonstrating their unique capabilities and competitive strengths, even in niche markets. For this reason, the Saison Information Systems Group will focus on promoting *HULFT* and *Bulas*, a "1:n" business product and service, respectively, that can be tailored to meet the requirements of more than one client. We will also endeavor to develop our card systems business, previously a "1:1" business, into a "1:n" business. Here, we will use our relationship with Credit Saison to secure IT processing business from that company's alliance partners. For clients in the retail distribution and services sector, as well, we will draw on our accumulated know-how to develop "1:n" services.

Q7 What are you doing with respect to ensuring security of information and the quality of products and services?

A. One of our greatest strengths is our reliability, which draws on a track record built up over many years. In addition to Privacy Mark certification, we have obtained Information Security Management System (ISMS)* certification for our Systems Center and ISO 9001 certification for quality management at eight of our divisions. These efforts reflect our steadfast commitment to improving the safety and quality of our products and services. Anticipating tougher legislation regarding the privacy of individuals (the Law Concerning the Protection of Personal Information), we are currently engaged in a core project designed to reinforce information security and enhance product quality.

* ISMS is a conformity assessment system for information security management developed by JIPDEC, a METI-affiliated organization. It is based on BS 7799, a British Standard, and it is compatible with the international standard ISO/IEC 17799.

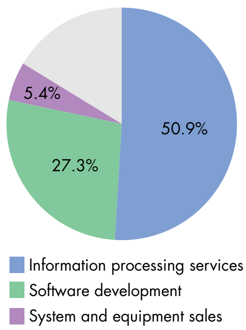
Q8 Can you explain why you reclassified your business segments and product groupings in fiscal 2004?

A. The Saison Information Systems Group is an integrated information services provider. Due to the nature of our activities, we did not classify our operations into specific segments in the past. Rather, we disclosed our results according to four product genres from the perspective of production and sales. In recent years, however, we have expanded our business in the development, sale and maintenance of software packages, such as *HULFT*. These activities have come to assume an important strategic position in our overall operations, and we have established a system through which we can manage our assets and revenues by segment. For this reason, from fiscal 2004 we have classified our operations into two business segments: (1) System Construction and Operation Business, and (2) Package Software Business.

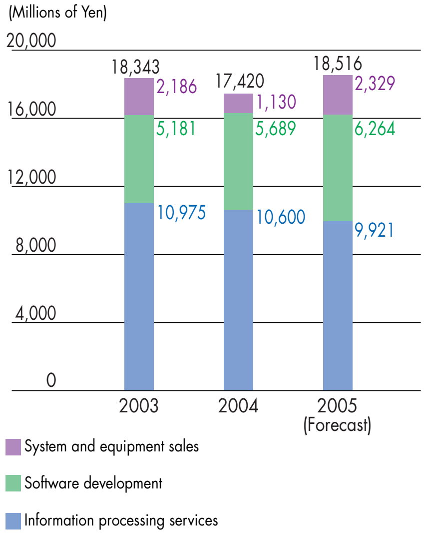
Note: Fiscal 2004 is the first fiscal year in which business segment information is disclosed. However, this report also includes business segment information for fiscal 2003, based on the reclassification of business segments, for the purpose of comparison.

Segment		Major Business Activities
System Construction and Operation Business	Information processing services	Computer-based computation under consignment Computer and system operation under consignment Data input/output Data transmission Salary payment outsourcing services
	Software development	Software development under consignment Local area network (LAN) construction and transmission system construction System maintenance and management
	System and equipment sales	Sales and maintenance of PCs, workstations, peripherals and software
Package Software Business	Sales of packages	Development, sales and maintenance of software packages, such as *HULFT*
	Package-related services	Middleware solution services related to *HULFT* and other packages

Share of Net Sales



Sales



System Construction and Operation Business

This segment is classified into three categories: information processing services, software development, and system and equipment sales.

Information processing services: Although we expanded our client base for *Bulas* and center management services, demand for services from existing clients declined. As a result, sales in this category totaled ¥10,600 million in fiscal 2004, down 3.4% from the previous fiscal year. Gross profit fell 8.6%, to ¥2,375 million, due to the decline in sales and an increase in the ratio of fixed costs to sales. The gross profit margin, therefore, slipped 1.3 points, to 22.4%.

Software development: Sales in this category rose 9.8%, to ¥5,689 million, thanks mainly to an increase in orders for large-scale projects in the card systems business. Gross profit jumped 40.7%, to ¥812 million, as a sales-driven increase in productivity compensated for negative factors, including amortization of work in progress. The gross profit margin edged up 3.1 points, to 14.3%.

System and equipment sales: Category sales fell 48.3%, to ¥1,130 million, following major successes in the previous fiscal year, when we secured substantial orders. Gross profit declined 33.1%, to ¥178 million, but the gross profit margin grew 3.6 points, to 15.8%.

As a consequence, sales in the System Construction and Operation Business segment declined 5.0%, to ¥17,420 million, and gross profit slipped 2.2%, to ¥3,367 million.

In fiscal 2005, we expect to secure large-scale orders for software development in the card systems field, which should compensate for a decline in revenues from the retail distribution sector. For the year, we forecast a 6.3% increase in segment sales, to ¥18,516 million.

System Construction and Operation

Package Software Business

This segment is divided into two categories: sales of packages and package-related services.

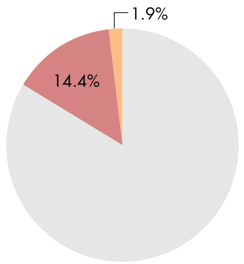
Sales of packages: Sales in this category rose 12.0%, to ¥3,009 million, owing largely to the release of *HULFT6*—a new version of the mainstay *HULFT* package—which attracted particularly strong demand from the financial services sector. Gross profit gained 4.8%, to ¥2,097 million, but the gross profit margin fell 4.7 points, to 69.7%, due to factors associated with work in progress and a rise in depreciation expenses. As of March 31, 2004, we had sold a cumulative total of 60,000 *HULFT* units to approximately 3,500 corporate clients, cementing our No. 1 position in the communications middleware market.

Package-related services: Category sales surged 65.7%, to ¥402 million, owing to higher sales of middleware solutions accompanying growth in our *HULFT* business. Gross profit soared 109.6%, to ¥40 million, thanks to an increase in sales for software development, which is a highly profitable service. The gross profit margin, therefore, rose 2.1 points, to 10.1%.

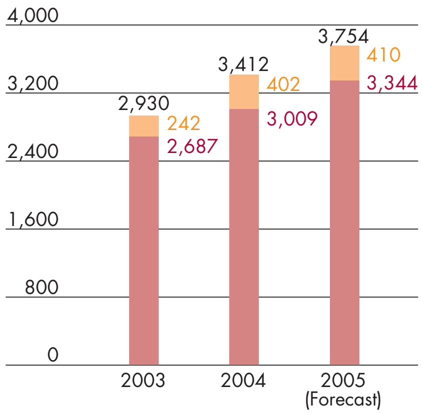
As a result, sales in the Package Software Business segment climbed 16.4%, to ¥3,412 million, and gross profit grew 5.8%, to ¥2,137 million.

In fiscal 2005, we project a 10.0% rise in segment sales, to ¥3,754 million.

Share of Net Sales



Sales



Package Software

Basic Corporate Governance Policies and Fiscal 2004 Highlights

In addition to ongoing efforts to enhance operating efficiency, we at Saison Information Systems believe that the cornerstone of corporate governance is to raise transparency, and thus, ensure accountability to stakeholders. To this end, we are reinforcing the capabilities of the Board of Directors and statutory auditors by appointing individuals from outside the Company. In fiscal 2004, we appointed two new external directors. The Board of Directors meets once a month, in principle, and more often if necessary. Also, we have an agreement with ChuoAoyama PricewaterhouseCoopers, which performs interim and year-end audits of the Company. In addition, we have established a risk management committee aimed at strengthening our ability to control risk.

Board of Directors (As of September 30, 2004)

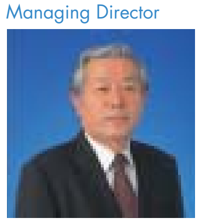
Chairman

Kazuo Kura*

President

Toshiyuki Furuta*

Managing Director

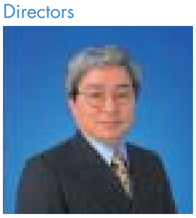


Keisuke Tanabe

Adviser

Takashi Miyano

Directors



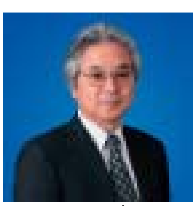
Taisuke Kishi

Hiroo Notsu

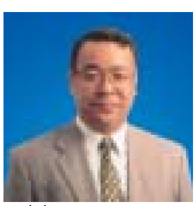
Masahisa Kubota

Shinji Nishikawa

Makoto Kasai



Satoru Sugasaki

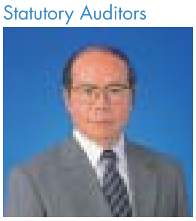


Toshiharu Yamamoto**

Kazuhiko Adachi**

Shigeru Hatta**

Statutory Auditors



Takeshi Kokubu

Masayoshi Ohtake

Junichi Yamamoto**

Shigeru Miki**

*Representative Director
**Director or Statutory Auditor (Non-full-time)

Transfer of duties

A special meeting for shareholders is scheduled for October 15, 2004. This will be followed by a Board of Directors' meeting, at which Takashi Miyano, an adviser to the Company, is expected to be appointed president, while Toshiyuki Furuta, the current president, will become a consultant to the Board of Directors.

Notes: 1. Messrs. Toshiharu Yamamoto and Kazuhiko Adachi are outside directors, as set forth in Article 188, Paragraph 2, Item 7-2, of the Japanese Commercial Code.
2. Messrs. Junichi Yamamoto and Shigeru Miki are outside statutory auditors, as provided in Article 18, Section 1, of the Law for Special Exceptions to the Japanese Commercial Code concerning Audits, etc., of Kabushiki Kaisha†.

† Joint stock corporations

Seven-Year Financial Summary

For the years ended March 31, 2004, 2003, 2002, 2001, 2000, 1999 and 1998

Millions of Yen

	2004	2003	2002	2001	2000	1999	1998
For the Year:							
Net sales	**¥20,833**	¥21,273	¥20,820	¥19,393	¥19,291	¥18,509	¥18,505
Income from operations	**2,202**	2,298	1,849	1,263	662	1,187	892
Income before extraordinary items	**2,227**	2,337	1,876	1,280	675	1,209	909
Net income	**248**	29	947	532	355	564	453
Net cash provided by operating activities	**868**	1,325	1,852	1,660	992	—	—
Net cash provided by (used in) investing activities	**(286)**	(921)	(2,453)	1,835	(497)	—	—
Net cash provided by (used in) financing activities	**(121)**	(121)	(121)	(707)	406	—	—
Free cash flow	**582**	404	(600)	3,496	494	—	—
At Year-End:							
Total assets	**15,071**	13,507	14,816	14,787	10,915	10,056	9,083
Total shareholders' equity	**7,445**	7,135	7,379	6,593	6,096	5,863	5,236

Yen

	2004	2003	2002	2001	2000	1999	1998
Per Share:							
Net income	**28.45**	0.13	117.04	65.79	43.87	69.75	56.05
Shareholders' equity	**917.07**	877.52	911.12	814.06	752.66	723.84	646.66
Cash dividends	**15.00**	15.00	15.00	15.00	12.00	12.00	10.00
Other Information:							
Return on sales (ROS) (%)	**10.7**	11.0	9.0	6.6	3.5	6.5	4.9
Return on equity (ROE) (%)	**3.4**	0.4	13.6	8.4	5.9	10.2	—
Return on assets (ROA) (%)	**15.6**	16.5	12.7	10.0	6.4	12.6	—
Equity ratio (%)	**49.4**	52.8	49.8	44.6	55.8	58.3	57.6
Number of employees	**704**	788	767	707	711	—	—
Net sales per employee (Yen)	**27,926**	27,361	28,249	27,352	—	—	—

Notes: (1) Free cash flow = Net cash provided by operating activities – Net cash provided by (used in) investing activities
(2) ROS = Income before extraordinary items ÷ Net sales x 100
(3) ROE = Net income ÷ Average total shareholders' equity x 100
(4) ROA = Income before extraordinary items ÷ Average total assets x 100
(5) Equity ratio = Total shareholders' equity ÷ Total assets x 100
(6) Net sales per employee = Net sales ÷ Average number of employees

Performance

In fiscal 2004, ended March 31, 2004, the Japanese economy began to show some positive signs, but conditions remained generally difficult. The situation for the information services sector was similar, although the industry posted a moderate recovery in the second half of the term.

Facing these conditions, the Saison Information Systems Group reported consolidated net sales of ¥20,833 million, down 2.1% from fiscal 2003. Income before extraordinary items slipped 4.7%, to ¥2,227 million. The Group posted a net extraordinary loss of ¥1,900 million, which included a ¥1,210 million loss on cancellation of outsourcing service contract. Net income soared 732.6%, to ¥248 million.

Within net sales, sales from the System Construction and Operation Business fell 5.0%, to ¥17,420 million, while sales in the Package Software Business climbed 16.4%, to ¥3,412 million.

Cost of sales declined 3.1%, to ¥15,327 million, which was equivalent to 73.6% of net sales, a 0.7 percentage point decrease. This improvement resulted from more efficient use of information services equipment; enhanced productivity owing to higher software development sales; and increased sales of packaged products, which are highly profitable offerings.

Selling, general and administrative (SG&A) expenses rose 4.4%, to ¥3,302 million, or 15.8% of net sales, up 0.9 percentage point. Although advertising and promotion costs declined 18.0%, personnel costs increased due to higher retirement benefit expenses and higher public welfare costs associated with the transition to the system of social insurance premiums based on full annual income. Research and development (R&D) costs, which are included in SG&A expenses, edged down 0.7%, to ¥108 million, or 0.5% of net sales, the same level as the previous fiscal year.

Despite an improvement in gross profit, the increase in SG&A expenses caused income from operations to fall 4.2%, to ¥2,202 million, or 10.6% of net sales, down 0.2 percentage point.

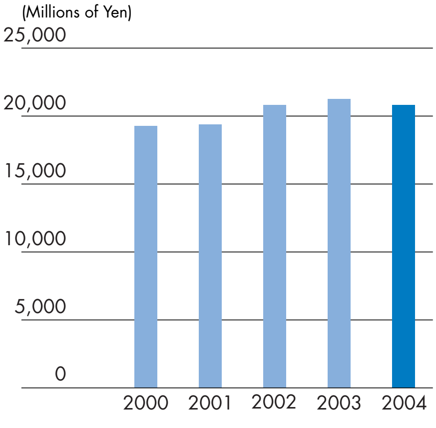
Net other income decreased 35.3%, to ¥25 million, due to a significant decline in lease income, which outweighed the receipt of interest on income tax refund.

Owing to declines in income from operations and net other income, income before extraordinary items slipped 4.7%, to ¥2,227 million, or 10.7% of net sales, down 0.3 percentage point.

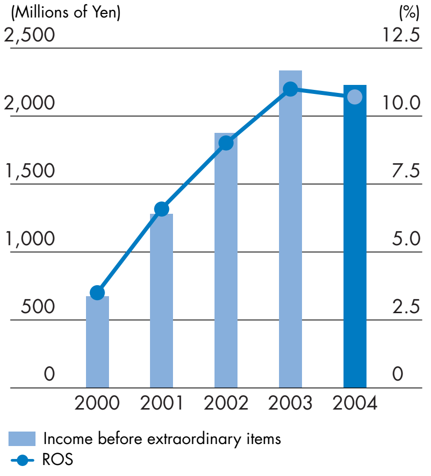
Net extraordinary loss fell 6.7%, to ¥1,900 million, resulting from a ¥1,210 million loss on cancellation of outsourcing service contract; ¥416 million in additional benefit payments under early retirement program; and a ¥54 million loss on exemption from obligation of substitutional portion of Employees' Pension Fund (EPF). (Net extraordinary loss in the previous fiscal year totaled ¥2,037 million, owing primarily to a ¥2,006 million loss on write-down of investments in securities.)

Income before income taxes and minority interests rose 9.0%, to ¥326 million, which was equivalent to 1.6% of net sales, a 0.2 percentage point increase.

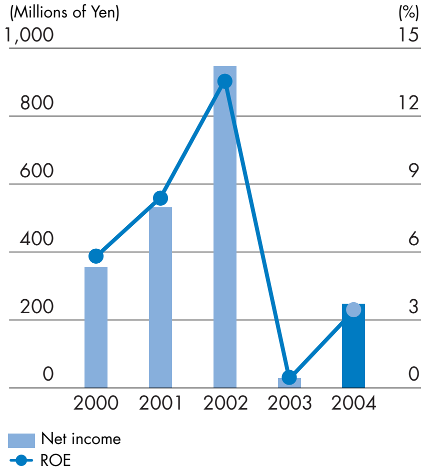
Net Sales



Income before Extraordinary Items and ROS



Net Income and ROE



The effective legal income tax rate remained unchanged, at 41.7%. The rate after applying tax-effect accounting, however, fell 66.1 percentage points, from 90.1% to 24.0%. Of this decline, 50.3 percentage points stemmed from a valuation reserve and 10.5 percentage points from tax deductions for capital investments.

Consequently, although income before extraordinary items was down, income taxes also decreased, leading to a 732.6% jump in net income, to ¥248 million. Net profit margin thus improved 1.1 percentage points, to 1.2%.

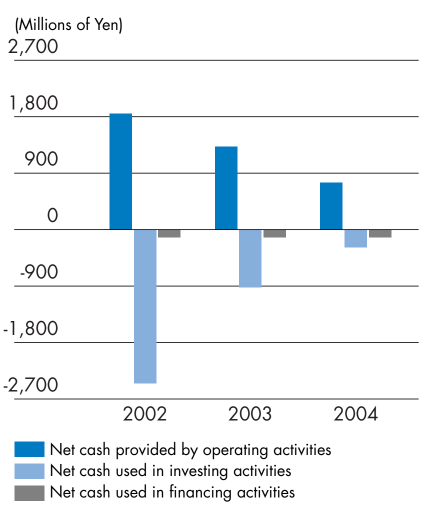
Sources of Funds and Liquidity

Net cash provided by operating activities amounted to ¥868 million, while net cash used in investing activities totaled ¥286 million, and net cash used in financing activities amounted to ¥121 million. As a result, cash and cash equivalents at end of year stood at ¥4,985 million, up ¥461 million from a year earlier.

Demand for working capital stems mainly from manufacturing costs and operating expenses, including SG&A and other expenses. The principal components of manufacturing costs include vendor costs related to the System Construction and Operation Business, as well as the Package Software Business, and labor costs and other expenses. The principal components of operating expenses include personnel costs, advertising and promotional costs, and rental costs.

The Group's basic policy is to generate funds for working capital and capital investments internally. Since we have a sound financial position and the ability to generate cash inflows from operating activities, we believe we are well-positioned to procure the necessary funds for working capital and capital investments necessary to sustain future growth.

Cash Flows



Business Risks

A number of risks have the potential to affect the Group's business performance, share price and financial position. Listed below are major risks and include forward-looking statements that are based on information available to the Group as of June 2004.

Damage to information systems or inadequate information security

The Group is entrusted with various functions, such as the development and operation of its information system for the credit business and the retail distribution and services sector. It also is entrusted with the development and operation of personnel and payroll systems. It is conceivable that damage may occur to various information systems, including the Group's outsourcing communications network and its electrical systems. Security issues, such as unplanned disclosure of personal information, could also arise. In the event of such situations, the Group could potentially be affected by loss of credibility, loss of customers, requests for damage compensation and other factors.

Software development for new products and services

To maintain and reinforce its market competitiveness, the Group invests in the development of package software and software for providing services. Work in progress is included in the "software" portion of the Group's assets. A number of factors could prevent the Group from meeting its investment recovery schedule. These include downward revision to profit forecasts, delays in development programs and increases in costs. In such events, the Group may need to subject the "software" portion of its assets to devaluation.

Performances of certain clients

The Group's four largest clients—Credit Saison, Seiyu, Sogo and Seibu Department Stores—together account for 55.6% of net sales. A decline in sales to any of these companies could potentially cause the Group's profits to contract.

Dependence on certain products

HULFT, our Transmission Control Protocol (TCP)/IP-based communications middleware, is a highly profitable product that was developed in-house. With each passing year, the Group's overall profitability becomes more and more dependent on *HULFT*. A future slowdown in sales of this product could potentially cause the Group's profits to contract.

Other

In fiscal 2004, the Group posted a ¥1,210 million loss on cancellation of outsourcing service contract for a new client, for which the Group had already done significant work. The Group is presently in negotiations with the client to apportion responsibility and cost obligations. The outcome of those negotiations may affect the Group's performance in fiscal 2005 and beyond.

Consolidated Balance Sheets

SAISON INFORMATION SYSTEMS CO., LTD. and its Subsidiaries
As of March 31, 2004 and 2003

ASSETS	Thousands of Yen 2004	2003	Thousands of U.S. Dollars (Note 3) 2004
Current Assets:			
Cash on hand and at bank (Note 4)	¥ 4,985,844	¥ 4,524,734	$ 47,201
Notes and accounts receivable	3,428,599	2,715,097	32,458
Less: allowance for doubtful accounts	(2,253)	(4,448)	(21)
	3,426,346	2,710,648	32,437
Inventories	793,182	587,350	7,509
Deferred tax assets (Note 6)	518,999	347,480	4,913
Other current assets	258,187	602,015	2,444
Total current assets	9,982,561	8,772,230	94,504
Investments and Advances:			
Investments in securities (Note 5)	992,029	620,415	9,391
Other investments	569,494	636,393	5,391
Total investments and advances	1,561,523	1,256,808	14,782
Property, Plant and Equipment:			
Buildings and structures	2,194,492	2,312,328	20,775
Less: accumulated depreciation	(1,258,148)	(1,226,361)	(11,910)
	936,343	1,085,967	8,864
Tools, furniture and fixtures	1,343,316	1,673,502	12,717
Less: accumulated depreciation	(968,243)	(1,204,919)	(9,166)
	375,072	468,583	3,550
Land	58,641	58,641	555
Other	1,560	1,560	14
Less: accumulated depreciation	(1,482)	(1,482)	(14)
	78	78	0
Total property, plant and equipment	1,370,135	1,613,270	12,971
Intangibles and Deferred Charges:			
Software (Note 12)	805,065	590,299	7,621
Other Intangibles (Note 12)	42,667	57,502	403
Deferred tax assets (Note 6)	1,309,403	1,217,321	12,396
Total intangibles and deferred charges	2,157,137	1,865,123	20,421
Total Assets	¥15,071,357	¥13,507,432	$142,680

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

LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	Thousands of Yen 2004	2003	Thousands of U.S. Dollars (Note 3) 2004
Current Liabilities:			
Notes and accounts payable	**¥ 2,131,609**	¥ 1,558,094	**$ 20,179**
Accrued income taxes (Note 6)	**390,517**	111,079	**3,697**
Accrued bonuses to employees	**584,353**	598,495	**5,532**
Accrued expenses	**674,914**	626,330	**6,389**
Other current liabilities	**630,200**	599,401	**5,966**
Total current liabilities	**4,411,594**	3,493,402	**41,764**
Accrued Employees' Retirement Benefits (Note 7)	**2,851,615**	2,688,989	**26,996**
Accrued Retirement Benefits to Directors and Corporate Auditors	**230,700**	173,060	**2,184**
Accrued Liabilities Related to Fixed Assets	**125,744**	—	**1,190**
Other Long-Term Liabilities	**6,566**	16,166	**62**
Total long-term liabilities	**3,214,625**	2,878,215	**30,432**
Minority Interests	**—**	—	**—**
Shareholders' Equity (Note 11)**:**			
Common stock:			
Authorized: 30,000,000 shares at March 31, 2004 and 2003			
Issued: 8,100,000 shares at March 31, 2004 and 2003	**1,367,687**	1,367,687	**12,947**
Additional paid-in capital	**1,461,277**	1,461,277	**13,833**
Retained earnings	**4,430,578**	4,332,564	**41,944**
	7,259,543	7,161,529	**68,726**
Valuation gain (loss) on available-for-sale securities	**186,540**	(24,768)	**1,765**
Less: treasury stock	**(947)**	(947)	**(8)**
Total shareholders' equity	**7,445,137**	7,135,813	**70,483**
Total Liabilities, Minority Interests and Shareholders' Equity	**¥15,071,357**	¥ 13,507,432	**$142,680**

Consolidated Statements of Income

SAISON INFORMATION SYSTEMS CO., LTD. and its Subsidiaries
For the years ended March 31, 2004 and 2003

	Thousands of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2003	**2004**
Net Sales:			
Systems integration services revenue	**¥19,473,663**	¥18,937,331	**$184,357**
Merchandise sales	**1,359,525**	2,336,171	**12,870**
	20,833,189	21,273,502	**197,227**
Cost of Sales:			
Cost of systems integration services revenue	**14,150,567**	13,752,147	**133,963**
Cost of merchandise sales	**1,177,154**	2,057,845	**11,144**
	15,327,721	15,809,992	**145,107**
Gross profit	**5,505,467**	5,463,509	**52,120**
Selling, General and Administrative Expenses (Notes 9 and 10)	**3,302,904**	3,164,627	**31,268**
Income from operations	**2,202,563**	2,298,882	**20,851**
Other Income (Expenses):			
Interest and dividend income	**6,122**	4,910	**57**
Insurance dividend income	**3,995**	4,449	**37**
Lease income	**2,874**	24,775	**27**
Interest expense	**(1,759)**	(2,637)	**(16)**
Interest on income tax refund	**10,503**	—	**99**
Other—net	**3,281**	7,145	**31**
Income before extraordinary items	**2,227,581**	2,337,525	**21,088**
Extraordinary Profit (Loss):			
Reversal of allowance for doubtful accounts	**2,182**	2,413	**20**
Loss on disposal of property, plant and equipment	**(197,502)**	(33,549)	**(1,869)**
Loss on write-down of investments in securities	**(24,529)**	(2,006,622)	**(232)**
Loss on cancellation of outsourcing service contract	**(1,210,573)**	—	**(11,460)**
Additional benefit payments under early retirement program	**(416,012)**	—	**(3,938)**
Loss on exemption from obligation of substitutional portion of Employees' Pension Fund (EPF)	**(54,546)**	—	**(516)**
Income before income taxes and minority interests	**326,600**	299,766	**3,091**
Income Taxes (Note 6)**:**			
Current	**486,973**	146,193	**4,610**
Deferred	**(408,631)**	123,755	**(3,868)**
	78,341	269,949	**741**
Minority Interests	**—**	—	**—**
Net Income	**¥ 248,259**	¥ 29,817	**$ 2,350**

	Yen		U.S. Dollars (Note 3)
Per Share (Note 2(14))**:**			
Net income:			
Basic	**¥28.45**	¥ 0.13	**$0.26**
Diluted	**—**	—	**—**
Cash dividends:			
Common shares	**¥15.00**	¥15.00	**$0.14**

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

Consolidated Statements of Shareholders' Equity

SAISON INFORMATION SYSTEMS CO., LTD. and its Subsidiaries
For the years ended March 31, 2004 and 2003

	Thousands of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2003	**2004**
Common Stock:			
Balance at beginning of year	**¥1,367,687**	¥1,367,687	**$12,947**
Balance at end of year	**¥1,367,687**	¥1,367,687	**$12,947**
Additional Paid-in Capital:			
Balance at beginning of year	**¥1,461,277**	¥1,461,277	**$13,833**
Balance at end of year	**¥1,461,277**	¥1,461,277	**$13,833**
Retained Earnings:			
Balance at beginning of year	**¥4,332,564**	¥4,467,372	**$41,016**
Net income	**248,259**	29,817	**2,350**
Cash dividends	**(121,485)**	(121,485)	**(1,150)**
Bonuses to directors and corporate auditors	**(28,760)**	(43,140)	**(272)**
Balance at end of year	**¥4,430,578**	¥4,332,564	**$41,944**
Valuation Gain (Loss) on Available-for-Sale Securities:			
Balance at beginning of year	**¥ (24,768)**	¥ 83,750	**$ (234)**
Net change during the year	**211,309**	(108,519)	**2,000**
Balance at end of year	**¥ 186,540**	¥ (24,768)	**$ 1,765**
Treasury Stock, at Cost	**¥ (947)**	¥ (947)	**$ (8)**

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

Consolidated Statements of Cash Flows

SAISON INFORMATION SYSTEMS CO., LTD. and its Subsidiaries
For the years ended March 31, 2004 and 2003

	Thousands of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2003	**2004**
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	**¥ 326,600**	¥ 299,766	**$ 3,091**
Adjustments for:			
Depreciation and amortization	**641,694**	451,056	**6,074**
Increase (Decrease) in allowance for doubtful accounts	**(2,195)**	(33,845)	**(20)**
Loss on disposal of property, plant and equipment	**197,502**	33,549	**1,869**
Increase (Decrease) in accrued bonuses to employees	**(14,142)**	18,773	**(133)**
Increase (Decrease) in accrued employees' retirement benefits	**162,625**	(38,000)	**1,539**
Increase (Decrease) in accrued retirement benefits to directors and corporate auditors	**57,640**	(35,800)	**545**
Interest and dividend income	**(6,122)**	(4,910)	**(57)**
Interest expense	**1,759**	2,637	**16**
Bonuses to directors and corporate auditors	**(28,760)**	(43,140)	**(272)**
Loss on write-down of investments in securities	**24,529**	2,006,622	**232**
Decrease (Increase) in notes and accounts receivable	**(713,502)**	206,639	**(6,754)**
Decrease (Increase) in inventories	**(205,831)**	2,094	**(1,948)**
Increase (Decrease) in notes and accounts payable	**573,514**	(399,547)	**5,429**
Decrease (Increase) in other current assets	**(326,324)**	(146,690)	**(3,089)**
Increase (Decrease) in other current liabilities	**60,188**	(116,098)	**569**
Subtotal	**749,177**	2,203,107	**7,092**
Interest and dividend received	**6,122**	4,910	**57**
Interest paid	**(1,759)**	(2,637)	**(16)**
Income taxes paid	**(205,099)**	(879,605)	**(1,941)**
Income tax refund	**320,303**	—	**3,032**
Net cash provided by operating activities	**868,744**	1,325,774	**8,224**
Cash Flows from Investing Activities:			
Payments for purchase of investments in securities	**(40,000)**	(379,823)	**(378)**
Payments for purchase of property, plant and equipment	**(183,185)**	(384,340)	**(1,734)**
Proceeds from sale of property, plant and equipment	**6,793**	7,916	**64**
Payments for purchase of other investments	**(130,821)**	(164,823)	**(1,238)**
Proceeds from disposal of other investments	**61,065**	—	**578**
Net cash used in investing activities	**(286,149)**	(921,070)	**(2,708)**
Cash Flows from Financing Activities:			
Cash dividends paid	**(121,485)**	(121,485)	**(1,150)**
Net cash used in financing activities	**(121,485)**	(121,485)	**(1,150)**
Net Increase (Decrease) in Cash and Cash Equivalents	**461,110**	283,218	**4,365**
Cash and Cash Equivalents at Beginning of Year	**4,524,734**	4,241,515	**42,835**
Cash and Cash Equivalents at End of Year	**¥4,985,844**	¥4,524,734	**$47,201**

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

Notes to the Consolidated Financial Statements

SAISON INFORMATION SYSTEMS CO., LTD. and its Subsidiaries
For the years ended March 31, 2004 and 2003

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of SAISON INFORMATION SYSTEMS CO., LTD. (the "Company") and its subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

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, 2004, 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 by the Company.

(3) Translation of Foreign Currency

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

(4) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on 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 the 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) Intangibles and Long-Term Prepaid Expenses

Amortization of intangibles 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 sale are computed using 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.

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 are determined using the asset and liability approach, whereby deferred tax assets and liabilities are recognized with respect to 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 retirement benefit plans under which the retiring employees are entitled to lump-sum payments determined by reference to the current rates of pay, lengths of service, 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 the 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 a period of 10 years and unrecognized actuarial differences are amortized on a straight-line basis over a period of 10 years from the year following the 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.

On or after October 1, 2003, the Japanese government grants 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 is transferred to JPI.

The Company and its subsidiaries obtained the "first approval" on April 23, 2002 and the "final approval" on October 1, 2003 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 Postretirement Benefits (Interim Report)" issued by JICPA, and recognized 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).

The transfer of the substitutional portion to the government was made on March 19, 2004. The effect on the Company's Consolidated Statement of Income for the year ended March 31, 2004 was an extraordinary loss of ¥54,546 thousand ($516 thousand).

(b) Retirement Benefits to Directors and Corporate Auditors

Accrued retirement benefits to directors and corporate auditors of the Company and its 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 are recorded as an asset or a liability and are not included in the respective account items on the Consolidated Statements of Income.

(16) Accounting Standard for Impairment of Fixed Assets

On August 9, 2002, the Business Accounting Council in Japan issued "Accounting Standard for Impairment of Fixed Assets." The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price and value in use.

The standard is effective for fiscal years beginning April 1, 2005. However, earlier adoption is permitted for fiscal years beginning April 1, 2004 and for fiscal years ending between March 31, 2004 and March 30, 2005.

The Company and its subsidiaries have not adopted this standard in this fiscal year and are currently in the process of assessing the potential impact of the standard on the financial position, results of operations and cash flows of the Company.

3. United States Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥105.63=US$1, the approximate rate of exchange prevailing at March 31, 2004, 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, 2004 and 2003, consisted of:

	Thousands of Yen		Thousands of U.S. Dollars (Note 3)
March 31	**2004**	2003	**2004**
Cash on hand and at bank	**¥4,985,844**	¥4,524,734	**$47,201**
Short-term investments	**—**	—	**—**
Cash and cash equivalents	**¥4,985,844**	¥4,524,734	**$47,201**

5. Investments in Securities

Investments in securities as of March 31, 2004 and 2003, 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, 2004 and 2003, are as follows:

	Thousands of Yen			
March 31, 2004	Acquisition Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Amount
Equity securities	**¥590,778**	**¥316,204**	**¥(1,633)**	**¥905,349**
Other	**—**	**—**	**—**	**—**
Total	**¥590,778**	**¥316,204**	**¥(1,633)**	**¥905,349**

	Thousands of U.S. Dollars (Note 3)			
March 31, 2004	Acquisition Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Amount
Equity securities	**$5,592**	**$2,993**	**$(15)**	**$8,570**
Other	**—**	**—**	**—**	**—**
Total	**$5,592**	**$2,993**	**$(15)**	**$8,570**

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

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

The following is a summary of non-marketable securities:

	Thousands of Yen	Thousands of U.S. Dollars (Note 3)
March 31, 2004	Acquisition Cost	Acquisition Cost
Unlisted equity securities	**¥86,679**	**$820**
Total	**¥86,679**	**$820**

	Thousands of Yen
March 31, 2003	Carrying Amount
Unlisted equity securities	¥71,404
Total	¥71,404

6. Income Taxes

The Company and its subsidiaries are subject to several taxes based on income, which in the aggregate resulted in a statutory tax rate of approximately 41.7% for the fiscal years ended March 31, 2004 and 2003.

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, 2004 and 2003, significant components of deferred tax assets and liabilities were as follows:

	Thousands of Yen		Thousands of U.S. Dollars (Note 3)
March 31	**2004**	2003	**2004**
Deferred tax assets:			
Accrued enterprise tax	**¥ 39,490**	—	**$ 373**
Accrued bonuses to employees	**238,997**	¥ 207,488	**2,262**
Accrued retirement benefits to directors and corporate auditors	**94,251**	73,469	**892**
Accrued employees' retirement benefits	**1,142,082**	1,070,414	**10,812**
Amortization of software costs	**—**	45,091	**—**
Amount of loss carried forward	**—**	78,543	**—**
Excess depreciation expense	**159,919**	—	**1,513**
Write-down of merchandise	**94,903**	—	**898**
Other	**186,789**	197,630	**1,768**
Total deferred tax assets	**1,956,433**	1,672,638	**18,521**
Less valuation allowance	**—**	(78,543)	**—**
Net deferred tax assets	**1,956,433**	1,594,095	**18,521**
Deferred tax liabilities:			
Valuation gain on available-for-sale securities	**(128,030)**	—	**(1,212)**
Other accounts receivable of enterprise tax	**—**	(29,293)	**—**
Total deferred tax liabilities	**(128,030)**	(29,293)	**(1,212)**
Net deferred tax assets	**¥1,828,403**	¥1,564,802	**$17,309**

A reconciliation between the statutory tax rate and the effective tax rate for the years ended March 31, 2004 and 2003, is as follows:

		Percent
March 31	**2004**	2003
Statutory tax rate	**41.7**	41.7
Non-deductible expenses	**7.2**	9.6
Inhabitants tax	**2.6**	1.7
Effect of change in the statutory tax rate	**4.9**	10.7
Valuation allowance of deferred tax assets	**(24.1)**	26.2
Tax deduction related to capital investment and others	**(10.5)**	—
Other	**2.2**	0.2
Effective income tax rate	**24.0**	90.1

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 fully realize the benefit of these deductible differences, as of March 31, 2004.

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.

In conjunction with the enforcement of the Defined Benefit Corporate Pension Plan Law, on October 1, 2003, the Company and its subsidiaries obtained an approval from the Ministry of Health, Labour and Welfare for the return of the substitutional portion of the employees' pension fund. The transfer of the substitutional portion to the government was made on March 19, 2004.

On April 1, 2004, the Company and its subsidiaries obtained an approval from the Ministry of Health, Labour and Welfare for adopting the defined-benefit pension plan for termination allowances accrued in the past and the defined-contribution pension plan for termination allowances to be accrued only for the future.

(2) Accrued Employees' Retirement Benefits

Accrued employees' retirement benefits as of March 31, 2004 and 2003, are calculated below:

	Thousands of Yen		Thousands of U.S. Dollars (Note 3)
March 31	**2004**	2003	**2004**
Retirement benefit obligation	**¥(3,116,652)**	¥(5,807,945)	**$(29,505)**
Plan assets	**818,960**	2,918,251	**7,753**
Funded status	**(2,297,691)**	(2,889,693)	**(21,752)**
Unrecognized actuarial differences	**209,601**	1,617,317	**1,984**
Unrecognized prior service cost	**(763,524)**	(1,416,614)	**(7,228)**
Accrued employees' retirement benefits	**¥(2,851,615)**	¥(2,688,989)	**$(26,996)**

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 years ended March 31, 2004 and 2003, are calculated below:

	Thousands of Yen		Thousands of U.S. Dollars (Note 3)
March 31	**2004**	2003	**2004**
Service costs	**¥ 368,365**	¥202,551	**$ 3,487**
Interest costs	**89,507**	80,279	**847**
Expected return on plan assets	**(76,892)**	(67,004)	**(727)**
Recognized actuarial difference as expense	**136,879**	118,277	**1,295**
Prior service cost accounted for as expense	**(126,594)**	(157,747)	**(1,198)**
Retirement benefit expenses	**391,265**	176,356	**3,704**
Loss on exemption from obligation of substitutional portion of Employees' Pension Fund (EPF)	**54,546**	—	**516**
	¥ 445,811	¥176,356	**$ 4,220**

Service costs include pension costs of subsidiaries calculated under the simple method.

(4) Assumptions Used in the Actuarial Computation

The assumptions used in the above actuarial computation for the years ended March 31, 2004 and 2003, are as follows:

March 31	**2004**	2003
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 year following the year in which they arise**	10 years from the year following the year in which they arise
Period of amortization of unrecognized prior service cost	**10 years**	10 years

8. Leases

Leased assets and related expenses, with respect to 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, 2004 and 2003, were ¥679,792 thousand ($6,435 thousand) and ¥889,260 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, 2004 and 2003:

	Thousands of Yen			Thousands of U.S. Dollars (Note 3)
March 31, 2004	Acquisition Costs	Accumulated Depreciation	Balance	Balance
Tools, furniture and fixtures	**¥2,845,672**	**¥1,753,577**	**¥1,092,094**	**$10,338**
	¥2,845,672	**¥1,753,577**	**¥1,092,094**	**$10,338**

	Thousands of Yen		
March 31, 2003	Acquisition Costs	Accumulated Depreciation	Balance
Tools, furniture and fixtures	¥3,782,599	¥2,103,713	¥1,678,886
	¥3,782,599	¥2,103,713	¥1,678,886

	Thousands of Yen		Thousands of U.S. Dollars (Note 3)
March 31	**2004**	2003	**2004**
Depreciation expense	**¥668,168**	¥825,718	**$6,325**
Interest expense	**¥ 30,703**	¥ 45,937	**$ 290**

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, 2004 and 2003, are as follows:

	Thousands of Yen		Thousands of U.S. Dollars (Note 3)
March 31	**2004**	2003	**2004**
Due within one year	**¥ 446,038**	¥ 646,790	**$ 4,222**
Due after one year	**678,564**	1,063,618	**6,423**
	¥1,124,603	¥1,710,408	**$10,646**

Future operating lease payments under non-cancelable lease contracts at March 31, 2004 and 2003, are as follows:

	Thousands of Yen		Thousands of U.S. Dollars (Note 3)
March 31	**2004**	2003	**2004**
Due within one year	**¥252,565**	¥91,008	**$2,391**
Due after one year	**32,257**	4,990	**305**
	¥284,823	¥95,999	**$2,696**

9. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses for the fiscal years ended March 31, 2004 and 2003, are as follows:

	Thousands of Yen		Thousands of U.S. Dollars (Note 3)
March 31	**2004**	2003	**2004**
Directors' compensation	**¥ 192,473**	¥ 172,646	**$ 1,822**
Payroll and bonuses	**1,292,087**	1,243,623	**12,232**
Accrued bonuses to employees	**192,532**	183,814	**1,822**
Accrued employees' retirement benefits	**107,759**	52,406	**1,020**
Accrued retirement benefits to directors and corporate auditors	**57,640**	47,490	**545**
Welfare expense	**232,193**	183,647	**2,198**
Depreciation expense	**92,026**	104,416	**871**

10. Research and Development Costs

Research and development costs charged to income for the fiscal years ended March 31, 2004 and 2003, were ¥108,147 thousand ($1,023 thousand) and ¥108,879 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 ¥159,300 thousand ($1,508 thousand) and ¥137,864 thousand, respectively, at March 31, 2004 and 2003.

12. Change of Disclosure on Consolidated Balance Sheets

Intangibles were reported as a single item in previous fiscal years. In the fiscal year ended March 31, 2004, however, the value of software exceeded 5% of the value of total assets. As a result, intangibles have been classified into "software" and "other intangibles."

13. Segment Information

(1) Industry Segment Information

For the year ended March 31, 2003 (consolidated)

The Companies supply information services ranging 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.

For the year ended March 31, 2004 (consolidated)

Thousands of Yen

	System Construction and Operation Business	Package Software Business	Subtotal	Eliminations or Corporate	Total
1. Net sales and income from operations:					
Net sales					
(1) Sales to outside customers	¥17,420,957	¥3,412,231	¥20,833,189	¥ –	¥20,833,189
(2) Sales and transfers between intersegments	125,692	17,858	143,550	(143,550)	–
Total	17,546,650	3,430,089	20,976,739	(143,550)	20,833,189
Operating expenses	15,108,265	2,164,346	17,272,612	1,358,013	18,630,626
Income from operations	¥ 2,438,384	¥1,265,742	¥ 3,704,127	¥(1,501,564)	¥ 2,202,563
2. Assets, depreciation and amortization, and capital expenditures:					
Assets	¥ 6,326,006	¥1,311,700	¥ 7,637,707	¥ 7,433,650	¥15,071,357
Depreciation and amortization	¥ 317,859	¥ 237,939	¥ 555,799	¥ 76,730	¥ 632,529
Capital expenditures	¥ 493,166	¥ 178,389	¥ 671,556	¥ 30,595	¥ 702,151

Thousands of U.S. Dollars

	System Construction and Operation Business	Package Software Business	Subtotal	Eliminations or Corporate	Total
1. Net sales and income from operations:					
Net sales					
(1) Sales to outside customers	$164,924	$32,303	$197,227	$ –	$197,227
(2) Sales and transfers between intersegments	1,189	169	1,358	(1,358)	–
Total	166,114	32,472	198,586	(1,358)	197,227
Operating expenses	143,030	20,489	163,519	12,856	176,376
Income from operations	$ 23,084	$11,982	$ 35,066	$(14,215)	$ 20,851
2. Assets, depreciation and amortization, and capital expenditures:					
Assets	$ 59,888	$12,417	$ 72,306	$ 70,374	$142,680
Depreciation and amortization	$ 3,009	$ 2,252	$ 5,261	$ 726	$ 5,988
Capital expenditures	$ 4,668	$ 1,688	$ 6,357	$ 289	$ 6,647

Notes:

1. Because it is considered that the Company and its subsidiaries are comprehensive information service providers, specific business segment information has not been disclosed in previous fiscal years. In recent years, however, the Company has built an independent foundation for activities related to the development, sales and maintenance of software packages, such as *HULFT*. Such activities have come to assume an important strategic position in the Company's overall operations. For this reason, from the fiscal year ended March 31, 2004, the Company has classified its operations into two business segments—System Construction and Operation Business, and Package Software Business.
2. Business segments are defined according to the similarities of operations and markets.

3. Significant operations of each business segment are as follows:
   (1) System Construction and Operation Business
   - Information processing services (computer-based computation under consignment; computer and system operation under consignment; data input/output; data transmission; salary payment outsourcing services)
   - Software development (software development under consignment; LAN construction; transmission system construction; system maintenance and management)
   - System and equipment sales (sales and maintenance of PCs, workstations, peripherals and software)

   (2) Package Software Business
   - Sales of packages (development, sales and maintenance of software packages, such as *HULFT*)
   - Package-related services (middleware solution services related to *HULFT* and other packages)
4. Operating expenses shown in the column of Eliminations or Corporate included ¥1,539,604 thousand ($14,575 thousand) of non-segment specific spending which was mainly related to the Control Department of the Company.
5. At March 31, 2004, non-segment specific Company assets included in the column of Eliminations or Corporate were ¥8,226,228 thousand ($77,877 thousand), consisting mainly of surplus operating funds (cash and deposits), long-term investment funds (investment securities) of the Company and assets related to the Control Department of the Company.

[For Reference]
For the year ended March 31, 2003 (consolidated)

Thousands of Yen

	System Construction and Operation Business	Package Software Business	Subtotal	Eliminations or Corporate	Total
1. Net sales and income from operations:					
Net sales					
(1) Sales to outside customers	¥18,343,031	¥2,930,470	¥21,273,502	¥ —	¥21,273,502
(2) Sales and transfers between intersegments	104,628	26,456	131,084	(131,084)	—
Total	18,447,660	2,956,927	21,404,587	(131,084)	21,273,502
Operating expenses	15,932,040	1,783,322	17,715,363	1,259,257	18,974,620
Income from operations	¥ 2,515,619	¥1,173,604	¥ 3,689,224	¥(1,390,341)	¥ 2,298,882
2. Assets, depreciation and amortization, and capital expenditures:					
Assets	¥ 5,343,559	¥1,216,800	¥ 6,560,360	¥ 6,947,072	¥13,507,432
Depreciation and amortization	¥ 319,908	¥ 34,699	¥ 354,607	¥ 86,242	¥ 440,849
Capital expenditures	¥ 256,427	¥ 314,007	¥ 570,435	¥ 106,662	¥ 677,098

Notes:
1. Operating expenses shown in the column of Eliminations or Corporate included ¥1,453,978 thousand of non-segment specific spending which was mainly related to the Control Department of the parent company.
2. At March 31, 2004, non-segment specific Company assets included in the column of Eliminations and Corporate were ¥7,584,553 thousand, consisting mainly of surplus operating funds (cash and deposits), long-term investment funds (investment securities) of the Company and assets related to the Control Department of the Company.

(2) Geographic Segment Information

Segment information classified by geographic area has been omitted as the Companies' operations were performed exclusively 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.

14. 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, 2004 and 2003, were as follows:

Main Shareholder

March 31	2004	2003
Name of the company	Credit Saison Co., Ltd.	Credit Saison Co., Ltd.
Address	Toshima-ku, Tokyo	Toshima-ku, Tokyo
Common stock amount	¥63,667 million	¥61,302 million
Type of business	Credit card businesses	Credit card businesses
Equity share percentage of the Company	46.85%	46.86%
Relationship:		
Number of directors and corporate 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	¥6,362,436 thousand ($60,233 thousand)	¥5,954,178 thousand
Machinery rental fee	¥322,447 thousand ($3,052 thousand)	¥441,192 thousand
Labor cost payments for seconded employees from Credit Saison	¥18,898 thousand ($178 thousand)	¥46,885 thousand
Balances at fiscal year-end:		
Notes and accounts receivable	¥1,576,189 thousand ($14,921 thousand)	¥629,984 thousand
Notes and accounts payable	¥24,758 thousand ($234 thousand)	¥19,779 thousand
Accrued liabilities	¥44 thousand ($0 thousand)	¥286 thousand
Accrued expenses	¥920 thousand ($8 thousand)	¥3,540 thousand

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. (the "Company") and its subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. These 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, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 13, effective for the year ended March 31, 2004, SAISON INFORMATION SYSTEMS CO., LTD. and its subsidiaries have implemented disclosure of segment information in the financial statements.

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.

Chuo Aoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers
Tokyo, Japan
June 25, 2004

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: System construction and operation 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: System construction and operation services

Office Directory

Headquarters
65-18, Ikebukuro 2-chome, Toshima-ku, Tokyo 171-0014, Japan
Tel: +81-3-3988-2020
Systems Center
44-3, Higashi-Ikebukuro 1-chome, Toshima-ku, Tokyo 170-0013, Japan
Tel: +81-3-3988-2020
Sunshine Office
Sunshine 60, 21st Floor, 1-1 Higashi-Ikebukuro 3-chome, Toshima-ku, Tokyo 170-6021, Japan
Tel: +81-3-3988-2020
Kansai Office
9-8, Nishi-Nakajima 5-chome, Yodogawa-ku, Osaka-shi, Osaka 532-0011, Japan
Tel: +81-6-6886-3838
Yokohama Office
10-39, Kitasaiwai 2-chome, Nishi-ku, Yokohama-shi, Kanagawa 220-0004, Japan
Tel: +81-45-314-3582
Nagoya Office
17-29, Meiekiminami 1-chome, Nakamura-ku, Nagoya-shi, Aichi 450-0003, Japan
Tel: +81-52-588-5591
Kyushu Office
19-27, Hakataekimae 2-chome, Hakata-ku, Fukuoka-shi, Fukuoka 812-0011, Japan
Tel: +81-92-434-4527
Hokkaido Office
10, Minami-Nijyo 2-chome, Chuo-ku, Sapporo, Hokkaido 060-0062, Japan
Tel: +81-11-200-4571

(As of March 31, 2004)

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	569
Initial public offering	OTC registration (November 1993)
(Ticker code: 9640)	
Major shareholders	Credit Saison Co., Ltd.
	The Seiyu, Ltd.
	Employees
	The Master Trust Bank of Japan, Ltd. (trust account)
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 PricewaterhouseCoopers

(As of March 31, 2004)

SAISON INFORMATION SYSTEMS CO., LTD.

65–18, Ikebukuro 2–chome, Toshima–ku, Tokyo 171–0014, Japan
Tel: +81–3–3988–2020
URL: http://home.saison.co.jp/SIS/
E–mail: kikaku@saison.co.jp

SAISON
INFORMATION
SYSTEMS
CO., LTD.

PRINTED WITH SOY INK

R70
70% recycled content level

Printed in Japan