



*The Latest Solutions*

**Annual Report**  
**2 0 0 1**

*Our Global Perspective*

# About the Company

Established in 1985, Trans Cosmos Inc.'s origins date back to the establishment of a data entry service company in Osaka in 1966. The Company achieved its current form through a series of mergers and acquisition that expanded its scope of business to include data processing, data entry, and software development services and sales of computer-related equipment and software packages. Trans Cosmos also has recently expanded into Internet networking and marketing services. The Company specializes in offering specialized solution packages for the individual information technology needs of its clients that may contain all or any of the above services. In addition to its own technology development, Trans Cosmos ensures that its clients benefit from cutting-edge technology by forming joint ventures and strategic alliances with leading hardware, software, and system vendors. The Company also seeks out technical advances globally, establishing positions in promising new technologies through direct investments and investments through its subsidiaries.

The Company has a network of nine sales offices in Japan, 44 subsidiaries, and 20 affiliates. Overseas, Trans Cosmos has bases in the United States, the People's Republic of China, and the Republic of Korea. Consolidated net sales and net income for the fiscal year ended March 2001 were ¥87,711 million and ¥4,205 million. Trans Cosmos's shares are listed on the First Section of the Tokyo Stock Market.

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# Financial Highlights

TRANS COSMOS Inc.

## CONSOLIDATED INCOME STATEMENT DATA

Years ended March 31	Millions of Yen (except per share data)			Thousands of U.S. Dollars*	Percent Change
	1999	2000	2001	2001	2001/2000
Net sales	¥38,394	¥48,882	¥87,711	\$707,919	+79.4%
Gross profit	8,840	13,638	26,228	211,690	+92.3%
Operating income	2,299	4,665	12,821	103,483	+174.8%
Net income	680	1,391	4,205	33,935	+202.3%
Net income per share	¥ 31.9	¥ 59.9	¥ 172.6	\$ 1.39	+188.1%

## CONSOLIDATED BALANCE SHEET DATA

March 31	Millions of Yen		Thousands of U.S. Dollars*	Percent Change
	2000	2001	2001	2001/2000
Total current assets	¥58,194	¥69,005	\$556,938	+18.6%
Total current liabilities	11,459	19,068	153,902	+66.4%
Total long-term liabilities	1,641	3,875	31,271	+136.1%
Total shareholders' equity	68,164	79,552	642,067	+16.7%

## NON-CONSOLIDATED INCOME STATEMENT DATA

Years ended March 31	Millions of Yen (except per share data)			Thousands of U.S. Dollars*	Percent Change
	1999	2000	2001	2001	2001/2000
Net sales	¥34,543	¥39,386	¥49,626	\$400,529	+26.0%
Gross profit	7,866	8,794	10,494	84,694	+19.3%
Operating income	2,862	3,566	4,016	32,412	+12.6%
Net income	1,747	2,319	2,562	20,677	+10.5%
Net income per share	¥ 81.9	¥ 99.9	¥ 105.2	\$ 0.85	+5.3%
Cash dividends per share	¥ 20.0	¥ 20.0	¥ 20.0	\$ 0.16	—
Weighted average number of shares (thousand)	21,344	23,210	24,362	24,362	+5.0%

## NON-CONSOLIDATED BALANCE SHEET DATA

March 31	Millions of Yen		Thousands of U.S. Dollars*	Percent Change
	2000	2001	2001	2001/2000
Total current assets	¥32,542	¥29,028	\$234,290	-10.8%
Total current liabilities	5,861	11,977	96,671	+104.4%
Total long-term liabilities	292	3,636	29,343	+1,145.2%
Total shareholders' equity	72,876	76,241	615,339	+4.6%

\* U.S. dollar amounts are translated from yen, solely for convenience, at the rate of ¥123.90=U.S.\$1.

# Message from the President

**KOKI OKUDA**  
Chairman, President & CEO



## PERFORMANCE

During the fiscal year under review, Japan's economy mounted a mild recovery during the first half, supported by private sector capital investment and a bottoming out of personal consumption. These favorable conditions reversed in the second half, however, because of a slowdown in the previously strong U.S. economy, which caused a downturn in Japan's stock market and other economic activity, pushing the economy back into stagnation.

Investment in information technology was relatively strong, backed by firm demand from companies for information system restructuring services to maintain their competitiveness and to participate in the full-fledged start to e-commerce in Japan. Nevertheless, a gap began to open between companies' information system investments as a result of the so-called bursting of the Internet bubble.

Guided by our key concept of e-Outsourcing Integration, we actively invested in our system development and system operation services. Moreover, we proceeded with the development of new and more efficient outsourcing services for advanced networks, including call management, help desk, education, network management, and e-commerce settlement systems as well as high-value-added services, such as 3-dimensional CAD.

To further strengthen our "eOutsourcing Integration" services, we established a Consulting Division, which offers a wide range of integrated consulting services covering upstream processes for IT systems to operation services.

With the full-fledged start to e-commerce business in Japan, our interactive-based eCRM has become an essential service component. Based on our key concept of "High Tech & High Touch," representing our commitment to providing a fusion of leading technology and customer

services, we are steadily building our performance record in this business by promoting Internet-enabled call centers and developing our customer bases in the Internet banking and trading and other fields.

We continued to develop our e-Contact Center, a next generation CRM solution that can handle telephone, facsimile, e-mail, and web access enquires as well as automating the call reception business, providing low-cost customer data collection operations. To this end, we invested in VoIP technology that enables one-click connections from personal computers to call centers, voice recognition capabilities using Nuance Communications, Inc.'s technology, and Q&A response capabilities using Ask Jeeves, Inc.'s Internet-based Q&A solution technology.

In our venture capital business segment, we prepared for future expansion by selling a portion of our shareholdings in various businesses for a substantial profit.

As result of these efforts, consolidated net sales rose ¥38,829 million or 79.4%, to ¥87,711 million.

#### **MAJOR ISSUES FOR THE COMPANY**

In recognition of current trends, we are focusing our strategies on the Internet and intranets, areas for which demand is expected to expand substantially. We are actively developing network infrastructure, security environments, integration methods for new and old systems, and application software, mainly for www servers. At the same time, in the system operations field, we are aiming to fulfill our mission and responsibility as a provider of true outsourcing services as represented by our basic corporate philosophy of "Customers recover their investment in IT through the utilization of real information provided by the efficient operation of their systems." Our efforts are mainly based on our "High Tech & High Touch" services.

To be able to provide these services, it is necessary to utilize the latest technologies emerging in the United States, the world leader in the information technology field, as well as forming business tie-ups with top companies in this field worldwide. Consequently, the main goal of our venture capital business is to collect intelligence on the latest innovations in information technology in the United States and to expand our strategic business tie-ups. For Trans Cosmos, these investments are the equivalent to the research and capital investments of a manufacturing company. Because the information technology revolution is spreading rapidly to Asia, we also are looking to increase our investments in that region.

Some of our affiliated companies in the Internet field or related manufacturing areas have reached the stage where they need to go public. We plan to provide support for them in the listing process.

Based on the above strategies and measures, our medium-term management goals on a consolidated basis are to achieve overall growth in net sales, an ordinary income return on net sales of 10% or over, and net income per share of ¥100 or more. We are also targeting improvement in our return on equity. In these endeavors, we look forward to the continued support of our shareholders.



Koki Okuda  
Chairman, President & CEO

# TRANS COSMOS INTEGRATED OUTSOURCING SERVICES

**Outsourcing Services to Improve Business Competitiveness**  
**We also provide “eOutsource Integration” Services for full client satisfaction.**



## eConsulting

### **Our Extensive Business Experience Supports the Business Success of Our Clients**

We offer business consulting services that help guide our client companies to certain success. Through our outsourcing services including contact center businesses, we have acquired extensive business know-how that is put to use for our clients' benefit. From business model planning to optimization of operations and even the planning of next generation marketing strategies, Trans Cosmos supports its clients' businesses. Furthermore, our information system and network utilize leading edge technology, offering comprehensive solution services befitting the term eConsulting.



## System Integration

### **We Create and Support an Information System that Helps Guide Our Clients to Business Success**

Today, information systems play an important role as the nucleus of a business. To make our outsourcing services more effective, we act as a system integrator in building an information system that will support business success. We offer total system integration services, from hardware selection to network construction and operating support.



## eMarketing

### **We Propose Advanced Internet Marketing Strategies**

With the rapid spread of the Internet, the marketing frontier has shifted to electronic networks. Trans Cosmos combines CRM know-how developed over its many years in the contact center business with information system technology to offer clients advanced marketing platforms. Building and analyzing customer databases for our clients, we help plan and implement the e-marketing strategies of clients, including Web, e-mail, and other new types of marketing media.



## eCustomer Relationship Management/eBusiness Operation

### **Our System Operation Support Services Promote More Efficient Business**

Communicating with end users by telephone, e-mail, Web sites, and other methods is placing a growing administrative burden on companies. At Trans Cosmos, our e-business operations support services combine both the latest technology and staff who boast a wealth of experience in the field. Using these resources, we design, operate, and maintain data bases that can efficiently use all types of data. Based on these systems, we also provide efficient outsourcing customer relationship management services.



## Back Office Support

### **Support for the Back Office Behind the Business**

Today, all companies are facing escalating personnel costs to run their information systems. Trans Cosmos can efficiently support these operations based on outsourcing services know-how accumulated over many years. And we boast comprehensive back office support. Our skilled human resources can help clients cope with the huge volumes of information used in the CRM and sales and delivery management fields. Similarly, we can assist with the sophisticated business knowledge demanded in the medical and insurance billing fields. We also can provide support for the technical knowledge needed in the CAD/CAM-based machinery and electronic component design field.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should read in conjunction with the Company's Consolidated Financial Statements and related Notes thereto and the Company's Non-Consolidated Financial Statements and related Notes thereto. These financial statements were prepared in accordance with accounting principles and practices generally accepted in Japan, which differ in some respects from International Accounting Standards. See Note 1 of Notes to the Consolidated and Non-Consolidated Statements for greater detail. The Company and its consolidated subsidiaries have adopted new Japanese accounting standards for retirement benefits, financial instruments, and foreign currency translation. See Note 2 of Notes to the Consolidated Financial Statements for an explanation of these changes.

Except as otherwise indicated, the discussion below

is based on the Consolidated Financial Statements and the "Company" stands for the Company and its consolidated subsidiaries. The Non-consolidated Financial Statements are included in this annual report as supplemental information only.

## Overview

The Company has grown rapidly over the past several years, reflecting the increasing need of Japanese companies for data processing and data entry services and the increasing reliance of Japanese companies on the use of networks and other personal computer-based systems. The Company has also shown stable profitability during this period.

The following table sets forth the Company's net sales by sales category, and the percentage of total net sales represented by each sales category, for the periods indicated.

	For the years ended March 31,						
	1999		2000		2001		2001
	(Millions of Yen) (%)						(Thousands of U.S. Dollars)
Computer service	¥37,306	97.2%	¥44,991	92.0%	¥59,924	68.3%	\$483,646
Venture capital	1,088	2.8%	3,891	8.0%	27,787	31.7%	224,273
Total	¥38,394	100.0%	¥48,882	100.0%	¥87,711	100.0%	\$707,919

\* U.S. dollar amounts are translated from yen, solely for convenience, at the rate of ¥123.90=U.S.\$1.

The Company's operating expenses consist of cost of sales and selling, general and administrative expenses. Cost of sales reflects principally cost of labor.

The most significant components of selling, general and administrative expenses are those relating to personnel, including employees' salary and payroll, directors' remuneration, recruiting and employee training and education. Personnel expenses have grown in recent years with the expansion of the Company's business. Employees' salary and payroll expenses included in selling, general and administrative expenses included compensation of employees engaged in research and development.

Non-operating income (expenses) reflect principally

financial items, including interest income, foreign exchange gain, dividend income and gains and losses on sale/disposal of marketable securities. The Company's income and expenses from financial items reflect sizable investments in marketable securities and other securities, long-term deposits and other investments. Dividend income consists principally of equity dividends. Interest income consists principally of interest on long-term time deposits.

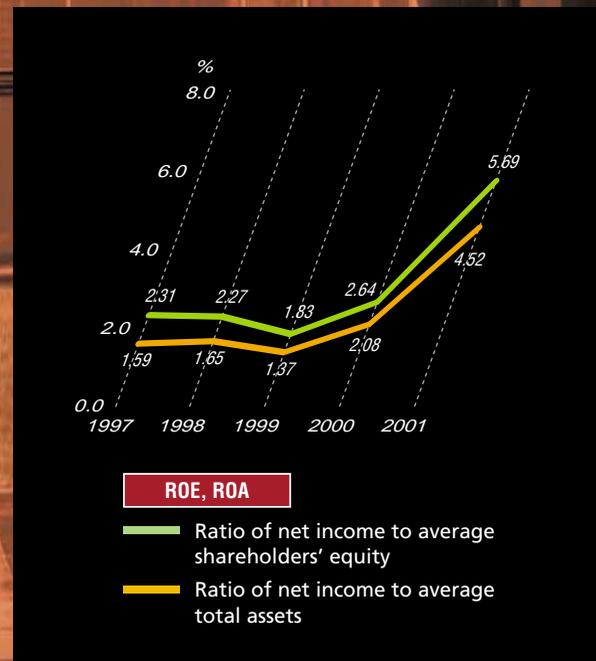
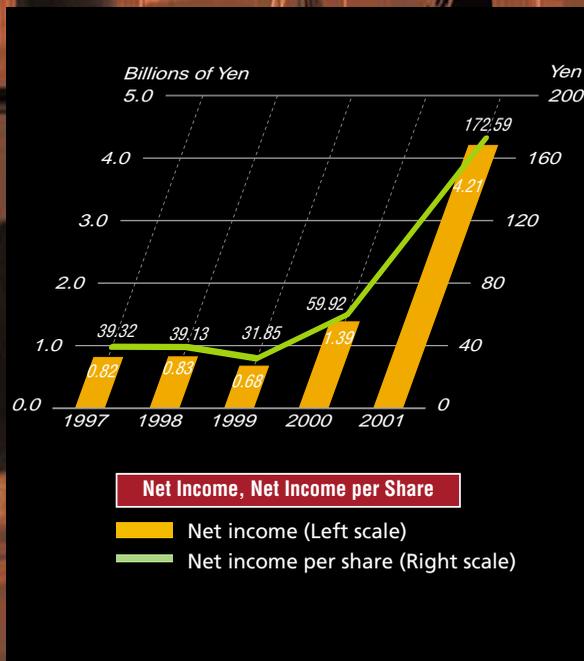
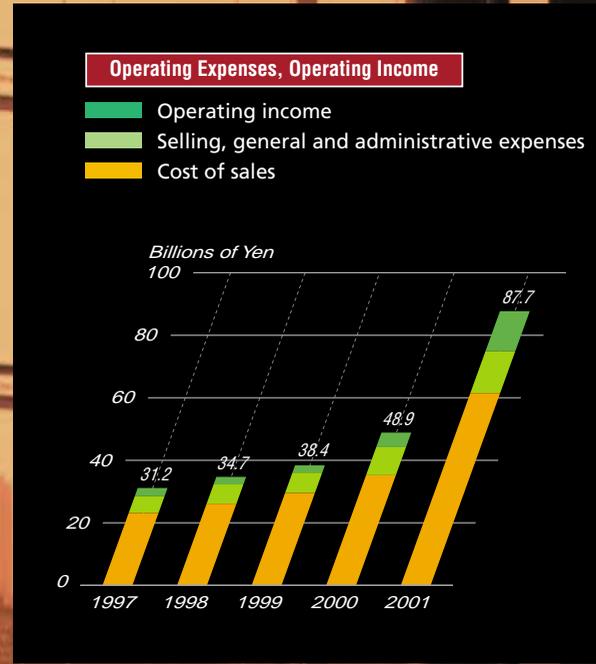
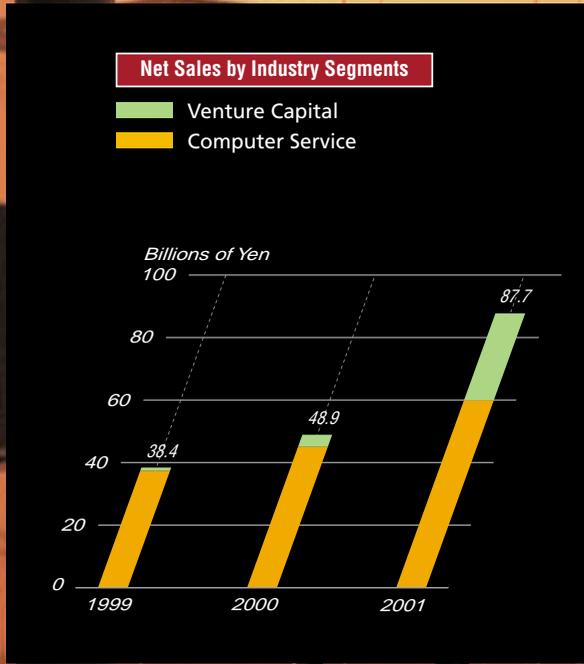
## Consolidated Results of Operations

### Fiscal 2001 Compared to Fiscal 2000

Net Sales. Net sales advanced by 79.4% to ¥87,711 million (\$707.9 million) in fiscal 2001 from ¥48,882 million in fiscal 2000. While prices changed little, the

# Performance Charts

on the Consolidated Basis



volume of services and goods sold increased, and demand shifted to higher value added services. The increase in net sales was principally attributed to growth of 33.2%, or ¥14,933 million (\$120.5 million), in sales of Computer Service from fiscal 2000 to fiscal 2001 and revenues from the venture capital segment increased six-fold, or ¥23,896 million (\$192.9 million). The Company's sales growth in this category reflects principally addition of new clients in customer management services, increases in user call volumes for existing clients in customer management services, and increased revenues from higher value-added services, principally in the customer relationship management division and network and system solutions division and the partial sale of the stock of venture capital companies the Company has invested in. The increase in net sales from fiscal 2000 to fiscal 2001 also included increases in software development and data entry services and product sales. Such increases are due principally to increased investment in computer systems by Japanese companies, which have continued to increase their reliance on computers and networks.

**Gross Profit.** Gross profit increased by 92.3% to ¥26,228 million (\$211.7 million) in fiscal 2001 from ¥13,638 million in fiscal 2000 as the Company's cost of sales increased at 74.4%, a slightly slower rate than the net sales growth rate of 79.4%. Cost of sales increased to ¥61,483 million (\$496.2 million) in fiscal 2001 from ¥35,244 million in fiscal 2000. This increase reflects principally an increase in the number of employees, as well as computer and equipment required for business expansion. The number of full-time employees of the Company and its consolidated subsidiaries at March 31, 2001 was 7,589 while the number of such employees at March 31, 2000 was 5,796. The Company's margins are highest in its data processing and software development businesses; in recent periods the relative profit margins among the Company's businesses have generally been consistent.

**Operating Income.** Operating income increased by 174.8% to ¥12,821 million (\$103.5 million) in fiscal 2001 from ¥4,665 million in fiscal 2000 while selling, general and administration expenses increased by 49.4% to ¥13,407 million (\$108.2 million) in fiscal 2001 from ¥8,973 million in fiscal 2000.

**Non-Operating Income (Expenses).** In fiscal 2001, non-operating income (expenses) booked a net expense of ¥3,771 million (\$30.4 million) compared with a net expense of ¥1,251 million in fiscal 2000.

Major contribution to revenues were ¥838 million (\$6.8 million) in interest income compared with ¥498 million in the previous fiscal year and a ¥568 million (\$4.6 million) gain on sale of marketable securities compared with ¥17 million in fiscal 2000. The chief expense components were a ¥1,815 million (\$14.7 million) loss on write-down of marketable securities and investments in securities; a ¥1,597 million (\$12.9 million) expense from equity in earnings of unconsolidated subsidiaries and affiliates; and a ¥746 million (\$6.0 million) loss on investments in partnership. The Company also recorded a loss on liquidation of business segment of ¥489 million (\$3.9 million) in connection with the bankruptcy of subsidiaries, consisting of a ¥173 million loss on write-down of loans and other current assets and a ¥316 million loss on liquidation of subsidiaries. Similar charges have been made in the past two years.

**Income Tax.** Net of deferred taxes, income taxes increased by 116.5% to ¥4,498 million (\$36.3 million) in fiscal 2001 from ¥2,078 million in fiscal 2000. The Company's effective tax rate in fiscal 2001 decreased to 49.7% from 60.9% in fiscal 2000 principally as the result of a substantial increase in deferred taxes.

**Net Income.** Net income increased by 202.3% to ¥4,205 million (\$33.9 million) in fiscal 2001 from ¥1,391 million in fiscal 2000, increasing as a percentage of net sales to 4.8% from 2.8% in fiscal 2000.

## **Liquidity and Capital Resources**

### *General*

The Company's overall capital strategy targets continued growth in its businesses and investments while maintaining adequate liquidity and working capital and limited leverage.

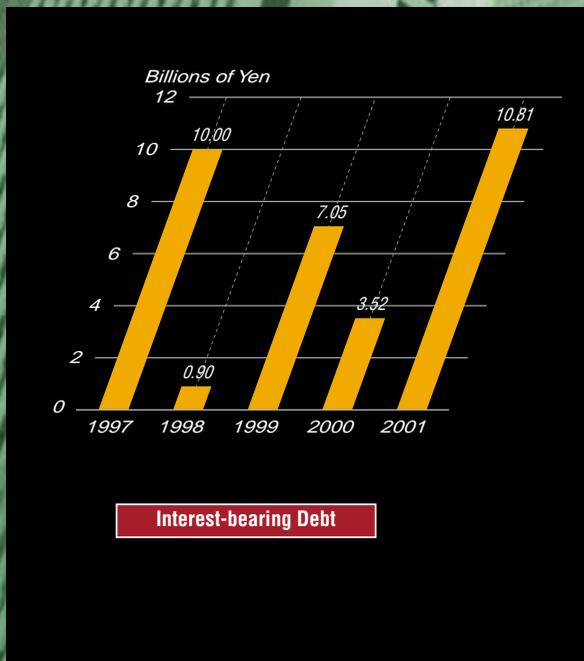
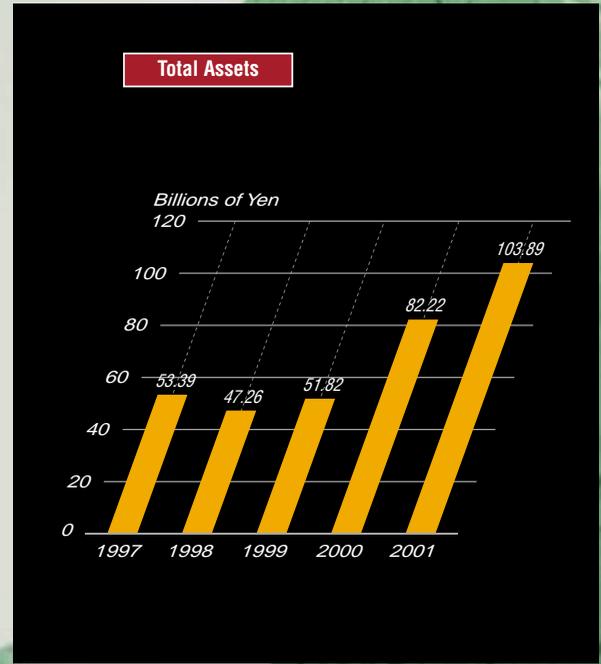
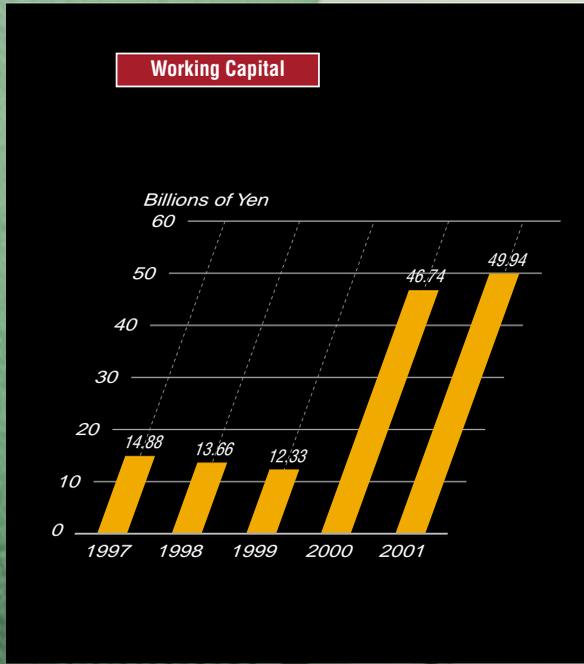
### *Capital Requirements*

Historically, the Company's capital requirements consisted principally of the need for working capital and the need for acquisition and maintenance of computers in connection with its growing computer services operations in Japan. Such computer service operations require significant amounts of capital so the Company generally carries large amounts of notes and accounts receivable from customers and also must finance jobs and software in progress, merchandise and other current items.

In addition, commencing with the formation of Encompass Group Inc. in 1995, the Company has been implementing strategy of investment in U.S. startup

# Performance Charts

on the Consolidated Basis



and development-stage companies in Internet-related business to enhance access to developing technologies, and investment in joint ventures in Japan to exploit such technologies. The Company requires significant capital to implement these strategies.

The Company requires significant amounts of capital for capital expenditures, principally for computer service operations in Japan. These funds are applied principally to the acquisition and maintenance of computers, other equipment and call centers in connection with the expansion of domestic computer service operations.

The Company also requires significant amounts of capital for investments. On a consolidated basis, the Company's investments as of March 31, 2001 consisted principally of the following.:

- Marketable securities of ¥25,832 million (\$208.5 million), which are principally money management funds (MMFs) and equity;
- Investment in securities (long-term portfolio) of ¥4,640 million (\$37.4 million, principally investments in Japanese equity securities;
- Investments in unconsolidated subsidiaries and affiliates of ¥11,221 million (\$90.6 million); and
- Other investments of ¥5,994 million (\$48.4 million), including an investment of \$33 million for the entire limited partnership interest in US Information Technology Financing LP, a fund managed by subsidiaries.

The Company has made venture capital investments principally through EnCompass Group Inc. and TCI-USA. The Company currently intends to continue to make venture capital and other strategic investments consistent with its investments in recent periods (although changes in market or business conditions could cause the Company to modify that strategy). Furthermore, the Company expects that in connection with its strategy of expanding its business in Internet networking and marketing services, it may expand the scale of its venture capital and joint venture activities.

#### *Capital Resources and Liquidity*

The Company derives its cash flow from operating activities and obtains its financing principally through Trans Cosmos Inc.

The Company had working capital (current assets minus current liabilities) surpluses of ¥46,735 million as of March 31, 2000 and ¥49,937 million (\$403.0 million) as of March 31, 2001. As of March 31, 2001,

the Company had cash, time deposits (not including long-term time deposits) and commercial paper and marketable securities of ¥22,782 million (\$183.9 million) compared to ¥30,552 million as of March 31, 2000. The increase in current assets was principally due to ¥31,869 million (\$257.2 million) in investments in securities for operating purposes. As of March 31, 2001 the Company had ¥2,242 million (\$18.1 million) in short-term bank loans compared to ¥2,010 million as of March 31, 2000.

The Company derives a significant portion of its capital from net cash provided (used) by operations. See Consolidated Statements of Cash Flows. The increase in net income before income taxes in fiscal 2001 did not produce an increase in net cash provided by operating activities, principally as a result of an increase in investment in securities for operating purposes and in income tax paid.

Despite the "credit crunch" that many companies in Japan have faced in recent years, the Company has not encountered any significant difficulty financing its operations or maintaining adequate liquidity. The Company maintains large cash balances and uncommitted working capital credit lines with a number of Japanese banks. In addition, the Company has maintained limited leverage and substantial balances of other liquid assets.

In fiscal 2001, proceeds from short-term bank loans amounted to ¥12,891 million (\$104.0 million), proceeds from long-term loans totaled ¥3,000 million (¥24.2 million), and proceeds from issuance of commercial paper was ¥5,000 million (\$40.4 million). Repayment of short-term and long-term bank loans totaled ¥13,275 million. Proceeds from new stock issues amounted to ¥812 million (\$6.6 million) compared with ¥30,954 million in the previous fiscal year.

Cash and cash equivalents at end of year were ¥20,781 million (\$167.7 million), up ¥1,136 million from the beginning of the year and providing adequate liquidity for operations.