

Financial Summary

CONSOLIDATED STATEMENTS OF INCOME

For the years ended 31 March	Millions of Yen (except per share data)					Thousands of U.S. Dollars (except per share data)
	2004	2003	2002	2001	2000	2004
Net sales	¥ 77,918	¥ 71,073	¥ 70,232	¥ 87,711	¥ 48,882	\$ 737,231
Gross profit	18,866	7,943	(894)	26,228	13,638	178,503
Operating income	2,946	(8,299)	(14,173)	12,821	4,665	27,874
Net income	952	(9,899)	(17,612)	4,205	1,391	9,008
Net income per share	39.3	(405.7)	(721.9)	172.6	59.9	0.37

CONSOLIDATED BALANCE SHEETS

At 31 March	Millions of Yen					Thousands of U.S. Dollars
	2004	2003	2002	2001	2000	2004
Total current assets	¥ 36,433	¥ 37,907	¥ 51,421	¥ 69,005	¥ 58,194	\$ 344,716
Total current liabilities	11,698	10,531	10,945	19,068	11,459	110,682
Total long-term liabilities	2,083	1,123	3,139	3,875	1,641	19,709
Total shareholders' equity	54,084	49,550	64,321	79,552	68,164	511,723

NON-CONSOLIDATED STATEMENTS OF INCOME

For the years ended 31 March	Millions of Yen (except per share data)					Thousands of U.S. Dollars (except per share data)
	2004	2003	2002	2001	2000	2004
Net sales	¥ 65,360	¥ 57,389	¥ 54,514	¥ 49,626	¥ 39,386	\$ 618,416
Gross profit	14,662	11,045	10,821	10,494	8,794	138,729
Operating income	4,268	2,514	4,036	4,016	3,566	40,379
Net income	3,360	(23,281)	316	2,562	2,319	31,791
Net income per share	140.6	(954.3)	13.0	105.2	99.9	1.33
Cash dividends per share	30.0	10.0	20.0	20.0	20.0	0.28
Weighted average number of shares (thousand)	23,805	24,396	24,362	24,362	23,210	—

NON-CONSOLIDATED BALANCE SHEETS

At 31 March	Millions of Yen					Thousands of U.S. Dollars
	2004	2003	2002	2001	2000	2004
Total current assets	¥ 19,955	¥ 16,553	¥ 20,968	¥ 29,028	¥ 32,542	\$ 188,804
Total current liabilities	9,637	7,711	7,230	11,977	5,861	91,190
Total long-term liabilities	2,156	1,190	3,250	3,636	292	20,404
Total shareholders' equity	57,552	51,784	75,531	76,241	72,876	544,524

Note: U.S. dollar amounts are translated from yen, solely for convenience, at the rate of ¥105.69 = U.S.\$1.



Operating Results

Net Sales, Operating Income and Net Income

There have been some bright signs in the Japanese economy in fiscal 2003, including recovery of the Nikkei Stock Average and a revived trend of capital investment. On the other hand, it seems that it might take a while to see a full-fledged recovery, as several unstable factors are still found in consumer spending, exchange fluctuations, an increase in long-term interest rates and others.

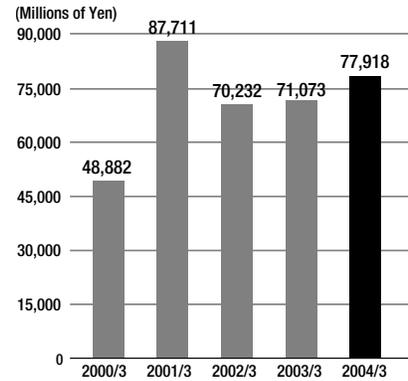
In this environment, our consolidated net sales grew 9.6% year-on-year to 77,918 million yen, and the consolidated operating income was 2,946 million yen, compared with an operating loss of 8,298 million yen for fiscal 2002. The consolidated net income was 952 million yen, compared with a net loss of 9,899 million yen for 2002, mainly due to the relocation cost of the head office and a loss from revaluation of investment securities.

By region, Japan grew 10.6% to 76,135 million yen in net sales, and 64.6% to 8,744 million yen in operating income. The United States fell 28.0% to 1,437 million yen in net sales, while it decreased operating loss to 459 million yen from 7,350 million yen. Asia grew 29.5% to 344 million yen in net sales and also increased in operating income to 130 million yen from a loss of 1,820 million yen.

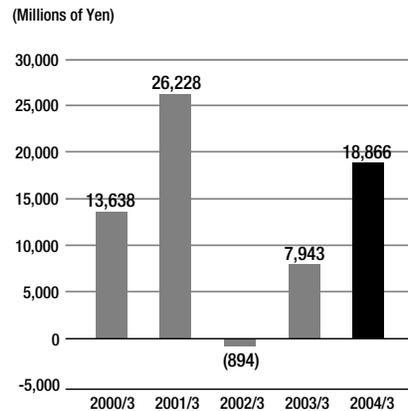
Cost of Sales and SG&A Expenses

Cost of sales fell 6.5% year-on-year to 59,052 million yen, while the cost of sales ratio improved 13 percentage points to 75.8% from 88.8%. Gross profit grew 137.5% to 18,866 million yen at a gross margin of 24.2%. SG&A expenses remained at almost the same level as the previous year, at 15,920 million yen.

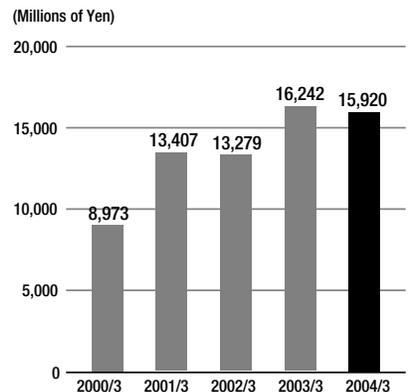
Net sales



Gross profit



SG & A Expenses



Segment Information

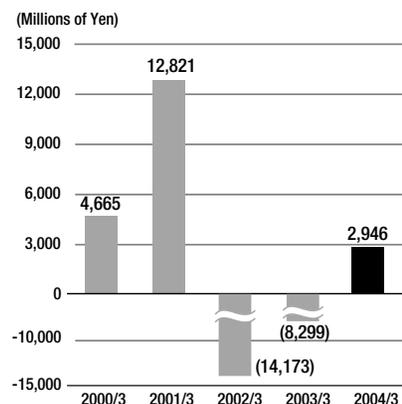
IT Services Businesses

Our business environment is continuously improving, as the ratio of contract/temporary employees is rising, reflecting the customers' strong cost-consciousness, and the corporate structural change boosts the needs for outsourcing. On the other hand, competition for orders is intensifying. Under these circumstances, Digital Marketing Services of transcosmos (non-consolidated) has doubled its sales to 2 billion yen on a year-on-year basis, as the market for listing advertisements (showing ads related to search results) and motion-image net advertisements (using streaming technology) has rapidly expanded. Net sales continued to grow in Marketing Chain Management Services by offering new value-added services and winning new orders for both Call Center/Contract Center and Digital Marketing services. Net sales grew in Development Services, as design support orders from automakers and others, as well as system development orders, were brisk. Net sales also grew in Support Desk Services, as new application management services for ERP administration service were offered for the first time, in addition to the current two types of services: administration support desk services for internal IT systems and business systems, and solution services for business support, staff training and IT asset management. In IT Services Businesses, net sales grew 10.3% year-on-year to 76,666 million yen, while operating income grew 79.9% to 8,594 million yen.

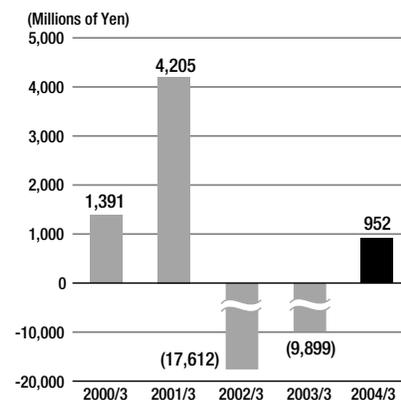
Venture Capital Business

In our venture capital business, net sales fell 19.7% year-on-year to 1,251 million yen, while the operating loss significantly decreased to 178 million yen from 8,680 million yen, since part of the securities invested for operating purposes was sold off, but could not compensate for SG&A expenses.

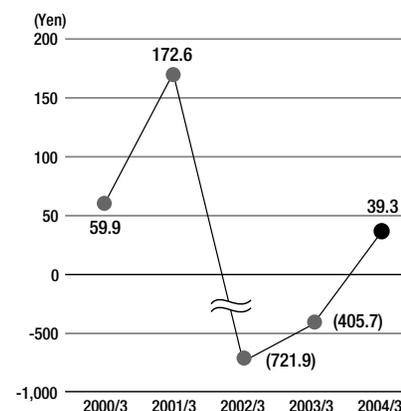
Operating income



Net income



Net income per share

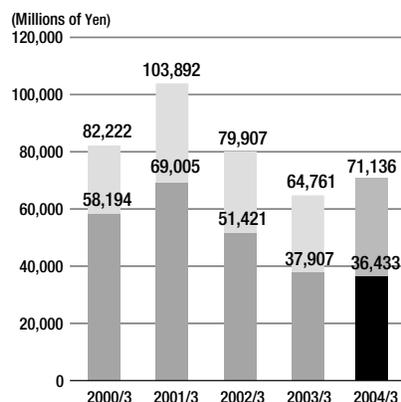


Financial Position

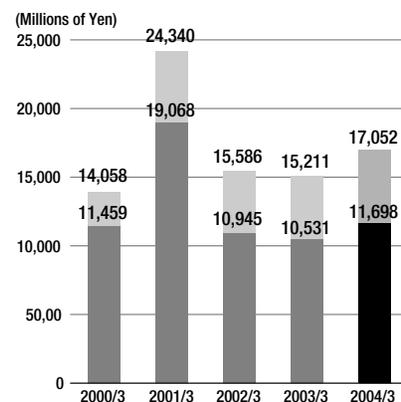
Assets, Liabilities and Shareholders' Equity

Consolidated total assets in fiscal 2003 grew 6,375 million yen, compared with the previous year, to 71,136 million yen. Total current assets fell 1,474 million yen to 36,433 million yen, mainly on collection of deferred refunded corporation tax for a US subsidiary. Total investments and advances grew 11,886 million yen to 18,990 million yen, as net unrealized holding gains on securities were included. Total current liabilities grew 1,167 million yen to 11,698 million yen, as accrued expenses and other current liabilities increased. Total long-term liabilities grew 960 million yen to 2,083 million yen, as long-term bank loans and others increased. Total shareholders' equity grew 4,534 million yen to 54,084 million yen, as unrealized gains on marketable securities and investments in securities grew 7,120 million yen, while treasury stock declined 3,134 million yen due to the buyback. The term-end interest-bearing debt balance was 3,100 million yen, but this presents little concern, as the balance of cash and cash equivalents was 15,183 million yen.

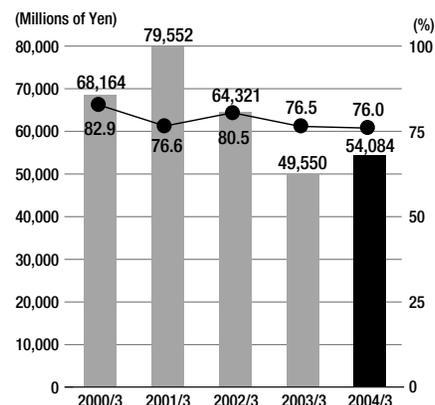
Total assets Total current assets



Total liabilities Total current liabilities



Total shareholders' equity Equity ratio



Cash Flows

Net cash provided by operating activities grew 8,168 million yen to 9,108 million yen. We attribute this to 3,970 million yen in income tax refund for a US subsidiary, in addition to posting nonfund items, including the net income before income tax of 313 million yen, depreciation cost of 823 million yen and foreign exchange loss of 1,199 million yen.

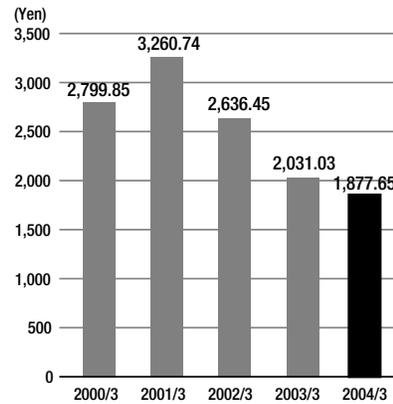
Net cash used in investing activities fell 4,644 million yen to 5,142 million yen. That is mainly attributed to expenditures of 3,563 million yen for purchasing affiliated company shares, 1,396 million yen for purchasing tangible fixed assets, and 820 million yen for purchasing intangible fixed assets.

Net cash used in financing activities fell 4,395 million yen to 3,232 million yen. The chief source of expenditure was the payments for purchase of treasury stock of 3,134 million yen. Cash and cash equivalents grew 347 million yen to 15,183 million yen.

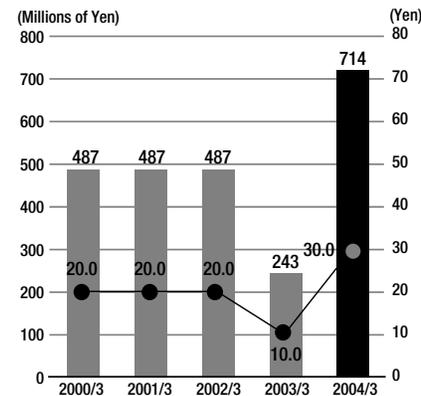
Forward-looking Statements

This annual report contains statements regarding future performance including business plans, performance projections, and strategic forecasts. Those statements are based on management's assessment of currently available information to transcocosmos. Therefore changes in the operating environment may cause actual results and progress in management strategies differing from the forecasts made in this report.

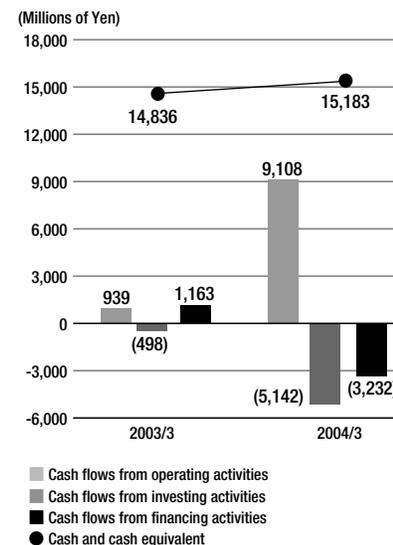
Total shareholders' equity per share



**Total cash dividends
Cash dividends per share**



Cash flows





Consolidated Balance Sheets

At 31 March 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2003	2004
ASSETS			
Current Assets:			
Cash and time deposits	¥ 13,218	¥ 12,630	\$ 125,064
Marketable securities (Note 4)	2,165	2,226	20,484
Investments in securities for operating purposes	4,678	3,070	44,262
Notes and accounts receivable:			
Customers	12,341	11,020	116,766
Unconsolidated subsidiaries and affiliates	46	6	435
	12,387	11,026	117,201
Less: allowance for bad debt	(170)	(389)	(1,608)
	12,217	10,637	115,593
Job and software in progress and merchandise (Note 5)	310	417	2,933
Income taxes refundable	548	4,084	5,185
Deferred tax assets (Note 15)	2,131	3,486	20,163
Other current assets	1,166	1,357	11,032
Total current assets	36,433	37,907	344,716
Investments and Advances:			
Investments in securities (Note 4)	10,727	2,258	101,495
Investments in and advances to unconsolidated subsidiaries and affiliates	6,262	3,117	59,249
Other investments	2,356	1,837	22,291
Less: allowance for bad debt	(355)	(108)	(3,359)
Total investments and advances	18,990	7,104	179,676
Property Equipment, at cost, less			
Accumulated Depreciation (Note 6)	4,897	4,884	46,334
Fixed Leasehold Deposits (Note 7)	2,153	2,897	20,371
Deferred Charges, Intangibles and Other	1,775	1,468	16,795
Deferred tax assets (Note 15)	6,155	9,459	58,236
Prepaid pension costs (Note 9)	733	1,042	6,935
	¥ 71,136	¥ 64,761	\$ 673,063

The accompanying notes are an integral part of these statements

At 31 March 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2003	2004
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-term bank loans (Note 8)	¥ 5	¥ 105	\$ 47
Current portion of long-term bank loans	1,031	2,068	9,755
Accounts payable:			
Suppliers	4,644	3,968	43,940
Unconsolidated subsidiaries and affiliates	15	14	142
	4,659	3,982	44,082
Income taxes payable	53	115	501
Accrued bonuses to employees	2,098	1,652	19,851
Advance received	331	574	3,132
Reserve for loss on guarantees	—	—	—
Other current liabilities	3,521	2,035	33,314
Total current liabilities	11,698	10,531	110,682
Long-term Liabilities:			
Long-term bank loans (Note 8)	2,035	1,066	19,255
Deferred tax liabilities (Note 15)	16	6	151
Securities deposits received	17	11	161
Reserve for retirement benefits (Note 9)	15	40	142
Total long-term liabilities	2,083	1,123	19,709
Minority Interests in Subsidiaries	3,271	3,557	30,949
Contingent Liabilities (Note 10)			
Shareholders' Equity:			
Common stock:			
Authorized 90,088,176 shares at 31 March 2004 and 2003, respectively			
Issued 24,397,023 shares at 31 March 2004 and 2003, respectively			
	29,066	29,066	275,012
Capital surplus	22,622	30,623	214,041
Retained earnings	(6,902)	(15,854)	(65,304)
Unrealized gains on marketable securities and investments in securities	7,542	422	71,360
Foreign currency translation adjustments	4,892	5,295	46,286
	57,220	49,552	541,395
Treasury stock	(3,136)	(2)	(29,672)
Total shareholders' equity	54,084	49,550	511,723
	¥ 71,136	¥ 64,761	\$ 673,063

The accompanying notes are an integral part of the statements.



Consolidated Statements of Operations

For the years ended 31 March 2004, 2003 and 2002

	Millions of Yen			Thousands of U.S.Dollars (Note 3)
	2004	2003	2002	2004
Net Sales (Note 16)	¥ 77,918	¥ 71,073	¥ 70,232	\$ 737,231
Cost of Sales	59,052	63,130	71,126	558,728
Gross profit	18,866	7,943	(894)	178,503
Selling, General and Administrative Expenses	15,920	16,242	13,279	150,629
Operating income	2,946	(8,299)	(14,173)	27,874
Non-Operating Income (Expenses):				
Interest income	148	119	338	1,400
Interest expenses	(29)	(37)	(82)	(274)
New share issue expenses	(3)	(23)	(8)	(28)
Dividend income	15	7	13	142
Gain on sale/disposal of investments in securities	641	558	779	6,065
Loss on sale/disposal of investments in securities	(25)	(67)	(131)	(237)
Loss on sale/disposal of property	(302)	(276)	(156)	(2,857)
Loss on liquidation of business segment (Note 14)	—	(2,104)	(992)	—
Gains on disposal of investments in affiliates	32	—	13	303
Loss on write-down of investments in affiliates (Note 13)	(179)	(3,230)	(2,280)	(1,694)
Equity in earnings of unconsolidated subsidiaries and affiliates	(175)	(580)	(2,824)	(1,656)
Foreign exchange gains/(losses)	(1,202)	(1,120)	696	(11,373)
Loss on investments in partnership	(294)	(511)	(1,363)	(2,782)
Loss on write-down of marketable securities and investments in securities	(296)	(1,868)	(2,239)	(2,801)
Gain on return of substitutional portion of employee pension fund (Note 9)	—	755	—	—
Gains on sale of stock by investees	32	845	1,392	303
Loss on write-down of golf membership	(21)	(75)	(92)	(199)
New SFA development costs	—	(2,651)	(666)	—
Reserve for loss on guarantees	—	—	(300)	—
Head office relocation expenses	(828)	—	—	(7,834)
Other, net	(147)	(222)	(88)	(1,391)
Total non-operating Income (Expenses)	(2,633)	(10,480)	(7,990)	(24,913)
Income/(loss) before income taxes	313	(18,779)	(22,163)	2,961
Income Taxes (Note 15)				
- Current	140	180	2,524	1,324
- Refund	(853)	(3,660)	(4,007)	(8,071)
- Deferred	270	(5,047)	(2,902)	2,554
	756	(10,252)	(17,778)	7,154
Minority Interests in Net Income of Subsidiaries	196	353	166	1,854
Net income/(loss)	¥ 952	¥ (9,899)	¥ (17,612)	\$ 9,008

	Yen			U.S. Dollars (Note3)
Per Share:				
Net income/(loss)	¥ 39.3	¥ (405.7)	¥ (721.9)	\$ 0.37
Cash dividends	¥ 30.0	¥ 10.0	¥ 20.0	\$ 0.28
Weighted average number of shares (in thousands)	28,804	24,396	24,362	—

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

For the years ended 31 March 2004, 2003 and 2002

	Number of shares of common stock	Millions of Yen		
		Common Stock	Capital surplus	Retained earnings
Balance at 31 March 2001	24,397,023	¥ 29,066	¥ 30,623	¥ 12,747
Cash dividends	—	—	—	(488)
Directors' bonuses	—	—	—	(70)
Decrease due to additional consolidation of subsidiaries	—	—	—	(59)
Increase due to merger of consolidation of subsidiaries	—	—	—	19
Decrease due to additional unconsolidated subsidiaries and affiliates	—	—	—	(5)
Net income for the year ended 31 March 2002	—	—	—	(17,612)
Balance at 31 March 2002	24,397,023	29,066	30,623	(5,468)
Cash dividends	—	—	—	(488)
Increase due to additional unconsolidated subsidiaries and affiliates	—	—	—	1
Net income for the year ended 31 March 2003	—	—	—	(9,899)
Balance at 31 March 2003	24,397,023	29,066	30,623	(15,854)
Directors' bonuses	—	—	—	(1)
Decrease due to additional consolidation of subsidiaries	—	—	—	(0)
Transfer from capital surplus to retained earnings	—	—	(8,001)	8,001
Net income for the year ended 31 March 2004	—	—	—	952
Balance at 31 March 2004	24,397,023	¥ 29,066	¥ 22,622	¥ (6,902)

	Thousands of U.S. Dollars (Note 3)		
	\$	\$	\$
Balance at 31 March 2003	275,011	289,744	(150,005)
Directors' bonuses	—	—	(9)
Decrease due to additional consolidation of subsidiaries	—	—	(1)
Transfer from capital surplus to retained earnings	—	(75,703)	75,703
Net income for the year ended 31 March 2004	—	—	9,008
Balance at 31 March 2004	\$ 275,011	\$ 214,041	\$ (65,304)

The accompanying notes are an integral part of the statements.



Consolidated Statements of Cash Flows

For the years ended 31 March 2004, 2003 and 2002

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2004	2003	2002	2004
Cash Flows from Operating Activities:				
Net income before income tax	¥ 313	¥ (18,779)	¥ (22,163)	\$ 2,961
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	823	1,031	928	7,787
Amortization of excess costs of investments over equity in net assets	39	383	517	369
Amortization of intangible assets	318	270	167	3,009
Accrued interest and dividend income	(163)	(126)	(351)	(1,542)
Accrued interest expenses	29	37	82	274
Foreign exchange (gains)/losses	1,199	1,074	(692)	11,344
New share issue expenses	3	23	8	28
Loss on liquidation of business segment (Note 14)	—	2,104	992	—
Reserve for loss on guarantees	—	—	300	—
Loss on write-down of investments of affiliates	179	3,230	2,280	1,694
Equity in earnings of unconsolidated subsidiaries and affiliates (Note 13)	175	580	2,824	1,656
Dilution gain from change in equity interest	(32)	(832)	(1,392)	(303)
(Gain)/loss on sale of investments in unconsolidated subsidiaries and affiliates	(32)	6	(13)	(303)
Gain on sale/disposal of investments in securities, net	(616)	(491)	(648)	(5,828)
Gain on return of substitutional portion of employee pension fund	—	(755)	—	—
Reversal of allowance for bad debt	140	393	146	1,325
Increase/(decrease) in reserve for retirement benefits	290	(351)	36	2,744
Loss on write-down of investments in securities	296	1,868	2,239	2,801
Loss on investments in partnership	294	511	1,363	2,782
Loss on write-down of golf club membership	21	75	92	199
Loss on disposal of property	302	276	156	2,857
Loss on write-down of investments in securities for operating purposes	148	7,236	18,744	1,400
Increase in accrued bonuses to employees	445	155	153	4,210
Increase in notes and accounts receivable	(1,534)	(539)	(65)	(14,514)
(Increase)/decrease in investment in securities for operating purposes	210	1,377	(1,705)	1,987
(Increase)/decrease in jobs and software in progress and merchandise	45	52	244	426
Increase/(decrease) in accounts payable	159	315	(481)	1,504
Other, net	2,065	(142)	(3,103)	19,539
Sub total	5,116	(1,019)	658	48,406
Interest and dividends received	234	191	356	2,214
Interest paid	(33)	(41)	(2)	(312)
Income tax refunded	3,970	3,218	—	37,553
Income tax paid	(178)	(1,410)	(2,622)	(1,684)
Net cash provided by/(used for) operating activities	¥ 9,108	¥ 939	¥ (1,610)	\$ 86,177

The accompanying notes are an integral part of these statements.

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2004	2003	2002	2004
Cash Flows from Investing Activities:				
Place of long-term time deposits	¥ —	¥ (1,717)	¥ (20)	\$ —
Withdraw of long-term time deposits	17	1,718	2,000	161
Payments for purchase of property and equipment	(1,396)	(989)	(818)	(13,208)
Payments for purchase of investments in securities	(521)	(524)	(1,009)	(4,930)
Proceeds from sale of investments in securities	983	1,109	1,508	9,301
Payments for purchase of investments in affiliates	(3,563)	(765)	(3,093)	(33,712)
Payments for sale of investments in subsidiaries due to change in scope of consolidation	—	—	(20)	—
Payments for purchase of investments in subsidiaries due to change in scope of consolidation	—	(119)	(121)	—
Proceeds from purchase of investments in subsidiaries due to change in scope of consolidation	—	868	86	—
Payments for purchase of intangibles	(820)	(412)	(356)	(7,759)
Payments for purchase of other investments	(1,752)	(828)	(1,083)	(16,577)
Proceeds from sale of other investments	1,910	1,161	3,709	18,072
Net cash provided by/(used for) investing activities	(5,142)	(498)	783	(48,652)
Cash Flows from Financing Activities:				
Proceeds from short-term bank loans	—	2,100	22,000	—
Repayment of short-term bank loans	(100)	(2,293)	(24,947)	(946)
Proceeds from issuance of commercial paper	—	—	15,000	—
Payments for redemption of commercial paper	—	—	(20,000)	—
Proceeds from long-term bank loans	2,000	—	—	18,923
Repayment of long-term bank loans	(2,068)	(16)	(570)	(19,566)
Payments for purchase of treasury stock	(3,134)	(1)	(1)	(29,653)
Proceeds from sale of treasury stocks	—	—	1	—
Proceeds from stock issue to minority interests	91	1,865	435	861
Payments for capital reduction to minority interests	(13)	—	(132)	(123)
Cash dividends paid	—	(488)	(488)	—
Dividends paid to minority interests	(8)	(4)	(10)	(76)
Net cash provided by/(used for) financing activities	(3,232)	1,163	(8,712)	(30,580)
Effect of exchange rate changes on cash and cash equivalents	(421)	(592)	2,423	(3,983)
Net increase in cash and cash equivalent	313	1,011	(7,116)	2,961
Increase due to increase in consolidated subsidiaries	34	41	119	322
Cash and cash equivalents at beginning of year	14,836	13,784	20,871	140,373
Cash and cash equivalents at end of year	¥ 15,183	¥ 14,836	¥ 13,784	\$ 143,656

Relation between cash and cash equivalent at year-end and the account booked in the balance sheet.

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2004	2003	2002	2004
Cash and time deposits	¥ 13,218	¥ 12,630	¥ 11,746	\$ 125,064
Marketable securities	2,165	2,226	2,058	20,484
	15,383	14,856	13,804	145,548
Time deposits and government bonds with maturity periods exceeding three months	(200)	(20)	(20)	(1,892)
Cash and cash equivalents	¥ 15,183	¥ 14,836	¥ 13,784	\$ 143,656

The accompanying notes are an integral part of these statements.



1. Basis of Presenting the Consolidated Financial Statements

(1) Accounting principles

The accompanying consolidated financial statements have been prepared from accounts maintained by transcosmos inc., (the "Company") and its consolidated subsidiaries. The Company and its domestic consolidated subsidiaries have maintained their accounts in accordance with the provisions set forth in the Commercial Code of Japan and the Securities and Exchange Law and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from those of International Financial Reporting Standards.

The accounts of 10 overseas consolidated subsidiaries, transcosmos USA Inc., EGI Fund Management Company L.L.C., EGI Fund Management Company 2 L.L.C., Access Ventures Partners L.L.C., transcosmos America Inc., Career Incubation USA Inc. (incorporated in USA), transcosmos Information Creative (China) Co., Ltd. (incorporated in China), Network Asia Inc., transcosmos Hong Kong Ltd. (incorporated in Hong Kong), and IBR Inc. (incorporated in Korea) are based on their accounting records maintained in conformity with accounting principles and practices generally accepted in their respective countries. Although certain differences exist in the accounting principles employed by the overseas subsidiaries, essentially, no adjustments have been made to their accounts in order to conform to Japanese accounting principles in the accompanying consolidated financial statements.

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.

2. Summary of Significant Accounting Policies

(1) Scope of Consolidation

The Company had 44 subsidiaries (majority-owned companies) as of 31 March 2004 (44 as of 31 March 2003 and 43 as of 31 March 2002). The consolidated financial statements include the accounts of the Company and 39 of its subsidiaries for the year ended 31 March 2004 (39 for the year ended 31 March 2003 and 38 for the year ended 31 March 2002).

The remaining 5 (5 for 2003 and 5 for 2002) subsidiaries, whose combined asset, net sales and net income in the aggregate are not significant in relation to those of the consolidated financial statements of the Company have been excluded from consolidation.

The Company and all of its consolidated subsidiaries use a year ending 31 March, except for transcosmos USA Inc., EGI Fund Management Company L.L.C., EGI Fund Management Company 2 L.L.C., Access Ventures Partners L.L.C., transcosmos America Inc., PointCast Japan L.L.C., PointCast K.K., EnCompass Group K.K., transcosmos Information Creative (China) Co., Ltd., Network Asia Inc., Listen Japan K.K., transcosmos Hong Kong Ltd., Career Incubation USA Inc., AtomShockWave K.K., IBR Inc. and CO-DE K.K. Those subsidiaries use a year ending on 31 December. The accounts of those subsidiaries have been consolidated by using the result of operations and account balances for such fiscal year and necessary adjustments have been made for material translation that occurred between the different fiscal year-ends.

(2) Consolidation and Elimination

For the purposes of preparing the consolidated financial statements, any gains/losses in relation to inter-company transactions have been eliminated, and the portion thereof attributable to minority interests is charged to minority interests.

Applicable inter-company accounts have been eliminated. The cost of investments in the common stock of consolidated subsidiaries is offset by the underlying equity in net assets of such subsidiaries. The difference between the cost of an investment and the amount of underlying equity in net assets of such subsidiaries is deferred and amortized over 5 or 10-year period on a straight-line basis. When the situation that the effect of the difference between the cost of an investment and the amount of underlying equity in net assets of such subsidiaries is not expected occurs, the consolidation adjustments account according to this is reduced.

Adjustment is made to computation of depreciation to eliminate unrealized profits on depreciable assets sold among the Companies.

(3) Accounting for Investments in Unconsolidated Subsidiaries and Affiliates

The equity method is applied to investments in three unconsolidated subsidiaries and 16 affiliates for the year ended 31 March 2004 (two unconsolidated subsidiaries and 14 affiliates for the year ended 31 March 2003 and one unconsolidated subsidiary and 18 affiliates for the year ended 31 March 2002). The investments in the remaining unconsolidated subsidiaries and affiliates are carried at cost.

(4) Securities

Securities held by the Company and its subsidiaries are, under the accounting standard for financial instruments, classified into three categories:

Held-to-maturity debt securities, that the Company and its subsidiaries have intent to hold to maturity, are stated at cost after accounting for premium or discount on acquisition, which are amortized over the period to maturity.

Other securities for which market quotations are available are stated at fair value. Net unrealized gains or losses on these securities are reported as a separate item in the shareholders' equity at a net-of-tax amount. Cost of sales is determined by the moving-average method.

Other securities for which market quotations are unavailable are stated at cost, determined by the moving-average method.

(5) Inventories

Job and software in progress are stated at cost, which is determined on an individual project basis. Merchandise is mostly stated at cost, cost being determined by average cost method.

(6) Property and Equipment

Depreciation of the Company and domestic subsidiaries is principally computed on the declining-balance method, at rates based on the estimated useful lives. Depreciation for buildings (excluding leasehold improvements and auxiliary facilities attached to buildings), which were acquired on or after 1 April 1998, is computed on the straight-line method.

Depreciation for foreign subsidiaries is principally computed on the straight-line method.

Also depreciation of certain equipment of the call center in the Company is computed on the straight-line method, based on the estimated useful lives of assets.

(7) Accounting for Leases

Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases, except that leases do not transfer ownership of the assets at the end of the lease term are accounted for as operating leases, in accordance with accounting principles and practices generally accepted in Japan.

(8) Amortization of Intangible Assets

Intangible assets are amortized on the straight-line method. Software for internal use is amortized on the straight-line method over 5 years and software for sales purposes is amortized based on estimated sales quantities over 3 years with minimum amortization of one-third of the total amortization.

(9) Amortization of deferred charges

Stock issue expenses are charged to income as incurred.

(10) Allowance for bad debts

The balance of allowance for bad debts represents the amount of the limit established by the incidence of doubtful account losses plus an amount deemed necessary to cover possible losses estimated on an individual account basis.

(11) Accrued bonuses to employees

Accrued bonuses to employees is determined by certain consolidated subsidiaries based on estimated bonuses to be paid to employees.

(12) Reserve for Retirement Benefits

The reserve for retirement benefits as of 31 March, represents the estimated present value of projected benefit obligations in excess of the fair value of the plan assets except that, as permitted under the new standard, unrecognized actuarial differences are amortized on a straight-line basis over the period of 5 years from the next year in which they arise.

Following the enactment of the Welfare Pension Insurance Law in Japan, on 31 March 2003, the Company and certain consolidated subsidiaries, obtained approval from Japan's Ministry of Health, Labour and Welfare for exemption from the future benefit obligation with respect to the portion of the Employee Pension Fund that the Company and certain consolidated subsidiaries operate on behalf of the Government (the so-called substitutional portion). The Company and certain consolidated subsidiaries applied transitional provisions as prescribed in paragraph 47-2 of the "Practical Guidelines of Accounting for Retirement Benefits (Interim Report)" (Accounting Committee Report No.13 issued by the Japanese Institute of Certified Public Accountants) and a gain in the amount of ¥755 million for the settlement of the substitutional portion was recognized at the date of approval from Japan's Ministry of Health, Labour and Welfare. The amount of plan assets to be returned is ¥2,959 million at 31 March 2003.

(13) Hedge Accounting

All derivatives are stated at fair value. Gains and losses arising from changes in fair value of the derivatives designated as "hedging instruments" are deferred as

an asset or liability.

The derivative designated as hedging instruments by the Company are principally spot exchange forward agreement to reduce the exposure to the risk of foreign currency exchange rate fluctuation in respect of future transactions denominated in foreign currencies, and interest rate swap agreement to reduce the exposure to the risk of interest rate fluctuation in respect of the bank loans.

The Company has a policy to utilize the above hedging instruments in order to reduce the exposure to the risks of fluctuations of foreign currency exchange rate and interest rate, based on the private regulation.

The Company evaluates effectiveness of its hedging activities by reference to the accumulated gains and losses on the hedging instruments and the related items from the commencement of the hedges.

(14) Accounting for Consumption Tax

In Japan, the consumption tax is imposed at the flat rate of 5 per cent. on all purchases of goods and services for domestic consumption (with certain exemptions). The consumption tax imposed on the Group's domestic sales to customers is withheld by the Group at the time of sale and is paid to the national government subsequently. The consumption tax withheld upon sale and the consumption tax paid by the Group on the purchases of goods and services are not included in the related amounts in the accompanying consolidated financial statements of income.

(15) Translation of Foreign Currency Financial Statements

Translation of foreign currency financial statements of overseas subsidiaries into Japanese yen for consolidation purposes is made by using the current exchange rates prevailing at their balance sheet dates, with the exception that the translation of stockholders' equity is made by using historical rates. Revenue and expense accounts are translated by the current exchange rate prevailing at their balance sheet dates.

The difference in yen amounts arising from the use of different rates is represented as "foreign currency translation adjustments" in stockholders' equity, except for the portion belonging to minority stockholders, which is included in "minority interests in subsidiaries".

(16) Appropriation of Retained Earnings

Under the Commercial Code of Japan and the Articles of Incorporation of the Company, the plan for appropriation of retained earnings (primarily for cash dividend payments) proposed by the board of directors is required to be approved at the shareholders' meeting which must be held within three months after the end of each financial year. The appropriations charged to retained earnings in each financial year as reflected in the accompanying financial statements represents those which were approved at the shareholders' meeting during that year and were applicable to the immediately preceding financial year.

(17) Income Taxes

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

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

(18) Net Income/(loss) per share

The computation of net income/(loss) per share is based on the weighted average number of shares of common stock outstanding. Cash dividends per share shown in the consolidated statement of operations are the amounts applicable to the respective years.

Effective from the year ended 31 March 2003, the Company and its subsidiaries applied the Financial Accounting Standards No.2 "Financial Accounting Standards for Earning per Share" and the Financial Accounting Standards Implementation Guidance No.4 "Implementation Guidance for Accounting Standards for Earnings per share" issued by Accounting Standard Board of Japan on 25 September 2002. The effect of the adoption is set forth in Note18.

(19) Accounting standard for impairment of fixed assets

On 9 August 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 shall be effective for fiscal years beginning 1 April 2005. However, an earlier adoption is permitted for fiscal years beginning 1 April 2004 and for fiscal years ending between 31 March 2004 and 30 March 2005.

The Company has not yet applied this new standard nor has determined the effect of applying it on the Company's consolidated financial statements.

(20) Reclassifications

Certain amounts for the prior years have been reclassified in conformity with the presentation in 2004. These changes had no impact on net income/(loss) or net cash flows previously reported.

3. United States Dollar Amounts

The Company maintains accounting records in yen in consolidation. The dollar amounts included in the unaudited consolidated financial statements for the year ended 31 March 2004 and notes thereto represent the arithmetical results of translating yen to dollars on a basis of ¥105.69=US\$1, the approximate effective rate of exchange prevailing at 31 March 2004. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be readily converted, realized or settled in dollars at ¥105.69=US\$1 or any other rate.

4. Marketable Securities and Investment in Securities

(1) The cost, book value and unrealized gain or loss for other securities with fair value as of 31 March 2004 and 2003 were as follows:

Description	Millions of Yen 31 March 2004		
	Acquisition cost	Book value (Fair market value)	Unrealized gain (loss)
Fair market value exceeds acquisition cost			
Equity securities	¥ 2,320	¥ 14,173	¥ 11,853
Fair market value does not exceed acquisition cost			
Equity securities	—	—	—
Total	¥ 2,320	¥ 14,173	¥ 11,853

Description	Millions of Yen 31 March 2003		
	Acquisition cost	Book value (Fair market value)	Unrealized gain (loss)
Fair market value exceeds acquisition cost			
Equity securities	¥ 2,054	¥ 2,928	¥ 874
Fair market value does not exceed acquisition cost			
Equity securities	639	584	(55)
Total	¥ 2,693	¥ 3,512	¥ 819

Description	Thousands of U.S. Dollars (Note 3) 31 March 2004		
	Acquisition cost	Book value (Fair market value)	Unrealized gain (loss)
Fair market value exceeds acquisition cost			
Equity securities	\$ 21,951	\$ 134,100	\$ 112,149
Fair market value does not exceed acquisition cost			
Equity securities	—	—	—
Total	\$ 21,951	\$ 134,100	\$ 112,149

(Note 1) Besides the above, the equity amount equivalent to the evaluation difference of the financial assets, which there is an investment-to-investment partnership and is contained in union composition property, is ¥455 million (\$4,305 thousand) for the years ended 31 March 2004.

(Note 2) Acquisition cost of other securities with fair value as of 31 March 2004 is presented at the amount after write-down of ¥2 million (\$19 thousand). Under the circumstances that diminution in value of the other securities is 30% or more and it is permanent, the acquisition cost is written down to the fair value.

(2) Other securities sold

	Millions of Yen 31 March		Thousands of U.S. Dollars (Note 3) 31 March
	2004	2003	2004
Proceeds from sales of available-for-sale securities	¥ 2,202	¥ 9,974	\$ 20,835
Realized gain	1,257	1,125	11,893
Realized loss	(25)	(1,037)	(237)

(3) Book value of major securities without fair value as of 31 March 2004 and 2003 are as follows:

	Millions of Yen 31 March		Thousands of U.S. Dollars (Note 3) 31 March
	2004	2003	2004
Unlisted stocks	¥ 1,222	¥ 1,955	\$ 11,562
MMA	1,465	1,726	13,861
FFF	500	500	4,731
Others	200	—	1,893
Total	¥ 3,387	¥ 4,181	\$ 32,047

5. Jobs and Software in Progress

"Jobs and Software in Progress" represents the accumulated costs of uncompleted work for software development, data processing and other jobs under contract with customers.

6. Properties and Equipment

Property and equipment as of 31 March 2004 and 2003 are summarized as follows:

	Millions of Yen 31 March		Thousands of U.S. Dollars (Note 3) 31 March
	2004	2003	2004
Buildings and structures	¥ 3,011	¥ 3,027	\$ 28,489
Cars and vehicles	14	23	133
Equipment, furniture and fixtures	4,482	4,224	42,407
	7,507	7,274	71,029
Less: accumulated depreciation	(3,834)	(3,609)	(36,276)
	3,673	3,665	34,753
Land	1,219	1,219	11,534
Construction in progress	5	—	47
Total	¥ 4,897	¥ 4,884	\$ 46,334

7. Fixed Leasehold Deposits

Fixed leasehold deposits as of 31 March 2004 and 2003 are deposits paid to the lessors in connection with leases of buildings and facilities for office space, computers and related equipment. Lessors in Japan require large amounts of leasehold deposits equivalent to several months' lease rental payments. Such leasehold deposits do not bear interest and are generally returnable only after the lease is terminated.

8. Short-term and Long-term Bank Loans

The annual average interest rate applicable to short-term bank loans is 0.0 per cent. at 31 March 2004.

Aggregate annual maturity of long-term bank loans subsequent to 31 March 2004 is as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)	
	31 March		31 March	
Year ending 31 March	2004	2003	2004	2003
2005	¥ 19		\$ 180	
2006	2,011		19,027	
2007	5		48	
Total	¥ 2,035		\$ 19,255	

9. Retirement Benefit Plan

The reserve for retirement benefits as of 31 March 2004 and 2003 is analyzed as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)	
	31 March		31 March	
	2004	2003	2004	2003
Projected benefit obligations	¥ (3,134)	¥ (2,904)	\$ (29,653)	\$ (29,653)
Plan assets	3,895	2,711	36,853	27,111
	761	(193)	7,200	(193)
Unrecognized actuarial differences	(43)	1,195	(407)	11,952
	718	1,002	6,793	11,002
Prepaid pension costs	733	1,042	6,935	10,422
The reserve for retirement benefits	¥ (15)	¥ (40)	\$ (142)	\$ (40)

Net pension expense related to the retirement benefits for the years ended 31 March 2004 and 2003 was as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)	
	31 March		31 March	
	2004	2003	2004	2003
Service cost	¥ 391	¥ 437	\$ 3,699	\$ 4,370
Interest cost	28	82	265	820
Expected return on plan assets	(27)	(115)	(255)	(1,150)
Amortization of actuarial differences	245	218	2,318	2,180
Amortization of unrecognized prior service costs	—	216	—	2,160
Net pension expenses	637	406	6,027	4,060
Gain on return of substitutional portion of employee pension fund	—	(755)	—	(7,550)
	¥ 637	¥ (349)	\$ 6,027	\$ (3,490)

(Note): The above amounts is deducted the amount of employee donation to the business annuity fund or employee's pension fund.

Assumptions used in calculation of the above information were as follows:

	31 March	
	2004	2003
Discount rate	1.0%	1.0%
Expected rate of return on plan assets	1.0%	4.0%
Method of attributing the projected benefits to periods of services	Straight-line basis	Straight-line basis
Amortization of unrecognized prior service costs	5 years	5 years
Amortization of unrecognized actuarial differences	5 years	5 years

10. Contingent Liabilities

As of 31 March 2004 and 2003, the Group was contingently liable as guarantor or under comfort letters or similar instruments for the following borrowings incurred by its unconsolidated subsidiaries, affiliates and others.

	Millions of Yen		Thousands of U.S. Dollars (Note 3)	
	31 March		31 March	
	2004	2003	2004	2003
Guarantees on loans and other:				
So (director of Soft Brain Inc.)	¥ —	¥ 199	\$ —	\$ 1,221
Access Markets International Partners, Inc.	129	186	—	—
J-One Inc.	—	196	—	—
Others	4	52	—	37
	¥ 133	¥ 633	\$ 1,258	\$ —

11. Lease Transactions

The Group leases certain equipment, furniture and fixtures. Pro forma information pertinent to the lease contracts of the Group, which do not transfer the ownership of the leased assets to lessees on an "as if capitalized" basis for the years ended 31 March 2004 and 2003 is as follows:

	Millions of Yen		
	31 March 2004		
	Acquisition Costs	Accumulated Depreciation	Net Leasehold Property
Buildings	¥ 17	¥ 14	¥ 3
Cars and Vehicles	3	0	3
Furniture and Fixtures	1,586	955	631
Software	310	167	143
Total	¥ 1,916	¥ 1,136	¥ 780

	Millions of Yen		
	31 March 2003		
	Acquisition Costs	Accumulated Depreciation	Net Leasehold Property
Buildings	¥ 41	¥ 23	¥ 18
Cars and Vehicles	12	2	10
Furniture and Fixtures	1,616	783	833
Software	371	177	194
Total	¥ 2,040	¥ 985	¥ 1,055

	Thousands of U.S. Dollars (Note 3)		
	31 March 2004		
	Acquisition Costs	Accumulated Depreciation	Net Leasehold Property
Buildings	\$ 161	\$ 132	\$ 29
Cars and Vehicles	28	0	28
Furniture and Fixtures	15,006	9,036	5,970
Software	2,933	1,580	1,353
Total	\$ 18,128	\$ 10,748	\$ 7,380

Future minimum lease payments under finance lease, which included the imputed interest expense on such lease contracts as of 31 March 2004 and 2003 are as follows:

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	31 March			31 March
	2004	2003		2004
Due within one year	¥ 414	¥ 445		\$ 3,917
Due after one year	¥ 411	614		3,889
	¥ 825	¥ 1,059		\$ 7,806

Depreciation expense, lease expense and interest expense which are not reflected in the accompanying consolidated statements of income for the years ended 31 March 2004 and 2003 would be as follows:

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	31 March			31 March
	2004	2003		2004
Depreciation expense	¥ 474	¥ 490		\$ 4,485
Lease expense	455	417		4,305
Interest expense	20	32		189

12. Derivatives and Hedging Activities

The Company utilize derivative financial instruments, which comprise forward exchange contracts to reduce exposure to risks from fluctuations in foreign currency exchange rates. The Company also utilize interest rate swaps to reduce exposure to risks from fluctuations in interest rate of bank loans. The Company holds derivative financial instruments within the amount with specific purposes of the transactions. The Company does not hold or issue derivative financial instruments for trading purposes.

The Company is exposed to certain market risks arising from its forward exchange contracts and from interest swap agreements. The counter parties also expose the Company to the risk of credit loss in the event of non-performance to the currency; however, the Company does not anticipate non-performance by any of these counter parties all of whom are financial institutions with high credit ratings.

Under the Company's risk management, all the derivative financial instruments are designed, executed and controlled by the financial department at an approval of the president. Due to rare transaction involved, no specific rule has been designed.

13. Loss on Write-down of Investments of Affiliates

Loss on write-down of investments of affiliates includes the amortization of the difference between the cost of an investment and the amount of underlying equity in net assets of such subsidiaries of ¥2,970 million in the year ended 31 March 2003.

14. Loss on Liquidation of Business Segment

In connection with the bankruptcy of certain subsidiaries, the Company incurred a loss of ¥2,104 million and ¥992 million in the years ended 31 March 2003 and 2002, respectively, which consisted of the following:

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	31 March 2004			31 March
	2004	2003	2002	2004
Loss on write-down of investments in affiliates	¥ —	¥ 1,602	¥ 223	\$ —
Loss on write-down of inventory	—	251	604	—
Others	—	251	165	—
	¥ —	¥ 2,104	¥ 992	\$ —

15. Income Taxes

The Company and its domestic subsidiaries are subject to several taxes based on income, which in the aggregate resulted in statutory tax rates of approximately 42.0 per cent. for the years ended 31 March 2004 and 2003. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The difference between the effective tax rate and statutory tax rate for the years ended 31 March 2003 is not presented because of the net loss in the year.

According to the Act for Partial Revision of Local Tax Law proclaimed 31 March 2003, the statutory effective tax rate, which is to be used for calculation of deferred tax assets and liabilities relating to temporary differences for the year ended 31 March 2003 was changed to the amended statutory effective tax rate.

The effect of the adoption of the new standard for 2003 was immaterial.

The tax effects of temporary differences that give rise to significant portion of the deferred tax assets and liabilities as of 31 March 2004 and 2003 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	31 March 2004		31 March
	2004	2003	2004
Deferred tax assets:			
Accrued bonus	¥ 761	¥ 536	\$ 7,200
Accrued enterprise tax	8	7	76
Write-down of investments in securities for operating purpose	—	1,506	—
Gain on disposal of investments in affiliates	2,977	2,977	28,167
Write-down of golf club membership	144	141	1,362
Tax loss carry forward	12,985	14,045	122,859
Write-down of investments affiliates	—	1,241	—
Allowance for bad debt	342	1,173	3,236
Others	1,266	953	11,979
	18,483	22,579	174,879
Valuation allowance	(5,590)	(9,099)	(52,890)
Total deferred tax assets	12,893	13,480	121,989
Deferred tax liabilities:			
Valuation difference on other securities	4,749	267	44,933
Gain on capital reduction	149	148	1,410
Prepaid pension cost	—	119	—
Others	2	7	19
Total deferred tax liabilities	4,900	541	46,362
Net deferred tax assets	¥ 7,993	¥ 12,939	\$ 75,627

Reconciliation between statutory tax rate and effective tax rate as at 31 March 2004.

	Millions of Yen
	31 March 2004
Statutory tax rate	42.05%
(Reconciliation)	
Valuation allowance	(245.26)
Tax-rate difference of subsidiaries in foreign countries	102.17
Non deductible items (entertainment expense, etc.)	37.20
The divided resident tax	14.44
Equity in earnings of unconsolidated subsidiaries and affiliates	23.50
The offset dividend earned	10.59
Allowance for bad debts	(72.68)
Loss on liquidation of Business Segment	(27.13)
Non-recognized profits of deficit subsidiaries	(18.97)
Other	(7.30)
Effective tax rate	(141.39)%

16. Segment Information

(1) Industry Segment Information

The Company and its subsidiaries operate principally in the following two industry segments:

Industry segment:	Major activities:
Computer Service	Data processing, data entry, software development,
Venture Capital	sales of equipment Venture capital investment

The segment information of the Group for each of the two years in the period ended 31 March 2004 classified by industry segments is summarized as follows:

For the year ended 31 March 2004					
Millions of Yen					
	Computer Service	Venture Capital	Total	Elimination or Unallocatable Amounts	Consolidated
Sales:					
Sales to outside customers	¥ 76,666	¥ 1,252	¥ 77,918	¥ —	¥ 77,918
Inter-segment sales/transfers	20	—	20	(20)	—
Total	76,686	1,252	77,938	(20)	77,918
Operating expenses	68,092	1,430	69,522	5,450	74,972
Operating profit or loss	8,594	(178)	8,416	(5,470)	2,946
Assets	¥ 44,517	¥ 8,108	¥ 52,625	¥ 18,511	¥ 71,136
Depreciation	780	18	798	343	1,141
Capital expenditure	798	12	810	1,406	2,216

For the year ended 31 March 2003					
Millions of Yen					
	Computer Service	Venture Capital	Total	Elimination or Unallocatable Amounts	Consolidated
Sales:					
Sales to outside customers	¥ 69,513	¥ 1,560	¥ 71,073	¥ —	¥ 71,073
Inter-segment sales/transfers	100	224	324	(324)	—
Total	69,613	1,784	71,397	(324)	71,073
Operating expenses	64,836	10,465	75,301	4,071	79,372
Operating profit or loss	4,777	(8,681)	(3,904)	(4,395)	(8,299)
Assets	¥ 37,799	¥ 18,894	¥ 56,693	¥ 8,068	¥ 64,761
Depreciation	930	27	957	344	1,301
Capital expenditure	1,133	43	1,176	225	1,401

For the year ended 31 March 2004					
Thousands of U.S. Dollars					
	Computer Service	Venture Capital	Total	Elimination or Unallocatable Amounts	Consolidated
Sales:					
Sales to outside customers	\$ 725,386	\$ 11,846	\$ 737,232	\$ —	\$ 737,232
Inter-segment sales/transfers	189	—	189	(189)	—
Total	725,575	11,846	737,421	(189)	737,232
Operating expenses	644,262	13,530	657,792	51,566	709,358
Operating profit or loss	81,313	(1,684)	79,629	(51,755)	27,874
Assets	\$ 421,204	\$ 76,715	\$ 497,919	\$ 175,144	\$ 673,063
Depreciation	7,380	170	7,550	3,246	10,796
Capital expenditure	7,550	114	7,664	13,303	20,967

(Note 1) The amounts of operating loss included in the column "Elimination or Unallocatable Amount" are ¥5,508 million (\$52,115 thousand) and ¥4,394 million for the years ended 31 March 2004 and 2003, respectively, which includes expenses mostly charged to the Administration Department.

(Note 2) The amounts of assets included in the column "Elimination or Unallocatable Amount" are ¥18,705 million (\$176,980 thousand) and ¥8,305 million for the years ended 31 March 2004 and 2003, respectively, which includes surplus working fund (cash and securities), long term investment fund (investment in securities and long-term deposits) and other assets which are attributable to the Administrative Department.

(2) Geographic Segment Information

Segment information classified by geographic area (inside and outside Japan) for the years ended 31 March 2004 and 2003 is summarized as follows:

For the year ended 31 March 2004						
Millions of Yen						
	Japan	U.S.A.	Asia	Total	Elimination or Unallocatable Amounts	Consolidated
Sales:						
(1) Sales to outside customers	¥ 76,135	¥ 1,438	¥ 345	¥ 77,918	¥ —	¥ 77,918
(2) Inter-segment sales/transfer	361	91	190	642	(642)	—
Total	76,496	1,529	535	78,560	(642)	77,918
Operating expenses	67,751	1,988	405	70,144	4,828	74,972
Operating profit or losses	¥ 8,745	¥ (459)	¥ 130	¥ 8,416	¥ (5,470)	¥ 2,946
Assets	¥ 41,350	¥ 7,146	¥ 4,040	¥ 52,536	¥ 18,600	¥ 71,136

For the year ended 31 March 2003						
Millions of Yen						
	Japan	U.S.A.	Asia	Total	Elimination or Unallocatable Amounts	Consolidated
Sales:						
(1) Sales to outside customers	¥ 68,808	¥ 1,998	¥ 267	¥ 71,073	¥ —	¥ 71,073
(2) Inter-segment sales/transfer	256	107	124	487	(487)	—
Total	69,064	2,105	391	71,560	(487)	71,073
Operating expenses	63,752	9,456	2,211	75,419	3,953	79,372
Operating profit or losses	¥ 5,312	¥ (7,351)	¥ (1,820)	¥ (3,859)	¥ (4,440)	¥ (8,299)
Assets	¥ 33,828	¥ 18,315	¥ 4,509	¥ 56,652	¥ 8,109	¥ 64,761

For the year ended 31 March 2004						
Thousands of U.S. Dollars						
	Japan	U.S.A.	Asia	Total	Elimination or Unallocatable Amounts	Consolidated
Sales:						
(1) Sales to outside customers	\$ 720,361	\$ 13,606	\$ 3,264	\$ 737,232	\$ —	\$ 737,232
(2) Inter-segment sales/transfer	3,416	861	1,798	6,074	(6,074)	—
Total	723,777	14,467	5,062	743,306	(6,074)	737,232
Operating expenses	641,035	18,810	3,832	663,677	45,681	709,358
Operating profit or losses	\$ 82,742	\$ (4,343)	\$ 1,230	\$ 79,629	\$ (51,755)	\$ 27,874
Assets	\$ 391,239	\$ 67,613	\$ 38,225	\$ 497,077	\$ 175,986	\$ 673,063

(Note 1) The amounts of operating loss included in the column "Elimination or Unallocatable Amount" are ¥5,508 million (\$52,115 thousand) and ¥4,394 million for the years ended 31 March 2004 and 2003, respectively, which includes expenses mostly charged to the Administration Department.

(Note 2) The amounts of assets included in the column "Elimination or Unallocatable Amount" are ¥18,705 million (\$176,980 thousand) and ¥8,305 million for the years ended 31 March 2004 and 2003, respectively, which includes surplus working fund (cash and securities), long term investment fund (investment in securities and long-term deposits) and other assets which are attributable to the Administrative Department.

(Note 3) The segment of "Asia" represents China, Korea and Taiwan.

(3) Sales outside Japan

No material sales outside Japan of the Group for the year ended 31 March 2004 are noted.

	For the year ended 31 March 2004		
	Millions of Yen		
	U.S.A.	Others	Total
Overseas sales	¥ 2,223	¥ 271	¥ 2,494
Consolidated sales	—	—	71,073
Ratio	3.1%	0.4%	3.5%

(Note 1) The segment of "Others" represents China, Singapore, Ireland, Netherlands and Korea.

(Note 2) Overseas sales represent those to countries and areas outside of Japan.

17. Related Party Transactions

No material transactions of the directors of the Group for the years ended 31 March 2004 and 2003 are noted.

18. Net Income (loss) and Dividends per Share

Net income (loss) per share shown for each year in the accompanying Consolidated Statements of Income and Retained Earnings, are based upon the weighted average number of shares of common stock outstanding during each year. No diluted effect on net income per share for the year ended 31 March 2001, and on net loss per share for the years ended 31 March 2003 and 2002 is disclosed since the Company has issued neither bond with subscription warrant nor convertible bonds.

Effective from the year ended 31 March 2003, the Company and its subsidiaries applied the Financial Accounting Standards No.2 "Financial Accounting Standards for Earnings per Share" and the Financial Accounting Standards Implementation Guidance No.4 "Implementation Guidance for Accounting Standards for Earnings per share" issued by Accounting Standard Board of Japan on 25 September 2002.

Basis for the calculation of net loss per share for the years ended 31 March 2004 and 2003 is as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	31 March		31 March
	2004	2003	2004
Net income (loss)	¥ 952	¥ (9,899)	\$ 9,007
Less: Components not pertaining to common shareholders			
Bonuses to directors	(16)	—	(151)
Net income (loss) pertaining to common stock	936	(9,899)	8,856
Average outstanding shares of common stock (shares)	23,804,727	24,396,571	—
The diluted effect			
Net income	(1)	—	(9.46)
The number of increasing common stock (shares)	45,710	—	—

By applying the current method, the amounts of net income (loss) per share for the years ended 31 March 2004 and 2003 is calculated as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	31 March		31 March
	2004	2003	2004
Net income (loss) per share	¥ 39.3	¥ (405.7)	\$ 0.37
Net assets per share	2,329.8	(2,031.0)	22.04
The diluted effect on net income per share	39.2	—	0.37

Cash dividend per share shown for each year in the accompanying Consolidated Statements of Income represent dividends declared as applicable to the respective years, rather than those paid in the respective years.

19. Subsequent Events

Significant events subsequent to 31 March 2004 are noted as follows:

(1) *The appropriation of retained earnings of the Company for the year ended 31 March 2004, which was approved by the board of directors held on 30 April 2004, is as follows:*

	Millions of Yen
Appropriations:	
Cash dividends (¥30 per Share)	¥ 696
Bonuses to directors	14
Total	¥ 710

(2) *The ¥10,000 million Zero Coupon Convertible Bonds due 2008 (tenkanshasaigata shinkabu yoyakuken-tsuki shasai) (the "Bonds", which term shall, unless the context requires otherwise, include stock acquisition rights incorporated in the Bonds) of transcosmos inc. was issued in denominations of ¥1,000,000 each with a stock acquisition right (shinkabu yoyakuken), based on the board of directors determination on 2 June 2004.*

Summary

- 1) Offer Price: 102.5 per cent
- 2) Payment date: On 21 June 2004
- 3) Due of redemption: On 20 June 2008
- 4) Convertible price : At first ¥4,410 per share
- 5) Convertible term : After 6 July 2004, up to, and including, 6 June 2008.



REPORT OF INDEPENDENT AUDITORS

**To the Board of Directors and Shareholders of
transcosmos inc.**

We have audited the accompanying consolidated balance sheets of transcosmos inc. and its subsidiaries as of 31 March 2004 and 2003, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended 31 March 2004, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of transcosmos inc. and its subsidiaries as of 31 March 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended 31 March 2004, in conformity with accounting principles generally accepted in Japan.

As described in Note 19, transcosmos inc. issued the ¥10,000 million Zero Coupon Convertible Bonds due 2008.

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
29 June 2004



Non-Consolidated Balance Sheets

At 31 March 2004 and 2003

Millions of Yen

Thousands of U.S. Dollars
(Note 3)

	2004	2003	2004
ASSETS			
Current Assets:			
Cash, Time deposits and commercial paper	¥ 4,488	¥ 3,491	\$ 42,465
Notes and accounts receivable:			
Customers	10,175	8,405	96,266
Subsidiaries and affiliates	232	162	2,199
	10,407	8,567	98,465
Less: allowance for bad debt	(48)	(2,837)	(453)
	10,359	5,730	98,012
Short-term loans to subsidiaries	1,951	4,620	18,456
Job and software in progress and merchandise	34	13	324
Deferred tax assets	2,098	1,638	19,853
Merchandise	125	137	1,181
Prepaid expenses	306	268	2,897
Other current assets	594	656	5,616
Total current assets	19,955	16,553	188,804
Investments and Advances:			
Investments in securities	10,405	1,857	98,451
Investments in and advances to subsidiaries and affiliates	23,006	19,236	217,672
Long-term loans to subsidiaries	7,010	7,413	66,326
Other investments	1,714	1,715	16,219
Less: allowance for bad debt	(3,305)	—	(31,275)
Total investments and advances	38,830	30,221	367,393
Property Equipment, at cost, less Accumulated Depreciation	3,767	3,521	35,645
Fixed Leasehold Deposits	1,820	2,359	17,216
Deferred Charges, Intangibles and Other	995	573	9,426
Other non-current assets to subsidiaries and affiliates	110	—	1,040
Deferred tax assets	3,160	6,455	29,895
Prepaid Pension tax	708	1,003	6,699
	¥ 69,345	¥ 60,685	\$ 656,118

The accompanying notes are an integral part of the statements.

At 31 March 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2003	2004
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Current portion of long-term bank loans	¥ 1,000	¥ 2,000	\$ 9,462
Accounts payable:			
Suppliers	3,162	1,588	29,920
Subsidiaries and affiliates	872	1,365	8,250
	4,034	2,953	38,170
Income taxes payable	33	17	310
Accrued expenses	1,652	810	15,635
Accrued bonuses to employees	1,803	1,365	17,056
Other current liabilities	1,115	566	10,557
Total current liabilities	9,637	7,711	91,190
Long-term Liabilities:			
Long-term bank loans	2,000	1,000	18,923
Other long-term liabilities	156	190	1,481
Total long-term liabilities	2,156	1,190	20,404
Total liabilities	11,793	8,901	111,594
Shareholders' Equity:			
Common stock:			
Authorized 90,088,176 shares at 31 March 2004 and 2003, respectively			
Issued 24,397,023 shares at 31 March 2004 and 2003, respectively	29,066	29,066	275,012
Additional paid-in capital	15,000	30,623	141,924
Other capital surplus	7,623	—	72,120
Legal reserve	—	389	—
General reserve	—	14,900	—
Retained earnings	3,360	(23,289)	31,791
Unrealized gains on marketable securities and investments in securities	5,638	97	53,344
Treasury stock, at cost, 1,189,739 shares at 31 March 2004 and 731 shares at 31 March 2003	(3,135)	(2)	(29,667)
Total shareholders' equity	57,552	51,784	544,524
	¥ 69,345	¥ 60,685	\$ 656,118

The accompanying notes are an integral part of the statements.



Non-Consolidated Statements of Operations

For the years ended 31 March 2004, 2003 and 2002

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2004	2003	2002	2004
Net Sales	¥ 65,360	¥ 57,389	¥ 54,514	\$ 618,416
Cost of Sales	50,698	46,344	43,693	479,687
Gross profit	14,662	11,045	10,821	138,729
Selling, General and Administrative Expenses	10,394	8,531	6,785	98,350
Operating income	4,268	2,514	4,036	40,379
Non-Operating Income (Expenses):				
Interest income	120	146	191	1,132
Interest expenses	(27)	(29)	(42)	(252)
Dividend income	79	13	58	751
Loss on sale/disposal of property	(53)	(184)	(78)	(497)
Loss on disposal of inventories	—	—	(131)	—
Loss on write-down of marketable securities and investments in securities	(274)	(1,739)	(2,053)	(2,588)
Loss on write-down of investments in affiliates	(297)	—	—	(2,809)
Loss on write-down of golf club membership	(17)	(75)	(92)	(161)
Gain on sale/disposal of investments in securities	579	491	665	5,482
Gain on sale/disposal of investments in affiliates	38	149	4,610	355
Gain on return of substitutional portion of employee pension fund	—	719	—	—
Loss on liquidation of business segment	(202)	(25,729)	(3,946)	(1,914)
Headquarters relocation costs	(520)	—	—	(4,920)
Loss on investments in partnership	(667)	(511)	(1,363)	(6,310)
New SFA development costs	—	(2,934)	(757)	—
Reserve for loss on guarantees	—	—	(300)	—
Provision for allowance for bad debt	(523)	(2,785)	—	(4,953)
Other, net	(40)	(120)	(8)	(379)
Total non-operating Income (Expenses)	(1,804)	(32,588)	(3,246)	(17,063)
Income/(loss) before income taxes	2,464	(30,074)	790	23,316
Income Taxes				
- Current	71	14	1,513	672
- Deferred	(967)	(6,807)	(1,039)	(9,147)
Net income/(loss)	¥ 3,360	¥ (23,281)	¥ 316	\$ 31,791

	Yen			U.S. Dollars
Per Share:				
Net income/(loss)	¥ 140.6	¥ (954.3)	¥ 13.0	\$ 1.33
Cash dividends	¥ 30.0	¥ 10.0	¥ 20.0	\$ 0.28
Weighted average number of shares (in thousands)	23,805	24,396	24,362	23,805

The accompanying notes are an integral part of the statements.



Non-Consolidated Statements of Shareholders' Equity

For the years ended 31 March 2004, 2003 and 2002

Millions of Yen

	Number of shares of common stock	Common stock	Additional paid-in capital	Other capital surplus	Legal reserve	General reserve	Retained earnings
Balance as at 31 March 2001	24,397,023	¥ 29,066	¥ 30,623	¥ —	¥ 357	¥ 12,900	¥ 2,753
Cash dividends	—	—	—	—	—	—	(487)
Transfer to legal reserve	—	—	—	—	32	—	(32)
Directors' bonuses	—	—	—	—	—	—	(70)
Transfer to general reserve	—	—	—	—	—	2,000	(2,000)
Net income for the year ended 31 March 2001	—	—	—	—	—	—	316
Balance as at 31 March 2002	24,397,023	29,066	30,623	—	389	14,900	480
Cash dividends	—	—	—	—	—	—	(488)
Net income for the year ended 31 March 2003	—	—	—	—	—	—	(23,281)
Balance as at 31 March 2003	24,397,023	29,066	30,623	—	389	14,900	(23,289)
Transfer to retained earnings	—	—	(8,000)	—	(389)	(14,900)	23,289
Transfer to other capital surplus	—	—	(7,623)	7,623	—	—	—
Net income for the year ended 31 March 2004	—	—	—	—	—	—	3,360
Balance as at 31 March 2004	24,397,023	¥ 29,066	¥ 15,000	¥ 7,623	¥ —	¥ —	¥ 3,360

Thousands of U.S. Dollars (Note 3)

Balance as at 31 March 2003	\$ 275,012	\$ 289,742	\$ —	\$ 3,676	\$ 140,978	\$ (220,352)
Transfer to retained earnings	—	(75,698)	—	(3,676)	(140,978)	(220,352)
Transfer to other capital surplus	—	(72,120)	72,120	—	—	—
Net income for the year ended 31 March 2004	—	—	—	—	—	31,791
Balance as at 31 March 2004	\$ 275,012	\$ 141,924	\$ 72,120	\$ —	\$ —	\$ 31,791

The accompanying notes are an integral part of the statements.



Notes to the Non-Consolidated Financial Statements

1. Basis of Presenting the Non-Consolidated Financial Statements

Accounting principles

The accompanying non-consolidated financial statements have been prepared from accounts maintained by transcosmos inc. (the "Company"). The Company has maintained their accounts in accordance with the provisions set forth in the Commercial Code of Japan and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from those of International Financial Reporting Standards.

Certain items presented in the non-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 statement of cash flows has been required to be prepared in the consolidated financial statements with effect for the years ended 31 March 2004, 2003 and 2002.

2. Accounting Principles and Practices Employed by the Company

Accounting principles and practices employed by the Company in preparing the accompanying non-consolidated financial statements, which have significant effects thereon, are explained in Note 2 of the Notes to the Consolidated Financial Statements. Therefore, the accompanying non-consolidated financial statements should be read in conjunction with such notes.

3. United States Dollar Amounts

The Company maintains accounting records in yen. The dollar amounts included in the non-consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars on a basis of ¥105.69=US\$1. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be readily converted, realized or settled in dollars at ¥105.69=US\$1 or any other rate.

4. Additional paid-in capital, legal reserve and retained earnings

The Japanese Commercial Code provided that an amount equivalent to at least 10% of certain cash disbursements as appropriations of retained earnings with respect to each fiscal year be appropriated as legal reserve until an aggregated amount of additional paid-in capital and legal reserve equals 25 per cent. of stated capital.



Investor Information

CORPORATE INFORMATION

Name	transcosmos inc.
Head Office	3-25-18, Shibuya, Shibuya-ku, Tokyo 150-8530 Japan
Incorporated	June 18, 1985
Capital	¥29,065,968,631
Employees	7,434 group, 5,543 parent (as of March 31, 2004)
Major Banks	Sumitomo Mitsui Banking Corporation Mizuho Corporate Bank, Ltd. UFJ Bank Limited

STOCK INFORMATION

Accounting Year-end
March 31

Month of General Shareholders' Meeting
June

Issued Common Stocks
24,397,023
(as of March 31, 2004)

Number of Shareholders
33,946 shareholders
(as of March 31, 2004)

Stock Exchange Listing
Tokyo Stock Exchange

Auditing Corporation
ChuoAoyama PricewaterhouseCoopers

OFFICERS

Founder & Group CEO	Koki Okuda
Chairman & CEO	Koji Funatsu
Vice Chairman	Osamu Goto
President & COO	Masataka Okuda
Executive Vice Presidents	Toshikazu Tanizawa Yasuki Matsumoto
Senior Managing Directors	Shojiro Takashima
Senior Managing Directors CFO	Shinichi Misawa
Standing Auditors	Yoshiharu Uenoyama Yoichi Ochiai
Auditors	Masahiko Tanimura Teruyuki Hiroyuki
Corporate Executive Officer	Koichi Iwami Masaya Nishimura Masakatsu Moriyama
Corporate Senior Officer	Tsutomu Kawase Tsunetaka Miyaryo Hiroshi Kaizuka Masayuki Tada Koji Okamoto Masaaki Muta Akira Miyake Tatsushi Maekawa Kazuhiro Shimizu
Corporate Officer	Hironori Katada Kazuhiko Yamaki Nobuhiko Fujimoto Yujiro Mitera Yutaka Kojima Masatoshi Kouno Kunio Shimofusa Tadashi Makino Hirofumi Inoue Kokkei Nakayama Akihiko Kai Shinichi Nagakura Masatoshi Araki Kimihide Okino Hiroyuki Shibuya Tsugio Kanno Yoichi Kawano Hirota Shiohara

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The Marketing Chain Management Company