

*Toyo Information Systems
Co., Ltd.*

TIS

*Annual Report
2000*

HUMAN ORIENTED

Soon, it will be 30 years since Toyo Information Systems Co., Ltd. (TIS), first began dealing in that shapeless commodity known as “information.” Now, the world realizes that this is the age of the Internet—the vehicle of the IT revolution—where information, money, and ideas cross borders. However, despite this paradigm that has the power to completely transform every aspect of society, our guiding motto, “It isn’t technology that creates value—it’s people using technology that creates value,” has remained the same.

TIS will always work for the people who use IT and system technology and, as a strategic partner to its customers, will focus on putting people first to contribute to “a future made with people and technology.”

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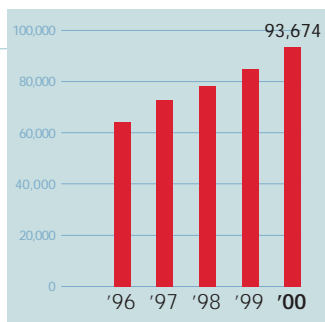
FINANCIAL HIGHLIGHTS

Toyo Information Systems Co., Ltd. and its consolidated subsidiaries
 Years ended March 31, 2000 and 1999

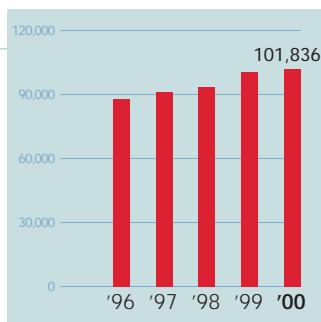
	Millions of yen		Thousands of U.S. dollars (Note)
	2000	1999	2000
For the year:			
Net sales	¥93,674	¥85,085	\$882,465
Operating income	6,686	6,656	62,985
Net income	3,496	1,596	32,930
At year-end:			
Total assets	¥101,836	¥100,432	\$959,357
Long-term debt	11,086	22,145	104,437
Shareholders' equity	52,142	44,323	491,210
Per share of common stock (in yen and U.S. dollars):			
Net income	¥82.10	¥39.05	\$0.77
Diluted net income	79.45	37.99	0.75
Cash dividends	14.00	12.00	0.13

Note: All dollar figures herein refer to U.S. currency. Yen amounts have been translated, for convenience only, at ¥106.15 to \$1.

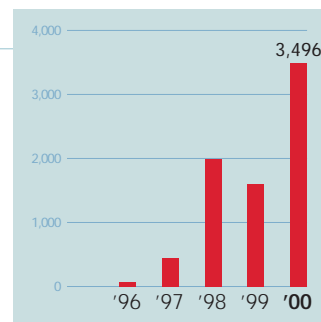
Net Sales
(Million ¥)



Total Assets
(Million ¥)



Net Income
(Million ¥)



Since its founding in 1971, TIS has grown to become the leading company in the information services industry. In fiscal 1999, ended March 31, 2000, consolidated net sales increased 10.1% over the previous term, to ¥93.7 billion, and net income skyrocketed 119.0%, to ¥3.5 billion, making this term's net sales and net income the highest in the Company's history.

In review of fiscal 1999, Y2K issues forced a temporary freeze on new business and the economic slump continued, but due to support from companies actively investing in information services, TIS was able to easily overcome this difficult period. In addition to increased sales of office equipment in the solutions field, such software development related activities as database configuration and system construction for Enterprise Resource Planning (ERP) remained stable. Further, surging e-business operations on the Internet, the main area of TIS's efforts, contributed to heightened sales. In the outsourcing area, the expansion of the Osaka Operation Center was completed smoothly, and advancement into the Internet data center field was initiated.

Today, deregulation and economic globalization have resulted in severe business competition, making investment in efficient information services essential for effective management. As such communications tools as the Internet and mobile phones rapidly gain popularity and the advancement of IT progresses, companies demand the creation of information systems capable of handling innovative technology. One result of the push to efficiently invest the huge amount of capital needed in information services can be seen in recent mergers, capital tie-ups, and other efforts at business reorganization.

With the background of active investment that companies are making in information services, TIS implemented and, in 1999, concluded its three-year management plan, "Takeoff Three," which further heightened profitability and offered the best solutions possible to its customers' management needs. The end result of this plan has been the highest net sales and profits ever recorded by TIS.

As of fiscal 2000, a new three-year management plan, "SEA-Change 21*," was begun with the goals of increasing customer satisfaction and expanding Group size. We are now actively working to bring these goals to reality; in addition to developing existing software and strengthening our outsourcing services, we are also expanding such e-business related services as web site creation and Internet data center operations.

Since around the start of fiscal 2000, TIS has actively been acquiring stock in other information services companies. First, on March 30, 2000, TIS became the primary shareholder in Agrex, Inc., an information services company and subsidiary of major Japanese credit firm Aplus Co., Ltd., by acquiring 33.8% of Agrex's stock, or a 34.2% stock ratio. On April 3, 2000, TIS acquired 65% of Komatsu Soft Ltd., the information services subsidiary of the construction equipment manufacturing giant Komatsu Ltd. These acquisitions have strengthened TIS by expanding its sales platform and increasing the number of customers, and earnings from both of these newly acquired companies will be reflected in TIS records on a consolidated basis starting from fiscal 2000. In addition, with an eye to expanding e-business operations in the future, TIS has actively invested in companies

MESSAGE TO SHAREHOLDERS

and formed tie-ups, such as one with the Softbank Group to form the Application Service Provider (ASP) EC Factory.com, Inc., in January 2000.

Shareholder policy has always been taken seriously at TIS, and in fiscal 2000 a stock option system was implemented as a long-term incentive to increase employee performance and morale. This has also functioned as an incentive to increase the value of Company stock, contributing to the earnings of investors and shareholders. From January 2001, by reducing the purchasable lot size of stocks from 1,000 to 100, TIS hopes to increase liquidity and thereby expand its base of shareholders.

As the speed of change in innovative IT accelerates, especially in the area of e-business in which TIS concentrates its efforts, clients are demanding flexible and rapidly implemented solutions, necessitating increased productivity through a variety of technologies. At TIS, through our growth and diversification in information services investment, together with our technological strength and emphasis on quality, we have the flexibility to cope with today's intensifying rate of technological innovation.

In December 2000, our new head office building in Tokyo will be completed, and in April 2001 we will celebrate the 30th anniversary of our establishment. Looking to the future, in order to strengthen our corporate image and promote the transformation of our Company constitution, our Company name will become TIS Inc. as of January 1, 2001.



We at TIS look forward to the new opportunities the 21st century will provide, and as you, our shareholders expect, we will continue to work as a leading company in the information services industry and as a company you can rely upon.

August 2000

Takao Funaki

Takao Funaki
President

*The term "sea-change" is originally from the Shakespeare play *The Tempest* and means broad change for the better.



President
Takao Funaki



Senior Managing Director
Ryouyusuke Ariga



Senior Managing Director
Susumu Okamoto



Senior Managing Director
Takashi Hashimoto



Managing Director
Kentarou Fukumoto



Managing Director
Hiroaki Fujimiya



Managing Director
Yukio Urata

Directors
Norio Maenishi
Yoshiyuki Uenishi
Yoichi Arama
Satoshi Miyamoto
Toru Kuwano
Nobuyoshi Sasaki

Corporate Auditors
Susumu Kawahara
Kazuhiko Yamashita
Naoki Kimura
Yoshinobu Tanaka

BOARD OF DIRECTORS

Our 30th Anniversary and Riding the IT Revolution

In 2001, TIS will be celebrating its 30th anniversary. Since its establishment, TIS has become a leader in the information services industry and is now a publicly traded company.

It is amazing how fast time flies. As we speed toward the 21st century, every aspect of society's transformation moves at a breathtaking pace. At TIS, we don't get caught up in the race for change—we lead it.

What will the future bring for TIS? It will bring to reality our dream of being a company that can captivate the imagination.

Our Goals

To heighten the creative power of people and social systems

To work as a professional in providing our clients with optimum solutions

As a corporate citizen, when we think about what we want to do, it is important to have the goals of contributing to society by shining in the field we excel in, becoming an open-minded company to appeal to all members of society, and progressing in unison with our business partners and shareholders.

Our Vision

Working as the best partner of our customers

Becoming an excellent company focused on solid growth

Contributing to society

TIS is continuing to create a company that can captivate the imagination by employing professionals with high-end skills who are sensitive to customers' ever-changing needs and capable of reacting to new challenges.

Developing within an organizational structure that demonstrates active integration

Fostering a dynamic and open environment in which big dreams can be achieved

At TIS, our vision is always focused on moving forward into the future.

A VISIONARY COMPANY

In the soaring field of e-business, TIS is conducting a wide range of activities. While placing primary focus on system construction for e-commerce, such other services as comprehensive data center operations, portal and specialized web site construction and operation, ASP activities, and others are also provided. Further, TIS is broadening its scope of operations in this area by linking up with or providing services to other e-business players.

System Integration

In the financial and credit card fields, the expertise in certification, security, settlement, and telecommunications technologies gained from experience as a system integrator, as well as the complementary know-how of its partners, allows TIS to offer a wide range of services, from web applications to the system configuration needed for e-business operations. Likewise, TIS can utilize its abundant experience in key system development, operational maintenance, and web site contents services.

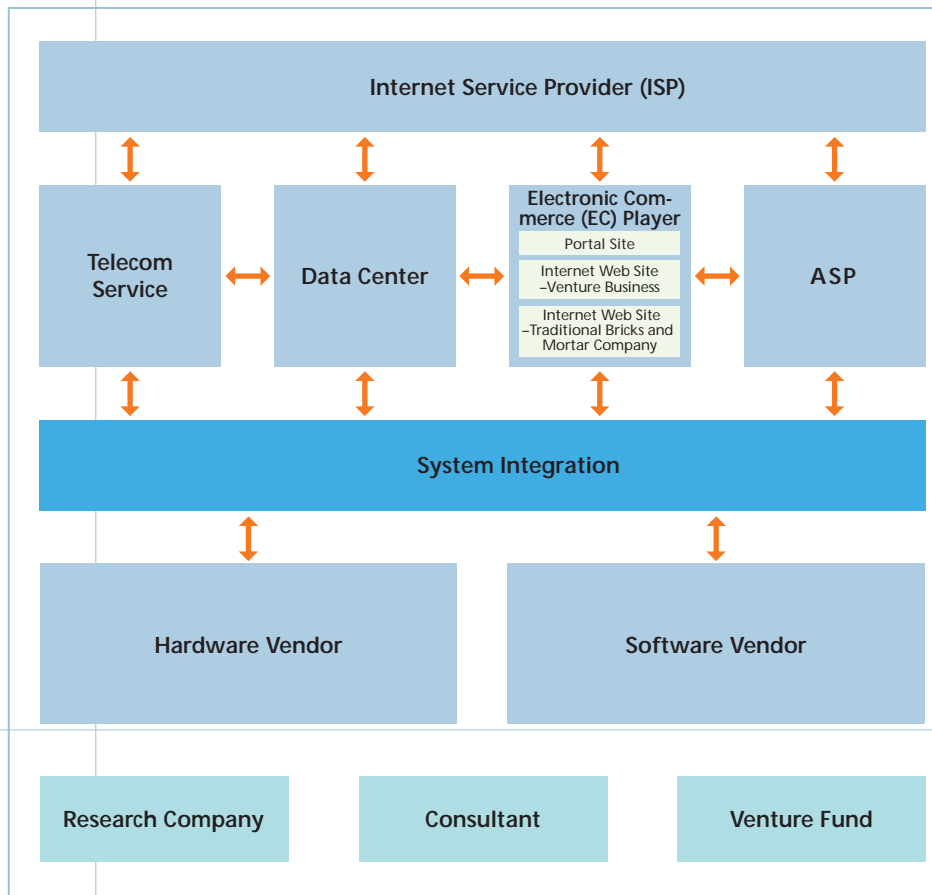
Examples of TIS's web site work:

Employment information company Recruit Co., Ltd.'s lifestyle web site: "ISIZE"

Travel service company Japan Airlines' JAL Pack travel-oriented sales web site: "e travel"

Retailer Isetan Co., Ltd.'s shopping web site

Internet postal service for corporate users: Web@Postman



e-BUSINESS

Data Center Operations

With many years' experience in the computer center outsourcing business, TIS has the expertise and infrastructure to meet urgent upgrade demands. In its computer centers, TIS has created the ideal environment for the provision of rapidly implemented services at extremely low cost. Further, high-quality services are provided in coordination with highly experienced companies within the TIS Group.

ASP Operations

The TIS Group supports the provision of Internet-based applications and carefully monitors the labor and costs related to their implementation. TIS provides the very latest applications needed to cover a wide range of needs.

Portal Site and Specialized Site Operations

Using its solid technological platform, TIS energetically performs system integration for new business opportunities, operating such web sites as the shopping site "Wondermall" as well as "Skysoft," which deals in the sales of specialized items.

Development through Alliances

In addition to system integration and data center operations, TIS is active in the e-business field through its links to other e-business companies and through other investments. By working with companies that bring their own complementary expertise to the relationship, TIS supports its customers' e-business operations with rapid and total service.

Business Type	Company Name	Description	Partners
EC Player	eWing Securities Co., Ltd.	Internet trading	Sanwa Bank, Ltd., Tsubasa Securities Co., Ltd.
	Skysoft, Inc.	Book sales over the Internet	JAFCO Co., Ltd.
Portal Site and Related Activities	.mobi	Contents planning, provision, sales for mobile and Internet environments	FORVAL, ASATSU-DK, TOKYO FM, others
	ENCODEx Japan Ltd.	Web application construction tool ENCODEx++ licensing, contents creation, sales focusing on information delivery	GfK Marketing Services Japan
	Digital Garage, Inc.	Internet contents distribution (WebNation)	—
	TIS (U.K.) LTD.	Import of goods from the U.K. (Wondermall)	—
ASP	EC Factory.com, Inc.	ASP services	SOFTBANK TECHNOLOGY, SOFTBANK COMMERCE, Digital Garage, Inc.
System Integration	Internet GIS Inc.	Planning and development of Internet GIS (geographic information system), other	Internet Research Institute, Inc.

Business Type	Company Name	Description
EC Player	e-baby, Inc.	Baby products sales over the Internet
	Japan Optimark Systems, Inc.	Internet trading
Service Vendor	VerticalSoftware.com, Inc. (Webpartner)	Response monitoring for web sites, marketing
	econtext K.K.	EC financial distribution service
Software Vendor	TurboLinux, Inc.	Linux vendor
	PeerLogic, Inc.	TP monitor vendor
	Vignette Corporation	EAI tool vendor
System Integration	FAMOTIK, Ltd.	Multimedia authoring
	Cisco Systems K.K.	Construction of real-time information distribution systems
Software Vendor	Net Perceptions Japan K.K.	Real-time commendation software sales
Consulting	Gate Group Inc.	Internet EC consulting, planning, production



Outsourcing Services

TIS outsourcing services not only cover every phase of development, from planning and design to operation, they comprise total services that include training and helpdesk services. In the Internet field as well, TIS is there with its expertise and infrastructure to provide outsourcing support for customers' e-business operations.

- ◆ System configuration services
- ◆ System operation services
 - Agent 24, a 24-hour operations maintenance service
- ◆ Communication network services
 - International network services
 - InfoGLOBE and JapanGLOBE Internet services
 - TeleGLOBE, a discount telephony service
 - Fair-Way, a fax-mail service
- ◆ Training and helpdesk services
- ◆ Data center operations



Software Development

Through consultation with customers, TIS provides a wide variety of services, from business system construction and package development to software development for applications and platform technology needed for settlement, certification, security, and telecommunications services in the e-business field.

- ◆ Consulting services
 - Business, IT, data, and operations
- ◆ Financial and credit card systems
- ◆ Mainframe systems
- ◆ Web systems
- ◆ E-commerce platforms
- ◆ Cutting-edge technology systems
 - Voice recognition and visual computing
- ◆ Distributed object-oriented systems
- ◆ Mobile systems
- ◆ Others



Solution Services

Using hardware and software from a wide array of manufacturers, TIS offers the solutions that best fit a customer's needs. Detailed consulting with customers enables TIS to clearly understand management and business requirements and plan the optimal solutions for long-term future needs.

- ◆ Network construction
- ◆ Credit card and debit card settlement business solutions
- ◆ EC marketing solutions
- ◆ XML total solutions
- ◆ Electronic settlement solutions
- ◆ Sales of TIS software, system equipment, and packages
- ◆ Others

TIS AT A GLANCE

Full-Line Services

As your strategic business partner, TIS is active in a wide range of services, from strategy planning and development to implementation. Even after your system is up and running, TIS is there to provide operation, maintenance, and system upgrades services—total support for the entire system life cycle.

Integrated Outsourcing Services—

Offering Reliable Services with Total Support

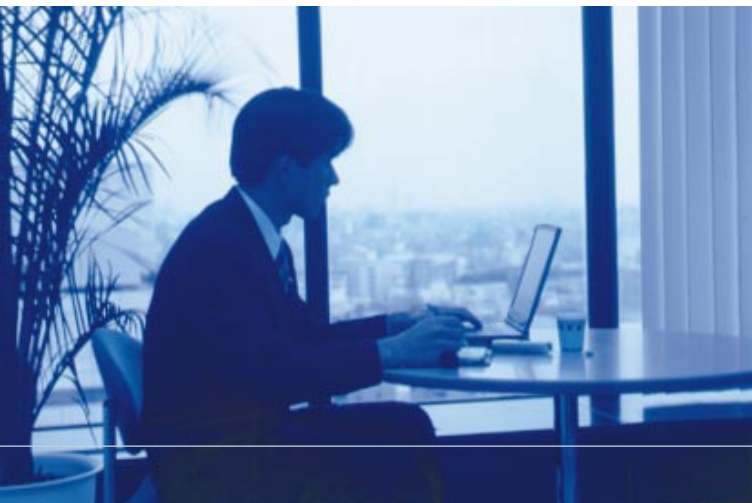
TIS outsourcing services do not just cover every phase of development from planning and design to operation; such comprehensive services are offered as those in the training and helpdesk areas. With network-related outsourcing currently attracting interest in the business world, TIS has taken on Supply Chain Management (SCM) systems, built around a purchasing network that has arrangements with 700 manufacturers and component suppliers, as well as data center operations—an area in which demand is expected to increase explosively. The operation of call centers for financial companies, which need 24 x 7 coverage, has also produced excellent results that help to ensure that customers consistently trust TIS, from system development onward. TIS is working to fully integrate and strengthen its whole range of services.

Meeting Customer Needs

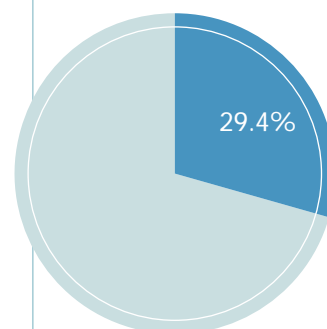
Outsourcing services can have a powerful effect on the future strategic effectiveness of a company's management. TIS provides total integrated outsourcing services that support all stages, from the determination of management strategies to the development, maintenance, and actual operation of systems. By providing these services, TIS aims to be a customer's number-one partner in business.

TIS has computer centers at convenient locations in Tokyo and Osaka. In 2000, the Company plans both small and large-scale construction activities at these sites to implement additional data center infrastructure. This added value will strengthen our customers' market competitiveness. Additionally, TIS established the Outsourcing Progress Group, a body that has made real progress in creating structures to tackle the major concerns of businesses in an organized manner.

Because TIS has vast experience and an advanced infrastructure in the outsourcing field, we can offer optimal solutions to meet the changing requirements of our constantly diversifying customers.



Share of Net Sales
(Consolidated)



REVIEW OF OPERATIONS
OUTSOURCING SERVICES

Software Development in a Variety of Fields

TIS offers business applications and a variety of package development services to the financial, distribution, manufacturing, service, and other sectors and has experience offering system development utilizing such technologies as Enterprise Resource Planning (ERP), SCM, and CRM. TIS is also conducting R&D operations in such multimedia field technologies as voice recognition and visual computing. In the area of e-commerce, a wide variety of software is being developed, including platform construction of software for settlement, certification, security, and other services, as well as application development.



Information Strategy Planning Based on Management Vision

Rapid response to customer needs is essential in the age of the IT revolution and a diversifying software industry. With close customer consultation, TIS analyzes changes in the business environment, and with Business Process Reengineering (BPR), customers' business visions can be brought to life by the provision of practical information strategies and software that best fit the solutions.

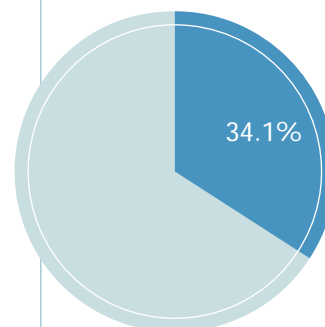
A Quality System with Thorough Project Management

In addition to Companywide ISO 9001 certification, TIS has introduced the latest project management methods, enabling it to conduct development within the framework of a thorough project management system. The high-quality results of this system are well appraised by our customers. Further, distributed object-oriented technology, Extensible Markup Language (XML), and other advanced technologies allow TIS to provide the highest-quality services.



SOFTWARE DEVELOPMENT

Share of Net Sales
(Consolidated)



A Total System Integration Vendor

As a hardware-independent neutral vendor, TIS provides the IT resources most suited to the best possible solutions for its customers. Backed by the Company's renowned technological strength and capability in providing high levels of customer satisfaction, solution services provided by TIS have gained the trust of not only its customers but of hardware manufacturers as well.

Solution Services with Emphasis on Consulting

As a reliable business partner, detailed consulting with customers enables TIS to grasp their requirements and plan a forward-looking information strategy. In addition to selecting software and hardware appropriate to a customer's environment and circumstances, as part of the post-implementation follow-up process, TIS offers system monitoring, operation, and help-desk services. TIS is actively developing services to suit customer needs in these and a growing number of other ways.



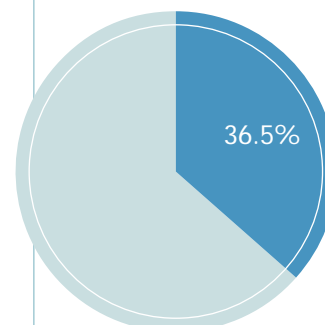
A Broad Range of Solution Services

By choosing the most ideal package for each client, TIS provides highly reliable systems in minimal time by drawing on its unique high-end technologies and extensive expertise in a broad range of business fields. TIS delivers solution services needed for intranets and other platforms, beginning with network construction and including a wide range of other disciplines.

- ◆ Credit card and debit card settlement business solution: CARDWORKS/S-Package
- ◆ XML total solutions: eXcelon, JetForm
- ◆ Real-time recommendation software: Net Perceptions Recommendation Engine
- ◆ Distributed object-oriented middleware: Orbix
- ◆ Media contents delivery support tool: ENCODEX++
- ◆ Multimedia handling tool: AngelStore
- ◆ Others

Share of Net Sales

(Consolidated)



SOLUTION SERVICES

Anticipating Future Technology—Leading the 21st Century IT Revolution

The IT field is moving forward at an incredible speed, and strategic planning is essential if a company is to deal effectively with the advances that next-generation technology will bring. TIS has a solid grasp of these changes and is devoting its R&D efforts to pioneering and producing the technologies and services that customers will find truly useful.

INTERNET TECHNOLOGIES

EC, EDI, ELECTRONIC
SETTLEMENT, INTERNET-
RELATED SERVICES

CORPORATE SYSTEM CONSTRUCTION TECHNOLOGIES

EAI, ERP, SCM

INFORMATION PROCESSING

CRM, KNOWLEDGE
MANAGEMENT,
OLAP, DWH

SOFTWARE DEVELOPMENT

DISTRIBUTED OBJECT-ORIENTED
TECHNOLOGY, XML, Java

SYSTEM OPERATION

STRATEGIC OUTSOURCING,
ASP, DATA CENTER, CTI

NETWORK INTEGRATION

PROTOCOL CONVERSION,
SECURITY TECHNOLOGIES
(PKI, ELECTRONIC
CERTIFICATION)



RESEARCH & DEVELOPMENT

Network Challenges

The testing phase of our Internet and intranet environment creation services has been completed, and the services are now being used in actual operations. TIS recognizes that network environments will need more advanced forms of presentation and is now working with external research bodies to develop such technologies as 3-D virtual networks and to construct multimedia groupware systems. Further, TIS is involved in the planning of a number of Japanese Ministry of International Trade and Industry sponsored projects to develop such platform technologies as natural language query, voice recognition, and visual computing. TIS will continue to contribute to the development of IT platforms in Japan and will therefore continue its progress with research into high-end multimedia application and business system technologies.

In the age of network computing, cross-platform distributed object-oriented technology is at the core of next-generation information systems, and TIS has been leading research in the field of object-oriented databases that can effectively manage complicated information, cross-platform distributed systems that use distributed object-oriented middleware (CORBA), and other areas. TIS is expanding its research and achieving real progress in this field, which has become a key part of the industry, and has obtained practical applications for the component software architecture known as Enterprise JavaBeans (EJB). TIS has put into production business programming tools based on distributed object-oriented technology and is beginning to develop a variety of Enterprise Application Integration (EAI) technologies for data on groupware, data with ERP package system integration, and others.

Advanced System Construction and Operation

Distributed system and open system technologies are at the core of IT. At TIS, we are already applying these technologies to a variety of business operations. The best way to apply database marketing or SCM to meet the needs of customers is much discussed. TIS is now researching and discovering what combinations

of technologies are best suited to provide optimal results for each customer.

TIS understands that as distributed systems become more prevalent and information network construction requirements become greater, the efficient design and operational management of LAN and WAN systems become vital. We have therefore begun LAN and distributed system design, management, and monitoring services. TIS is also active in the research and development of practical business systems for Internet and mobile phone based e-commerce, which requires certification, security, and directory technologies. In addition, the Company is researching and testing multiple applications that increase productivity and application methods for combination package software that features End-User Computing (EUC) and component reuse.

Group Efforts

In today's information management field, large-scale equipment handling huge amounts of data is a thing of the past, replaced by the new concepts of open downsizing and EUC. With the combined strength of the TIS Group, we can ensure utilization of our cumulative technological know-how to fully understand market trends and next-generation technological advances, while at the same time conducting research and development activities to provide our customers with useful new products and services.

The Toyo Information Systems Research Institute, in addition to conducting research into all areas of computer technology, has for the past two years been active in discovering potential needs of customers in the applications technology field and researching market trends and technological innovations. The TIS subsidiary TIS (USA) Co., Ltd. (based in San Jose, California) keeps the Group abreast of the latest developments in the United States. Another Group company, TIS and Origin Consulting Ltd., is working on a wide range of practical issues for ERP applications technology, an area that is attracting great interest in the industry.

CONSOLIDATED FIVE-YEAR SUMMARY

Toyo Information Systems Co., Ltd. and its consolidated subsidiaries
At March 31 and for the years then ended

	Millions of yen (except per share amounts)				
	2000	1999	1998	1997	1996
Net sales	¥ 93,674	¥ 85,085	¥ 78,407	¥ 72,811	¥ 64,257
Operating income	6,686	6,656	3,517	2,309	1,470
Net income	3,496	1,596	1,984	451	168
Net assets	52,142	44,323	43,052	41,337	41,173
Total assets	101,836	100,432	93,383	91,359	87,670
Net assets per share	1,205.90	1,082.79	1,053.56	1,011.58	1,007.56
Net profit per share	82.10	39.05	48.55	11.03	4.10
Diluted net income per share	79.45	37.99	—	—	—
Equity ratio	51.2	44.2	46.1	45.3	47.0
Earnings on equity	7.2	3.7	4.7	1.1	0.4
Per share earning ratio	87.7	89.9	36.3	89.8	309.8
Cash flows from operating activities	6,168	—	—	—	—
Cash flows from investing activities	(6,346)	—	—	—	—
Cash flows from financing activities	(3,139)	—	—	—	—
Cash and cash equivalents at the end of year	14,584	—	—	—	—
Number of employees	3,039	—	—	—	—

FINANCIAL REVIEW

Overview

Business results for fiscal 1999, ended March 31, 2000, were affected by the continuing sluggishness of the economy and a temporary freeze of regular business operations due to Y2K issues. However, with many companies energetically boosting investments in information systems, overall results were very strong.

Fiscal 1999 was the final year of our three-year management plan known as "Takeoff Three." The goals of this plan were to further strengthen our capacity to offer the best possible solutions to customers' management needs and enhance our profitability through more efficient project management methods. Both of these goals were in most respects achieved.

Construction work to upgrade our Osaka Operation Center as a way of strengthening outsourcing operations was completed smoothly, thus giving us a full-scale Internet data center business.

Looking at consolidated results for the term, net sales amounted to ¥93,674 million (US\$882.5 million), an increase of 10.1%, net income totaled ¥3,496 million (US\$32.9 million), increasing a dramatic 119.0% from the previous fiscal year. Free cash flow was slightly negative due to outlays needed for the acquisition of stock in M&A activities.

In accord with its fundamental policy of providing shareholders stable dividend returns, including interim dividends, TIS declared dividends for the period under review of ¥14.00 (US\$0.13) per share, an increase of ¥2.00 from the previous period.

Net Sales

Consolidated net sales for the term under review increased 10.1%, or ¥8,589 million, to ¥93,674 million (US\$882.5 million), mainly due to strong growth in the solution services field. While we offer integrated information services to customers investing in the information field, there are certain qualities of services that make the segmentation of sales difficult. Our strength is our ability to evenly provide services in the areas of outsourcing, software development, and solutions. Overall sales in each of these areas is as follows:

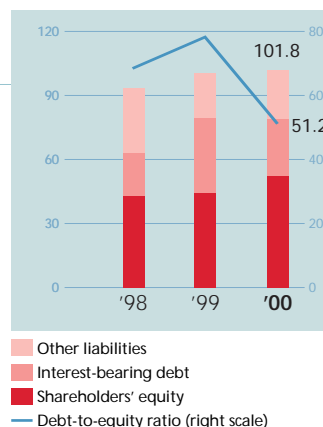
Outsourcing services business increased slightly despite continued price reductions caused by severe competition in the telecommunications industry. However, the partial transfer of operations to subsidiary companies to increase the efficient handling of information within the Group and sustained opportunities in outsourcing business resulting in sales of ¥27,527 million (US\$259.3 million).

Y2K issues temporarily affected software development, especially in the financial and credit card services industries. However, Internet web site creation and other e-business activities intensified, resulting in sales of ¥31,989 million (US\$301.4 million).

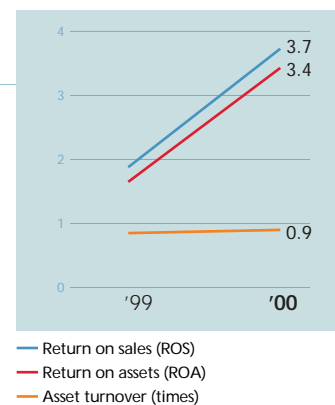
Greater demand for corporate network environment construction services together with an increase in equipment procurement among major customers that upgraded their entire network systems made a significant contribution to solution services sales of ¥34,156 million (US\$321.8 million).

The above three segments made up 29.4%, 34.1%, and 36.5% of consolidated net sales, respectively.

Composition of Total Capital Employed and Debt-to-Equity Ratio (Billion ¥, %)



ROS, ROA, and Asset Turnover (% , times)



Costs, Expenses, and Earnings

The cost of sales expanded ¥6,796 million, or 10.0%, to ¥74,602 million (US\$702.8 million)—0.1 percentage point less than the increase in net sales. As a result, the cost of sales ratio fell 0.1 percentage point, to 79.6%, and gross profit advanced ¥1,792 million, or 10.4%, to ¥19,071 million (US\$179.7 million). On the other hand, selling, general and administrative (SG&A) expenses increased ¥1,762 million, to ¥12,385 million (US\$116.7 million). As a result, the increase in gross profit was mostly offset by a rise in SG&A expenses.

There was only a minimal increase in Y2K-related expenses. Consequently, the SG&A expenses to net sales ratio increased 0.8 percentage point, to 13.2%.

Operating income edged up 0.5%, or ¥30 million, to ¥6,686 million (US\$63.0 million), and the operating income ratio slipped to 7.1%, from 7.8%.

Other expenses, net, declined approximately 50%, or ¥1,284 million, from the previous fiscal year, to ¥1,225 million. Losses on sales of investments in securities, disposal of fixed assets, and other factors were more than offset by reduced expenses in other areas, including a decrease in provision for bad debt reserve, contributing ¥1,669 million to the decrease in other expenses, net. Income before income taxes amounted to ¥5,461 million (US\$51.4 million), an increase of ¥1,314 million, or 31.7%. Net income jumped ¥1,900 million, or 119.0%, to ¥3,496 million (US\$32.9 million).

The reason for the disparity in these results was because, in addition to a decline in the nominal statutory income tax rate compounded by the application of tax effect accounting principles, the Company's effective tax rate declined from 66.1% to 37.7%.

Net income per share rose from ¥39.05 to ¥82.10 (US\$0.77), an increase of ¥43.05. Diluted net income per share was ¥79.45 (US\$0.75), up ¥41.46.

Financial Position

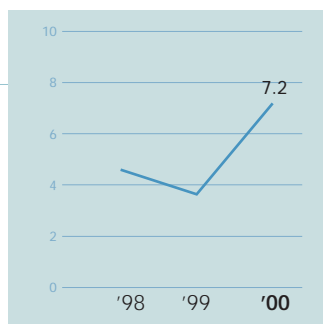
With a view to making the most efficient use of total capital employed while maintaining the ability to support clients making major investments in information services, the Company moved forward with measures to regulate the size of its asset base, focusing on the distribution of resources to strategically important areas. At the same time, the Company strove to reduce interest-bearing debt. As a result of these efforts, total assets as of March 31, 2000, amounted to ¥101,836 million (US\$959.4 million), up ¥1,404 million, or 1.4%, from the previous fiscal year-end.

Total current assets decreased ¥3,386 million, to ¥49,913 million (US\$470.2 million). Although notes and accounts receivable increased ¥5,815 million during the fiscal year, this was more than offset by a ¥8,796 million decline in marketable securities. The funds raised were used to pay a guaranty deposit on the lease for the Company's new Tokyo Head Office, upgrade the Osaka Operation Center, and finance M&A activities.

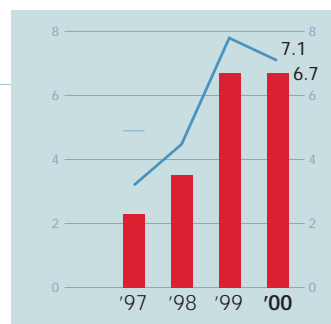
Total investments and other assets rose ¥4,561 million, to ¥21,470 million (US\$202.3 million), mainly due to an increase in investments in affiliates of ¥3,068 million for the acquisition of Agrex and the ¥2,080 million increase in guaranty deposits, stated above.

The Company invested ¥6,849 million in property, plant and equipment, including renovations to the Osaka Operation Center, during fiscal 1999. However, this investment

Return on Equity (ROE)
(%)

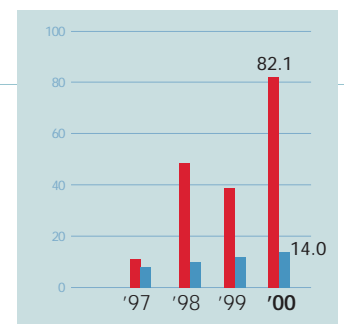


Operating Income and Operating Income to Net Sales
(Billion ¥, %)



■ Operating income
— Operating income to net sales (right scale)

Net Income and Cash Dividends per Share
(¥)



■ Net income per share
■ Parent company's cash dividends per share

was countered by a decline in lease property and an increase in accumulated depreciation, which limited the increase in net property, plant and equipment ¥229 million, to ¥30,453 million (US\$286.9 million).

Total liabilities decreased ¥6,684 million, or 12.0%, to ¥49,070 million (US\$462.3 million). Due to funding and repayment, short- and long-term interest-bearing debt fell ¥7,985 million, to ¥26,727 million. Among borrowings, bank loans declined ¥2,780 million, a net decrease of ¥22,599 million, and convertible bonds fell ¥5,204 million, to ¥4,628 million, with bondholders choosing to convert their holdings to common stock. Operating liabilities and other liabilities rose ¥1,301 million, to ¥22,343 million, due mainly to an increase in notes and accounts payable that accompanied greater expanded business activity.

Total shareholders' equity increased ¥7,819 million, to ¥52,142 million (US\$491.2 million), and the shareholders' equity ratio rose 7.1 percentage points, to 51.2%. This was due to a cumulative ¥5,204 million rise in common stock and additional paid-in capital owing to a conversion of convertible bonds and a ¥2,615 million increase in retained earnings.

Cash Flows

Cash and cash equivalents at the end of year stood at ¥14,584 million (US\$137.4 million), down ¥3,261 million from the previous fiscal year-end. This decrease was mainly the result of the above-mentioned use of surplus funds to finance facility investment, M&A activity, and other capital expenditure.

Net cash provided by operating activities was ¥6,168 million (US\$58.1 million). Included in this amount are cash inflows of ¥9,193 million, excluding corporate taxes and adjusted to pretax profit such as depreciation and other non-cash items. Operating assets and liabilities and other cash outflows amounted to ¥3,025 million, with increases in trade receivables and payables.

Net cash used for investing activities amounted to ¥6,346 million (US\$59.8 million). This includes payments for acquisitions of tangible assets of ¥5,654 million, the sales or acquisition of marketable securities and investment securities amounting to ¥674 million of cash inflow (net increase), and other investments of ¥1,366 million, including guaranty deposits. Free cash outflow for these two activities was, at ¥178 million, minimal.

Net cash used for financing activities amounted to ¥3,139 million (US\$29.6 million). This includes outlays for short- and long-term debt of ¥2,780 million. The parent company's cash dividends to its shareholders totaled ¥791 million.

Outlook

We believe the outlook for the information services industry will continue to be solid, as companies are investing in this area to strengthen their competitiveness in a still unclear economic environment. We predict the following consolidated results in fiscal 2000: net sales of ¥125,000 million (up 33.4%) and net income of ¥4,200 million (up 20.1%), taking into consideration the performance of Komatsu Soft, the newly consolidated company.

Net income for this term includes the ¥1.0 billion cost of the transfer of the Tokyo Head Office, the amortization of approximately ¥1.3 billion per year for the next five years acquired with the purchase of Agrex on March 30, 2000, and Komatsu Soft on April 3, 2000, and total amortization of approximately ¥2.0 billion in insufficient reserves caused by the implementation of new retirement benefit accounting.

CONSOLIDATED BALANCE SHEETS

Toyo Information Systems Co., Ltd. and its consolidated subsidiaries
March 31, 2000 and 1999

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2000	1999	2000
ASSETS			
Current Assets:			
Cash and time deposits	¥ 12,587	¥ 11,330	\$118,573
Marketable securities (Note 4)	8,013	16,809	75,491
Notes and accounts receivable	24,457	18,642	230,402
Allowance for doubtful accounts	(105)	(129)	(992)
Inventories (Note 5)	2,225	1,745	20,956
Deferred income taxes (Note 7)	576	502	5,426
Prepaid expenses and other current assets	2,160	4,400	20,356
Total current assets	49,913	53,299	470,212
Investments and Other Assets:			
Investments in affiliates (Note 4)	3,585	517	33,771
Investments in securities (Note 4)	4,633	4,546	43,649
Guaranty deposits	5,298	3,218	49,914
Deferred income taxes (Note 7)	312	233	2,942
Other	7,642	8,395	71,982
Total investments and other assets	21,470	16,909	202,258
Property, Plant and Equipment:			
Land	7,185	7,185	67,688
Buildings and structures	19,201	17,623	180,890
Machinery and equipment	5,462	6,483	51,458
Lease property	24,213	24,639	228,106
Construction in progress	—	75	—
Other	2,654	2,058	24,990
	58,715	58,063	553,131
Accumulated depreciation	(28,262)	(27,839)	(266,244)
Net property, plant and equipment	30,453	30,224	286,888
Total assets	¥101,836	¥100,432	\$959,357

See Notes to Consolidated Financial Statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2000	1999	2000
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Bank loans (Note 6)	¥ 7,729	¥ 5,888	\$ 72,816
Current maturities of long-term debt (Note 6)	7,912	6,679	74,536
Notes and accounts payable:			
Affiliates	0	—	4
Other	10,370	6,942	97,692
Deposits received	5,163	5,263	48,635
Accrued income taxes	1,033	2,306	9,735
Other current liabilities	5,544	5,804	52,219
Total current liabilities	37,751	32,882	355,637
Long-Term Liabilities:			
Long-term debt (Note 6)	11,086	22,145	104,437
Deferred income taxes (Note 7)	—	460	—
Other	233	267	2,198
Total long-term liabilities	11,319	22,872	106,635
Minority Interest	624	355	5,875
Commitments (Note 8)			
Shareholders' Equity:			
Common stock,			
¥50 par value per share:			
Authorized; 82,400 thousand shares			
Issued and outstanding; 43,241 thousand shares in 2000 and			
40,939 thousand shares in 1999	20,730	18,127	195,290
Additional paid-in capital	20,059	17,458	188,971
Retained earnings (Note 9)	11,367	8,752	107,080
	52,156	44,337	491,340
Treasury shares, at cost	(14)	(14)	(131)
Total shareholders' equity	52,142	44,323	491,210
Total liabilities and shareholders' equity	¥101,836	¥100,432	\$959,357

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Toyo Information Systems Co., Ltd. and its consolidated subsidiaries
For the years ended March 31, 2000, 1999 and 1998

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2000	1999	1998	2000
Net sales	¥93,674	¥85,085	¥78,407	\$882,465
Cost of sales	74,602	67,806	63,564	702,802
Gross profit	19,071	17,279	14,843	179,663
Selling, general and administrative expenses	12,385	10,623	11,326	116,678
Operating income	6,686	6,656	3,517	62,985
Other income (expenses):				
Interest and dividend income	272	213	158	2,558
Interest expenses	(70)	(69)	(66)	(657)
Expense for conversion of convertible bonds	(54)	—	—	(505)
Compensation for head office moving	—	—	650	—
Loss on disposal of property, plant and equipment, net	(455)	(209)	(567)	(4,288)
Valuation loss on investments in marketable securities	(109)	(260)	(62)	(1,030)
Loss on reorganization of affiliates	—	—	(16)	—
Gains from sales of marketable and investments in securities	75	101	1	711
Loss on sales of investments in securities	(427)	—	—	(4,024)
Provision for bad debt reserve	(168)	(1,837)	—	(1,587)
Bad debt loss	(209)	—	—	(1,967)
Bond issuance expenses	—	(232)	—	—
Equity in net income of affiliates	(60)	(89)	—	(563)
Amortization of goodwill	35	33	(0)	327
Other, net	(55)	(160)	76	(517)
	(1,225)	(2,509)	174	(11,543)
Income before income taxes	5,461	4,147	3,691	51,443
Income taxes (Note 7):				
Current	2,690	3,330	2,024	25,080
Deferred	(633)	(590)	(320)	(5,710)
	2,056	2,740	1,704	19,371
	3,404	1,407	1,987	32,072
Minority interests	91	189	(3)	858
Equity in net income of affiliates	—	—	0	—
Net income	3,496	1,596	1,984	32,930
Retained earnings at beginning of year	8,752	7,245	5,577	82,445
Legal reserve transferred to retained earnings (Note 2 (m))	—	394	—	—
	12,247	9,235	7,561	115,375
Cash dividends	(791)	(408)	(358)	(7,447)
Transfer to legal reserve	—	—	(39)	—
Directors' and corporate auditors' bonuses	(90)	(75)	(54)	(848)
Increase due to change in scope of consolidation	—	—	135	—
	(881)	(483)	(316)	(8,295)
Retained earnings at the end of year	¥11,367	¥ 8,752	¥ 7,245	\$107,080
		Yen		U.S. dollars (Note 3)
Per share:				
Net income—basic	¥82.10	¥39.05	¥48.55	\$0.77
—diluted	79.45	37.99	—	0.75
Cash dividends applicable to the year	14.00	12.00	10.00	0.13

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Toyco Information Systems Co., Ltd. and its consolidated subsidiaries
For the year ended March 31, 2000

	Millions of yen	Thousands of U.S. dollars (Note 3)
	2000	2000
Cash flows from operating activities:		
Income before income taxes	¥ 5,461	\$ 51,443
Depreciation	6,592	62,109
Increase in allowance for doubtful accounts	141	1,332
Interest and dividend income	(271)	(2,558)
Interest expenses	70	657
Equity in net income of affiliates	60	563
Loss on sales or unrealised loss on investments in securities.....	431	4,059
Loss on sales or disposal of property, plant and equipment and intangible assets.....	452	4,259
Increase in notes and accounts receivable	(5,537)	(52,168)
Increase in inventories	(479)	(4,515)
Increase in account payable trade	3,427	32,292
Decrease in other operating liabilities	(415)	(3,914)
Other	(21)	(199)
Subtotal	9,910	93,359
Interest and dividend income received	274	2,585
Interest expenses paid	(52)	(491)
Income taxes paid	(3,965)	(37,350)
Net cash provided by operating activities.....	6,168	58,103
Cash flows from investing activities:		
Payments for deposit of time deposits	(898)	(8,463)
Proceeds from repayment of time deposits	883	8,317
Payments for purchase of securities	(3,781)	(35,624)
Proceeds from sales of securities	8,196	77,215
Payments for acquisitions of tangible assets	(5,654)	(53,263)
Proceeds from sales of tangible assets	33	307
Payments for acquisitions of intangible assets	(952)	(8,969)
Payments for purchase of investments in securities.....	(4,048)	(38,135)
Proceeds from sales of investments in securities	307	2,896
Payments for loans receivable	(391)	(3,680)
Proceeds from collection of loans receivable.....	2,160	20,352
Payments for other investments	(2,479)	(23,352)
Proceeds from collection of other investments.....	306	2,882
Other	(28)	(264)
Net cash used for investing activities	(6,346)	(59,779)
Cash flows from financing activities:		
Increase in short-term debt, net	1,842	17,352
Borrowing of long-term debt	2,200	20,725
Repayments of long-term debt.....	(6,822)	(64,268)
Capital injection by minor shareholders	432	4,070
Acquisition of treasury stock	(0)	(4)
Dividends paid by parent company.....	(791)	(7,447)
Net cash used for financing activities.....	(3,139)	(29,571)
Effect of exchange rate changes on cash and cash equivalents	56	527
Net increase in cash and cash equivalents	(3,261)	(30,720)
Cash and cash equivalents at the beginning of year	17,845	168,111
Cash and cash equivalents at the end of year	¥14,584	\$137,391
Major non-cash transactions:		
Increase in capital by conversion of convertible bonds	¥ 2,603	\$ 24,522
Increase in additional paid-in capital by conversion of convertible bonds	2,601	24,503
Decrease in convertible bonds	¥ 5,204	\$ 49,025

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Toyo Information Systems and its consolidated subsidiaries

1. Basis of Presenting the Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared from the accounts maintained by Toyo Information Systems Co., Ltd. (the "Company") and its subsidiaries. The Company and domestic subsidiaries maintain their accounts in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards.

The accounts of five overseas subsidiaries which have been consolidated with the Company are based on their financial statements prepared in conformity with accounting principles and practices generally accepted in the respective countries in which the subsidiaries have been incorporated. In general, no adjustments to the accounts of overseas subsidiaries have been reflected in the accompanying consolidated financial statements to present them in compliance with Japanese accounting principles and practices followed by the Company.

Certain items presented in the consolidated financial statements filed with the Ministry of Finance (the "MOF") in Japan have been reclassified for the convenience of readers outside Japan.

In addition, the consolidated statement of cash flows are required to be prepared from the fiscal year beginning on or after April 1, 1999 in accordance with the new Accounting Standards for Consolidated Statements of Cash Flows issued by the Business Accounting Deliberation Council and filed with the MOF.

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

2. Significant Accounting Policies

(a) Principles of consolidation

The Company had 19 and 18 subsidiaries (controlled or majority-owned companies) as of March 31, 2000 and 1999, respectively. The Consolidated Financial Statements include the accounts of the Company and all of its subsidiaries (the Companies). The accounts of foreign entities are included in the consolidated financial statements on the basis of its fiscal year ended December 31.

For the purposes of preparing the consolidated financial statements, all inter-company transactions, account balances and unrealized profits among the Companies have been eliminated, and the portion thereof attributable to minority interest is charged to minority interests.

Investments in affiliates are accounted for by the equity method.

Elimination of investments in consolidated subsidiaries, with the underlying equity in net assets of the subsidiaries has been made to include equity in net income of the subsidiaries subsequent to the date of acquisition in the consolidated statements of income.

Any difference on consolidation between the cost of an investment in subsidiaries or affiliates and the share of their respective net assets, is treated as either an assets or a liability. Prior to April 1, 1999, the asset or liability would begin amortization from the fiscal year when the acquisition first occurred. Amortization would be over a five year period on a straight-line basis. Effective from the year ended March 31, 2000, as a result of the amendment of Accounting Principles for Consolidated Financial Statements, the Company changed the starting period of amortization of the assets or liabilities to the following fiscal year. As a result of this change, "Loss in net income of affiliates" for the year ended March 31, 2000 was decreased by ¥419 million (\$3,947 thousand) and "Income before income taxes" was increased by the same amount, when compared with to the method previously applied.

(b) Remeasurement of assets and liabilities of subsidiaries

Effective from the year ended March 31, 2000, as a result of the amendment of Accounting Principle for Consolidated Financial Statements, assets and liabilities of subsidiaries are required to be remeasured at fair value as of the date of acquisition of the control.

The Company adopts "full fair value method" that full portion of assets and liabilities of the subsidiaries is marked to fair value as of the acquisition of the control.

(c) Cash and cash equivalents

All highly liquid investments with maturities of three months or less are considered to be cash equivalents.

Therefore, the scope of cash and cash equivalent does not include time deposits over three months, bonds redeemable over three months, corporate shares and short-term investment in specified money trust. The scope of cash and cash equivalents as at March 31, 2000 is as follows.

	Millions of yen	Thousands of U.S. dollars
Cash and time deposits	¥12,587	\$118,573
Marketable securities	8,013	75,491
Short-term loans	1,024	9,647
Total	21,624	203,711
Time deposits over three months term	(1,021)	(9,619)
Bonds redeemable over three months maturity	(4,075)	(38,389)
Marketable securities not categorized as cash equivalents	(1,944)	(18,313)
	¥14,584	\$137,390

(d) Marketable and investment securities

Securities listed on stock exchanges are stated at the lower of cost or market ("wash-again method"). Other securities are stated at cost. The cost is determined by the moving-average method.

(e) Allowance for doubtful accounts

Allowance for doubtful accounts is provided at the aggregate amount of the estimated amount of uncollectible receivables at the balance-sheet date plus the maximum amount which can be charged to income under Japanese income tax laws.

(f) Inventories

Merchandise is stated at cost, determined by the first-in first-out method. Manufactured products and work in process are determined by the specific cost method. Supplies are determined by the last purchase cost method.

(g) Property, plant and equipment, and depreciation

Buildings, structures and lease property has been depreciated by the straight-line method, machinery and equipment has been depreciated by the declining-balance method at rates based on the estimated useful lives of the assets. Repair and maintenance is charged to income in the year incurred.

(h) Amortization method of computer software

For the year ending March 31, 1999 and prior years, the Company amortized costs related to development of computer software by the straight-line method in accordance with Japanese tax regulation.

Effective for the year ending March 31, 2000, the Company changed the amortization method to the following method.

(i) Computer software for internal use

Capitalized costs are amortized using the straight-line method over its estimated useful life which is in the range of 3 to 5 years.

(ii) Computer software to be sold

Capitalized costs are amortized using one of two methods. First method is to multiply the capitalized balance by current year sales divided by estimated sales. The second method is to amortize the capitalized cost over the estimated sales period of 3 years. The Company selects between these methods to produce a result with the shortest amortization life.

(i) Accounting for leases

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

(j) Accrued severance indemnities and pension plans

The Company has funded employees' pension plan. The plan generally provides for an annuity payable over a lifetime after the age of from 60 years old. Annual contributions to the fund, which include normal cost and amortization of past service costs, are charged to income when paid. The net assets of the plan aggregated ¥7,371 million (\$69,436 thousand) and ¥6,956 million at March 31, 1999 and 1998, respectively.

(k) Income taxes

The deferred tax accounting is applied for the provision for income taxes. Effective April 1, 1998, the Company changed its method of accounting for income taxes from the deferred method to the liability method. Under the liability method, deferred tax assets and liabilities are recognized for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. Before this accounting change, the effect of the differences in timing of income and expense items for financial statements and income tax purposes is recognized as deferred income taxes. As a result of the change, net income for the year ended March 31, 1999 was increased by ¥ 201 million as compared with the previous method.

(l) Appropriation of retained earnings

Under the Japanese Commercial Code and the Articles of Incorporation of the Company, the plan for appropriation of retained earnings (including cash dividend payments) proposed by the Board of Directors should be approved by the shareholders' meeting which must be held within three months after the end of each financial year. The appropriation of retained earnings reflected in the accompanying consolidated statements of income and related earnings represents the results of such appropriations which is applicable to the immediately preceding financial year but was approved by the shareholders' meeting and disposed of during that year.

Dividends are paid to shareholders on the shareholders' register at the end of each financial year. As is customary practice in Japan, the payment of bonuses to directors and corporate auditors is made out of retained earnings instead of being charged to income of the year, which constitute a part of appropriations cited above.

(m) Legal reserve

The Japanese Commercial Code provides that an amount equal to at least 10% of any amount paid out by the Company as an appropriation of retained earnings shall be appropriated as legal reserve until such reserve equals 25% of the stated capital. The legal reserve may be transferred to stated capital or used to reduce a deficit through suitable shareholder and director actions, but is not available for distribution as dividends.

Legal reserve at March 31, 1998 in the accompanying consolidated financial statements includes that of the Company and the Company's equity in the legal reserves of its consolidated subsidiaries.

Effective April 1, 1998, the corporate disclosure regulations have been changed and legal reserve was transferred to retained earnings.

(n) Net income and cash dividends per share

Net income per share of common stock is computed based on the weighted average number of shares of common stock outstanding during the respective years. Fully diluted net income per share additionally assumes the conversion of convertible bonds.

Cash dividends per share shown for each year in the accompanying Consolidated Statements of Income and Retained Earnings represent dividends approved by the shareholders and paid during the respective years.

(o) Foreign currency translation

Revenue and expense items arising from the Company's transactions denominated in foreign currencies are translated into Japanese yen at approximate exchange rate prevailing when such transactions occur. Receivables and payables denominated in foreign currencies due within one year are translated at the current exchange rate prevailing on the balance sheet dates. Resulting translation gains or losses are included in the determination of net income of respective periods. Securities and long-term receivables denominated in foreign currencies are translated at the historical rates prevailing at the transaction dates.

The translation of foreign currency financial statements of overseas subsidiaries into Japanese yen for consolidation purposes is made by the method of translation generally accepted in Japan. The translation of assets, liabilities, revenue and expenses are made at the current exchange rate prevailing on the balance sheet dates. Capital accounts and retained

earnings are translated at historical rates. Resulting translation adjustments are included in the accompanying consolidated financial statements.

(p) Consumption tax

The consumption tax withheld by the Company on revenues and the consumption tax paid by the Company on purchases of goods and expenses are recorded as an asset or a liability and not included in the respective account items in the statements of income.

(q) Reclassification of accounts

Certain prior years' amounts have been reclassified to conform with the current year's presentation.

3. United States Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥106.15 =U.S.\$1, the rate of exchange on March 31, 2000 has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at the rate or any other rate.

4. Marketable Securities, Investments in Affiliates and Investments in Securities

Marketable securities at March 31, 2000 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Equity securities with market value	¥1,958	\$18,449
Other securities with market value	302	2,840
Other	5,753	54,202
	<u>¥8,013</u>	<u>\$75,491</u>
Market value of:		
Equity securities	¥7,841	\$73,863
Other securities	302	2,844
Net unrealized gain	<u>¥5,883</u>	<u>\$55,418</u>

Investments in affiliates and investments in securities consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Equity securities with market value	¥ 284	\$ 2,675
Debt securities with market value	173	1,630
Other	7,761	73,114
	<u>¥8,218</u>	<u>\$77,419</u>
Market value of:		
Equity securities	¥7,325	\$69,006
Debt securities	180	1,696
Net unrealized gain	<u>¥7,048</u>	<u>\$66,397</u>

5. Inventories

Inventories at March 31, 2000 and 1999 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Finished goods	¥ 448	¥ 415	\$ 4,219
Work in process.....	1,728	1,294	16,278
Supplies.....	49	36	459
	¥2,225	¥1,745	\$20,956

6. Short-Term Bank Loans and Long-Term Debt

Short-term bank loans are principally unsecured notes payable to banks due generally in one year.

Long-term debt at March 31, 2000 and 1999 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Loans principally from banks and other financial institutions, non-collateralized, with an average interest rate 2.26%	¥14,370	¥18,992	\$135,374
0.4% Unsecured convertible bonds, due 2004	4,628	9,832	43,599
	18,998	28,824	178,973
Less: portion due within one year	7,912	6,679	74,536
	¥11,086	¥22,145	\$104,437

The aggregate annual maturities of the non-current portion of long-term loans at March 31, 2000 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2002.....	¥4,274	\$40,264
2003.....	1,446	13,622
2004 and thereafter.....	738	6,952
	¥6,458	\$60,838

7. Income Taxes

The Company is subject to a number of different taxes in Japan, based on income, which in the aggregate indicate statutory tax rate of approximately 42.0%.

The following is reconciliation between the statutory tax rate and the Company's effective tax rate:

	2000	1999
Statutory tax rate	42.0%	47.7%
Nondeductible expense (primarily entertainment expense).....	1.8	2.4
Tax loss carryforward	3.4	13.9
Change of statutory tax rate	—	2.7
Nontaxable income (primarily dividend income).....	—	(0.8)
Loss on devaluation of investment in securities.....	(8.5)	—
Other, net	(1.0)	0.2
Effective tax rate	37.7%	66.1%

The components of deferred tax assets and liabilities as of March 31, 2000 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Gross deferred tax assets:			
Accrued enterprise tax.....	¥ 89	¥ 239	\$ 838
Excess provision for bad debt reserve.....	395	—	3,721
Excess accrual of bonuses.....	308	201	2,902
Excess depreciation.....	313	—	2,949
Tax loss carryforward.....	222	718	2,091
Unrealised gain.....	106	—	999
Loss on devaluation of investment in securities.....	464	—	4,371
Others.....	222	85	2,091
	2,119	1,243	19,962
Less—Valuation allowance.....	(748)	(508)	(7,047)
	1,371	735	12,915
Gross deferred tax liabilities:			
Reserve for development of computer programs.....	483	630	4,550
Unrealised gain.....	—	(97)	—
Other, net.....	3	(49)	28
	486	484	4,578
Net deferred tax assets.....	¥ 885	¥ 251	\$ 8,337

8. Lease Commitments

(a) As lessee

The following summarizes information concerning finance leases other than those which are deemed to transfer the ownership of the leased assets to the lessees:

(1) Acquisition cost, accumulated depreciation and net balance at March 31, 2000 and 1999

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Machinery and carrier.....	¥243	¥482	\$2,292
Equipment.....	828	368	7,802
Accumulated depreciation.....	(506)	(525)	(4,770)
Net balance.....	¥565	¥325	\$5,324

(2) The amount of outstanding future lease payments at March 31, 2000 and 1999, which included the portion of interest, categorized by contractual maturity

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Within one year.....	¥209	¥127	\$1,964
Over one year.....	395	228	3,724
Total.....	¥604	¥355	\$5,688

(3) Lease expenses, depreciation and interest expenses for the years ended March 31, 2000 and 1999

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Lease expense.....	¥237	¥211	\$2,236
Depreciation.....	218	182	2,055
Interest expenses.....	¥ 48	¥ 38	\$ 457

Depreciation is calculated by the straight-line method. Useful life is equal to the lease term and the residual value is zero.

The amounts of outstanding future lease payments on operating leases at March 31, 2000 and 1999 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Within one year.....	¥125	¥ 94	\$1,181
Over one year.....	123	130	1,160
Total.....	¥248	¥224	\$2,341

(b) As lessor

The following summarizes information concerning finance leases other than those which are deemed to transfer the ownership of the leased assets to the lessees:

(1) Acquisition cost, accumulated depreciation and net balance at March 31, 2000 and 1999

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Equipment.....	¥17,450	¥18,706	\$164,389
Software.....	6,302	7,007	59,370
Accumulated depreciation.....	(13,467)	(11,840)	(126,864)
Net balance.....	¥10,285	¥13,873	\$ 96,895

(2) The amount of outstanding future lease payments receivable at March 31, 2000 and 1999, which included the portion of interest, categorized by contractual maturity.

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Within one year.....	¥ 4,390	¥ 4,964	\$ 41,360
Over one year.....	6,483	9,448	61,070
Total.....	¥10,873	¥14,412	\$102,430

(3) Rentals received, depreciation and interest income for the years ended March 31, 2000 and 1999

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Rentals received.....	¥5,994	¥5,836	\$49,776
Depreciation.....	4,599	5,180	43,325
Interest income.....	¥ 707	¥ 689	\$ 6,657

9. Subsequent Events

(1) Appropriation of retained earnings

On June 29, 2000, the following appropriations of retained earnings were approved at the meeting of shareholders of the Company:

	Millions of yen	Thousands of U.S. dollars
Cash dividends.....	¥302	\$2,851
Directors' and corporate auditors' bonuses.....	90	848

(2) Acquisition of a company

The Company purchased a new subsidiary during the year by acquiring the shares of Komatsu Soft Ltd. from its parent company, Komatsu Ltd. This acquisition brings knowledge in the manufacturing and distribution industries to the Company. This additional knowledge complements the Company's existing strong customer base in the financial services industry and brings scale efficiencies to the Company's data processing services, ultimately strengthening competitiveness and solution capabilities.

Outline of the company and the acquisition of stock is follows:

(a) **Company name:** Komatsu Soft Ltd.

(b) **Business:** Development of computer software, maintenance of software, data processing service, sales of computer hardware, etc.

(c) **Capital:** ¥1,234 million

(d) **Sales:** ¥21,205 million for the year ended March 2000

(e) **Number of the shares owned by the Company:**

Number of the shares owned before the acquisition: Nil (Ownership share: 0%)

Number of the shares acquired: 4,679,000 shares (Acquisition cost: ¥6,821 million)

Number of the shares owned after the acquisition: 4,679,000 (Ownership share: 65%)

(f) **Acquisition date:** April 3, 2000

(g) **Funds raised:** Borrowing from financial institution

The estimated amount of goodwill amortization for the year ending March 31, 2001 is ¥855 million.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS



To the Board of Directors of
Toyo Information Systems Co., Ltd.

We have audited the accompanying consolidated balance sheets of Toyo Information Systems Co., Ltd. and its consolidated subsidiaries as of March 31, 2000 and 1999, the related consolidated statements of income and retained earnings for each of the three years in the period ended March 31, 2000, and the consolidated statement of cash flows for the year ended March 31, 2000, all expressed in Japanese yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Toyo Information Systems Co., Ltd. and its consolidated subsidiaries as of March 31, 2000 and 1999, the consolidated results of their operations for each of the three years in the period ended March 31, 2000, and their cash flows for the year ended March 31, 2000 in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis.

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

ChuoAoyama Audit Corporation

ChuoAoyama Audit Corporation

Tokyo, Japan
June 29, 2000

BRIEF HISTORY OF TIS

- 1971 Apr.** Toyo Information Systems Co., Ltd., founded in Osaka with capital of ¥600 million
Software development service begun
- 1973 Aug.** Head office building completed in Suita, Osaka Prefecture
Full-scale mainframe time-sharing service and on-line transaction processing service started
- 1975 Oct.** Merged with Toyo Computer Service, Co., Ltd.
Tokyo Branch (now Tokyo Head Office) established
Full-scale entry into Tokyo metropolitan area
- 1976 July** Fukuoka Branch Office established (now Kyushu Branch Office)
Nov. Toyo Data Services Co., Ltd., established (now TIS System Service Co., Ltd.)
- 1978 Dec.** Toyo Data Services Co., Ltd., established in Tokyo (now TIS System Management Co., Ltd.)
- 1980 Oct.** Awarded the Ministry of International Trade and Industry (MITI) Award for Contributions to the Development of Information Systems
- 1984 Dec.** Tokyo Operation Center completed in Koto-ku, Tokyo
- 1987 Nov.** Stock listed on the Second Section of the Osaka Securities Exchange
Registered with the Ministry of Posts and Telecommunications as a Special Type 2 Telecommunications Carrier
- 1988 July** Wholly owned subsidiary TIS (USA) Co., Ltd., established in California
Dec. Authorized as System Integrator by MITI
- 1989 Dec.** Wholly owned subsidiary TIS (U.K.) LTD. established in London
- 1990 Feb.** Stock listed on the Second Section of the Tokyo Stock Exchange
Apr. Registered with the Ministry of Posts and Telecommunications as a Special International Type 2 Telecommunications Carrier
- 1991 Jan.** Wholly owned subsidiary TIS (NY) CO., LTD., established in New York
Aug. Wholly owned subsidiary TIS (HK) CO., LTD., established in Hong Kong
Sep. Stock listed on the first sections of the Tokyo Stock Exchange and the Osaka Securities Exchange
- 1993 Oct.** TIS Solution Business Co., Ltd., established
- 1995 Feb.** Brandy International Inc. established
Mar. Authorized as System Operator by MITI
Full-scale entry into Internet business
Aug. TIS receives ISO 9001 certification
Oct. InfoGLOBE Internet service started
- 1997 May** Osaka Head Office moved and Skysoft, Inc., established
Dec. TIS and Origin Consulting Ltd. established
- 1998 Nov.** Given A-rank by the Japan Credit Rating Agency
Dec. 10 billion yen in convertible bonds issued
- 2000 Jan.** E-commerce subsidiary EC Factory.com, Inc., established
Mar. 34.2% stock ratio of Agrex, Inc., an Aplus Co., Ltd., subsidiary, acquired
Apr. 65% share of Komatsu Soft Ltd. acquired

CONSOLIDATED SUBSIDIARIES

DOMESTIC SUBSIDIARIES

TIS System Service Co., Ltd. (TSS)

11-30, Enoki-cho, Suita-shi,
Osaka 564-0053, Japan
Tel: +81-6-6339-3036
Business activities: Software
development, system operation

TIS System Management Co., Ltd. (TSM)

Sumitomo Fudosan Toyo Bldg.,
29-17, Toyo-cho 5-chome,
Koto-ku, Tokyo 135-0016, Japan
Tel: +81-3-3669-1321
Business activities: Software
development, system operation

TIS Leasing Co., Ltd. (TLS)

Head Office:
No. 2 Yanagiya Bldg.,
12-8, Nihombashi 1-chome,
Chuo-ku, Tokyo 103-0027, Japan
Tel: +81-3-3242-0201

Osaka Office:
Esaka Toyo Bldg., 9-1, Toyotsu-cho,
Suita-shi, Osaka 564-0051, Japan
Tel: +81-6-6821-7271

Business activities: Package leases
for computer and computer-related
equipment, industrial machinery,
office machines, others

TIS Tohoku Software Engineering Inc. (TIS Tohoku)

Sendai Sanwa Bldg., 1-7,
Chuo 2-chome, Aoba-ku,
Sendai-shi, Miyagi 980-0021, Japan
Tel: +81-22-261-6331
Business activities: Software development

Toyo Network Services Corporation (TNS)

Head Office:
Nihombashi Talk Bldg.,
3-5, Hongoku-cho,
Nihombashi 3-chome, Chuo-ku,
Tokyo 103-0021, Japan
Tel: +81-3-3271-0671

Osaka Office:
Esaka Toyo Bldg., 9-1, Toyotsu-cho,
Suita-shi, Osaka 564-0051, Japan
Tel: +81-6-6378-3000

Business activities: Private leased
circuit service, fax-mail service

Toyo Information Systems Research Institute (TRI)

Tokyo Head Office:
USC Bldg., 11-38, Toyo 4-chome,
Koto-ku, Tokyo 135-0016, Japan
Tel: +81-3-5606-8081

Osaka Head Office:
Esaka Toyo Bldg., 9-1, Toyotsu-cho,
Suita-shi, Osaka 564-0051, Japan
Tel: +81-6-6821-1801
Business activities: Basic and applied
research into computer use

TIS Solution Business Co., Ltd. (TSB)

Osaka Head Office:
Esaka Toyo Bldg., 9-1, Toyotsu-cho,
Suita-shi, Osaka 564-0051, Japan
Tel: +81-6-6339-5300

Tokyo Office:
USC Bldg., 11-38, Toyo 4-chome,
Koto-ku, Tokyo 135-0016, Japan
Tel: +81-3-5683-7600
Business activities: Provision of
solution services

Brandy International Inc. (BII)

Tokyo Head Office:
Toyo Ekimae Bldg., 2-20, Toyo 2-chome,
Koto-ku, Tokyo 135-0016, Japan
Tel: +81-3-5683-7211

Osaka Office:
Shin-Osaka Mori Bldg. No. 2,
5-36, Miyahara 3-chome,
Yodogawa-ku, Osaka 532-0003, Japan
Tel: +81-6-6350-6400
Business activities: Name brand,
and trademark-related activities

TIS Total Service Co., Ltd. (TTS)

Nihombashi Toyo Bldg.,
7-24, Nihombashi 2-chome,
Chuo-ku, Tokyo 130-0027, Japan
Tel: +81-3-3276-0171

Osaka Office:
Esaka Toyo Bldg., 9-1, Toyotsu-cho,
Suita-shi, Osaka 564-0051, Japan
Tel: +81-6-6338-7045

Business activities: Staff service,
supply service, agency operations

Skysoft, Inc. (SKY)

313 Minami-Aoyama Bldg.,
13-18, Minami-Aoyama 3-chome,
Minato-ku, Tokyo 107-0062, Japan
Tel: +81-3-5775-1790

Business activities: Export, import,
and sales service for Internet books

TIS and Origin Consulting Ltd. (T&O)

Tokyo Head Office:
Toyo Ekimae Bldg.,
2-20, Toyo 2-chome,
Koto-ku, Tokyo 135-0016, Japan
Tel: +81-3-5683-8711

Osaka Office:
Esaka Toyo Bldg.,
9-1, Toyotsu-cho,
Suita-shi, Osaka 564-0051, Japan
Tel: +81-6-6821-1777

Business activities: Total integration
service for ERP system implementation

TIS Internet Media Inc. (TIM)

USC Bldg., 11-38, Toyo 4-chome,
Koto-ku, Tokyo 135-0016, Japan
Tel: +81-3-5683-8800
Business activities: Internet system
development and operation

EC Factory.com, Inc.

Nihombashi Hakozaki Bldg.,
24-1 Nihombashi Hakozaki-cho,
Chuo-ku, Tokyo 103-0015, Japan
Tel: +81-3-5642-8084
Business activities: ASP services
focusing on EC applications

Komatsu Soft Ltd.

31-22, Yushima 2-chome,
Bunkyo-ku, Tokyo 113-0034, Japan
Tel: +81-3-5689-8111
Business activities: Software
development, system operations,
solution services

OVERSEAS SUBSIDIARIES

Toyo Information Systems (USA) Co., Ltd.

2001 Gateway Place, Suite 360,
San Jose, CA 95110, U.S.A.
Tel: +1-408-452-1560
Business activities: Software
development, information services

TOYO INFORMATION SYSTEMS (U.K.) LTD.

14 Devonshire Square,
London EC2M 4YT, U.K.
Tel: +44-20-7247-6347
Business activities: Software
development, information services

TOYO INFORMATION SYSTEMS (NY) CO., LTD.

One Dag Hammarskjold Plaza,
885 Second Avenue, 15th Floor,
New York, NY 10017, U.S.A.
Tel: +1-212-750-2288
Business activities: Software
development, information services

TOYO INFORMATION SYSTEMS (HK) CO., LTD.

609-10, Dah Sing Financial Centre,
108 Gloucester Road, Wanchai,
Hong Kong, China
Tel: +852-2598-5112
Business activities: Software
development, information services

CORPORATE DATA

(As of March 31, 2000)

Toyo Information Systems Co., Ltd.

Established

April 1971

Number of Employees

2,041 (including seconded staff)

Paid-in Capital

¥20,730 million

Common Stock

Authorized: 82,400,000 shares

Issued: 43,240,879 shares

Number of Shareholders

2,881

Listings

Tokyo Stock Exchange, Osaka Securities Exchange

Transfer Agent

The Toyo Trust & Banking Co., Ltd.

4-3, Marunouchi 1-chome, Chiyoda-ku,

Tokyo 100-0005, Japan

Independent Certified Public Accountants

ChuoAoyama Audit Corporation

Tokyo Head Office

Nihombashi Toyo Bldg.,
7-24, Nihombashi 2-chome,
Chuo-ku, Tokyo 103-0027, Japan
Tel: 03-3271-5571
Fax: 03-3271-5556

Osaka Head Office

Esaka Toyo Bldg.,
9-1, Toyotsu-cho, Suita-shi,
Osaka 564-0051, Japan
Tel: 06-6385-0888
Fax: 06-6821-1990

Tokyo Operation Center

29-19, Toyo 5-chome, Koto-ku,
Tokyo 135-0016, Japan
Tel: 03-3699-1300
Fax: 03-3645-0800

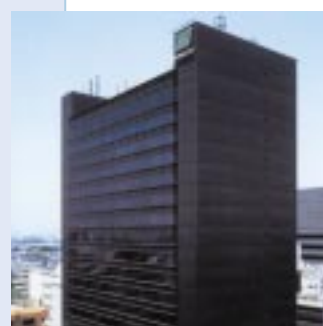
Osaka Operation Center

11-30, Enoki-cho, Suita-shi,
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Tokyo Head Office



Osaka Head Office



Tokyo Operation Center



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