

## Consolidated Interim Financial Results

for the Fiscal Year Ending 31st March 2004

(Six months ended September 30, 2003)

Company name: ELMIC SYSTEMS, INC.  
 Stock code: 4770  
 Stock market listing: TSE Mothers Market  
 Company domicile: Kanagawa prefecture  
 Head office: 4-59 Benten-Dori, Naka-ku, Yokohama 231-0007 Japan  
 URL: <http://www.elmic.co.jp>  
 President: Akira Sawada  
 Contact: Kimio Ando, Chief Administrative Officer  
 Telephone: +81-(0)-45-650-4500  
 Date of board meeting for approving financial results: November 21, 2003  
 Accounting principle: Japanese GAAP

### 1. Consolidated Interim Financial Results (From April 1, 2003 to September 30, 2003)

#### (1) Financial results

(Amounts rounded down to million yen)

	Net sales		Operating income		Ordinary income	
	¥ millions	%	¥ millions	%	¥ millions	%
Interim ended Sept. 2003	808	9.1	(79)	-	(71)	-
Interim ended Sept. 2002	741	(7.1)	(109)	-	(113)	-
Fiscal year ended March 2003	1,888	(1.0)	(26)	-	(27)	-

	Net income		Net income per share, (basic)	Net income per share, (diluted)
	¥ millions	%	¥	¥
Interim ended Sept. 2003	(73)	-	(15.33)	-
Interim ended Sept. 2002	(147)	-	(28.80)	-
Fiscal year ended March 2003	(392)	-	(78.81)	-

Notes: 1. Equity in earnings of unconsolidated subsidiaries:

Interim ended September 2003: ¥ 3 million  
 Interim ended September 2002: ¥ 6 million  
 Fiscal year ended March 2003: ¥ 9 million

2. Average number of shares outstanding:

Interim ended September 2003: 4,816,720 shares  
 Interim ended September 2002: 5,115,162 shares  
 Fiscal year ended March 2003: 4,979,746 shares

3. Changes in accounting principles applied: None

4. The percentages shown for net sales, operating income, ordinary income, and net income represent changes from the corresponding of the same period of the previous year.

5. Net income per share (diluted) is not presented since the company reported net loss per share.

## (2) Financial position

(Amounts rounded down to million yen)

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	¥ millions	¥ millions	%	¥
As of Sept. 30, 2003	3,051	2,634	86.3	546.96
As of Sept. 30, 2002	3,410	2,953	86.6	604.69
As of March 31, 2003	3,210	2,690	83.8	588.56

Note: 1. Number of shares outstanding:

As of September 30, 2003: 4,816,720 shares

As of September 30, 2002: 4,883,720 shares

As of March 31, 2003: 4,816,720 shares

## (3) Cash flows position

(Amounts rounded down to million yen)

	Net cash (used in) provided by operating activities	Net cash provided by (used in) investing activities	Net cash used in financing activities	Cash and cash equivalents at end of period
	¥ millions	¥ millions	¥ millions	¥ millions
Interim ended Sept. 2003	(49)	79	(2)	1,306
Interim ended Sept. 2002	113	(138)	(210)	1,432
Fiscal year ended March 2003	40	(207)	(227)	1,278

## (4) Scope of consolidation and the application of equity method

Consolidated subsidiaries: 2

Unconsolidated subsidiaries accounted for under the equity method: None

Affiliates accounted for under the equity method: 1

## (5) Changes in the scope of consolidation and affiliates accounted for under the equity method

Consolidated subsidiaries:

New: None

Excluded: None

Affiliates accounted for under the equity method:

New: None

Excluded: None

## 2. Forecast for the Fiscal Year Ending March 2004 (From April 1, 2003 to March 31, 2004)

	Net sales	Ordinary income	Net income
	¥ millions	¥ millions	¥ millions
Full year	2,110	72	12

Reference: Estimated net income per share for the fiscal year ending March 2004: 2.58 yen

Note: Forecast for the fiscal year ending March 2004 was made by management based on currently available data and information. Please be aware that actual results may turn out different from those forecast as our company's business is affected by many factors. Please reference page 10 for details on the above forecasts.

## 1. Corporate Group

The Elmic Systems Group is made up of four companies: Elmic Systems, Inc. (the Company), Elmic Systems USA, Inc. (a wholly owned subsidiary based in San Francisco, California), Airfolc Corporation, (a 78%-owned subsidiary based in Kyoto, Japan) and Wescom Inc. (a 25%-owned affiliate based in Osaka, Japan).

Elmic Systems USA sells TCP/IP in Europe and North America. And, anticipating the connection of embedded systems to high-speed Internet links, this company's R&D section has been assigned the task of developing a next-generation TCP/IP (IPv6) and related optional software. Sales of IPv6 began in October 2002.

Airfolc specializes in the development of technology, such as programs (H.323 and others) related to software for Internet-linked embedded systems for processing voice and imaging data (VoIP).

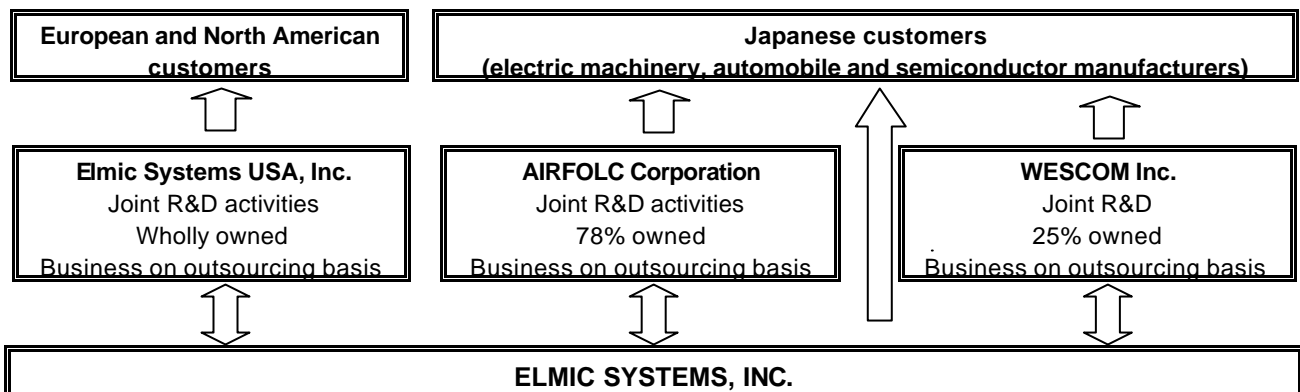
Wescom is a software house established in 1982 by Kazuya Murashima, who has served as deputy chairman of the Japan System House Association. This company performs a broad range of software development ranging from applications for microprocessors to multi-purpose computers, stand-alone units and large-scale systems.

Major products are as follows.

Major products		Description	Elmic Systems Group			
			ELMIC SYSTEMS	Elmic Systems USA	AIRFORC	WESCOM
Manufactured products	Communications	Software and hardware for wire line and wireless communications	○			
	Internet protocol	Embedded TCP/IP modules, products for KASAGO application modules	○	○	○	○
	Real-time OS	The ELX exclusive RTOS, ITRON and other existing OS-related products, Windows CE resales and related products	○			○
	System Integration (customized)	Products and system development using exclusive Elmic Systems key technologies, consigned products	○			○
Purchased products	Others	Products for Windows, Linux and TCP/IP and semiconductor-related products	○			

- Notes: 1. "Communications" is a new category this fiscal year that was formed by combining the "multi-purpose communications boards" and "ISDN board" categories of the previous fiscal year.
2. "Real-time OS" is a new category this fiscal year that was formed by combining the "Windows" and "Real-time OS" categories of the previous fiscal year.
3. Both the "communications" and "Real-time OS" categories cover exactly the same business activities in the current and prior fiscal years.

[Business Flowchart]



## **2. Management Policies**

### **(1) Fundamental Management Policy**

The Elmic Systems Group is guided by the management philosophy of "justice and logic." The basic code of behavior is "speedy, compact, perfect." In accordance with these precepts, the Group aims to be an organization capable of meeting the expectations of customers. The Group is mainly involved in the provision of real-time OS (RTOS) products for embedded systems, the commercialization of software, and customized (or system integration) services that meet specific customer needs. Consequently, the Group depends heavily on expertise in the field of software. As the experience and skills of employees are critical to the Group's ability to serve customers, management places priority on realizing the full potential of all employees and retaining personnel.

### **(2) Fundamental Policy Regarding Distribution of Earnings**

In the production of software, securing the funds required to implement medium- and long-term business plans as well as to conduct an aggressive R&D program is essential to the success. Regrettably, the Company did not pay a dividend applicable to the prior fiscal year. Nevertheless, the Company's fundamental policy is to return earnings to shareholders by paying a stable dividend while maintaining a sound operating base and financial position.

### **(3) Policy Regarding Reduction in Investment Unit**

The Company regards a reduction in the investment unit as an effective means of increasing the number of individual shareholders and increasing trading volume of its shares on the stock market. In consideration of current operating results, the share price, investor distribution and share liquidity, the Company believes that this is not a time to take concrete actions. The Company will continue to consider taking concrete actions in accordance with changes in various factors.

### **(4) Targeted Performance Indicators**

The Elmic Systems Group is seeking to use its collective strengths, including those of consolidated subsidiaries, to maximize earnings, thereby returning to consolidated profitability at the operating level as soon as possible.

### **(5) Medium- and Long-Term Management Strategy**

By 2005, many home electronics appliance other than the PC will be linked to the Internet along with all other types of electric products (devices built into other products). To capitalize on the resulting opportunities, the Group is placing priority on the research and development targeting the necessary software. Particular emphasis is being placed on IPv6, the next-generation of the TCP/IP software that is essential for all Internet links. Development work is taking place primarily at the U.S. subsidiary. In addition, the Group is determined to begin selling Internet-related products at precisely the right times. For this purpose, the Group is accumulating the necessary funds (to establish affiliated companies and invest in partners) and hiring new product development engineers to bolster its technical capabilities. The Group is also enhancing its financial position by amortizing R&D expenditures in a suitable manner.

## **Sales**

The Elmic Systems Group is an independent organization having no affiliations with other companies. As such, the Group sells its products to numerous major producers of electrical products as well as to companies in many other industries. To serve this diverse customer base, the Group is upgrading its ability to conduct sales that seamlessly link expertise in marketing and the development of new technology. Sales target strategic customers and the introduction of new products that reflect market needs.

## **Development**

The Group's core products are RTOS, communications software and other items that are distinguished by their technology and broad market coverage. From this base, the Group is developing new products and building systems (system integration) using those products to meet customers' demands. The pace of technological progress in embedded systems is extremely rapid. It is imperative that Elmic Systems be prepared to offer the embedded products and services for next-generation equipment as well as products for the subsequent generation. For this purpose, the Group is focusing on acquiring new technology, fostering its engineers and many other necessary measures.

### 1) Communications Software

In the IT arena, the Group is working together with large manufacturers of electronics products in the development of Bluetooth, IEEE802.11 and other next-generation wireless communication protocols. The Group is also forming business alliances in its drive to acquire knowledge involving new technologies.

### 2) Internet Software

There are widespread concerns about the dwindling number of available Internet IP addresses. In response, the Company worked with Elmic Systems USA to develop the IPv6 protocol, a next-generation standard for embedded systems. Sales of this protocol began in 2002 under the KASAGO IPv6 brand. This new protocol is sold as a single package (dual system) with the currently used KASAGO TCP/IP (IPv4) protocol, a technology with a proven record of reliability. At present, this dual system is being distributed to large companies at no charge so that this technology can be evaluated. Some IPv6 software has begun contributing to sales. The final version of IPv6 will employ exclusive Company engineering to be compatible with equipment of all types, ranging from high-end data terminals to household products. Sales of this TCP/IP have started by loading it with the TEngine (successor to ITRON), a next-generation OS.

In addition, the Company has developed a number of exclusive products as successors to existing software. Examples are an SIP that, as its predecessor H.323 protocol, makes possible VoIP (images and voice); IPsec, which facilitates secure communications; and a router protocol for connecting many terminals.

With regard to communications boards supplied to producers of semiconductor manufacturing equipment, a major customer segment for Elmic Systems, the Company developed and began sales of SoftCOM, a package system that completely replaces these boards with software. SoftCOM fully complies with the SEMI standard, making it both easy to use for customers as well as a product with a high gross profit margin.

### 3) Real-Time OS (RTOS)

In the RTOS market, open source is becoming increasingly common, as is the case with ITRON and Linux for embedded systems. Elmic Systems is focusing on system integration services based on these kinds of RTOS. In addition, Elmic Systems last year developed Accel-Linux, a system that offers the advantages of both systems: the unrestricted development environment of Linux and the fast processing speed of ITRON. Elmic has developed a new version of ITRON (Hyper ITRON (Specifications independent of ITRON association), featuring enhanced security functions. Furthermore, Elmic's technology is finding more applications in the automotive sector (car navigation systems).

### 4) System Integration

The Elmic Systems Group offers its consulting services, a particular Elmic Systems strength that links core technology and products, and system development services to enhance the total performance of systems used in embedded systems (finished products). With regard to embedded systems, the operation of software within a particular physical environment, such as the hardware, is critical. The experience of engineers is essential to delivering the needed performance. With expertise gained over its 26-year history, Elmic Systems can offer customers a valuable advantage in this regard.

### 5) Others

Elmic Systems developed and began sales of an exclusive product called the PC iNHERITOR, which targets needs generated by the imminent termination of production of the NEC FC98 system, a PC for industrial use. The PC iNHERITOR will enable users of this PC to continue using the large volume of software developed for use with the ELX286, an RTOS developed by the Company that is widely employed by the NEC FC98.

The Group intends to develop more new products to further solidify its prominent position in its industry. This drive will be backed by the core technologies, products, highly experienced team of engineers and resources of Group companies, as has been outlined above.

#### a. Internet Software

The Company will continue to develop various functions and optional software, mainly tied to the KASAGO IPv6, to further enlarge its product lineup.

b. Real-Time OS (RTOS)

Elmic Systems will make its ELX and ITRON RTOS compatible with many CPUs and develop Linux-based application systems. The goal is to become a solution provider of embedded systems for any platform.

The Elmic Systems Group's product strategy will continue in the same basic direction as that outlined above. The Group is placing particular emphasis on the upcoming post-PC era. Embedded systems, such as phones and other mobile terminals, automotive systems, IT home appliances, kitchen appliances and all other electrical products, will be controlled via the Internet and exchange information. The TCP/IP will be at the nucleus of these systems. IPv6 will open the way to a virtually unlimited number of addresses. Both image processing (H.323, SIP) and security (IPSec) will be needed. In addition, as broadband communications take hold, the importance will grow not only of wired networks, but also of wireless networks and routers that facilitate communications within a limited scope.

Along with the above measures, the Group plans to upgrade products for industrial applications, an existing market that includes systems for semiconductor manufacturing equipment.

### **Management of Sales and Development Activities**

Management systems are being strengthened from the standpoint of corporate governance. The Group is building a more clearly defined structure for submitting reports and directives and performing other management-related tasks covering sales, gross profit, delivery times, cost of sales, quality assurance, support services and other operating items.

### **(6) Key Issues**

- a. Bolstering alliances
- b. Maintaining stable relationships with reliable vendors
- c. Training personnel
- d. Upgrading risk management
- e. Refining management systems
- f. Improving marketing capabilities

With expansion foreseen in markets where the Elmic Systems Group is active, the Group must minimize risk and maximize earnings in order to grow.

To accomplish this, the Group is working on cutting fixed costs (reducing selling, general and administrative expenses) and direct costs (cost of sales). At the same time, the Group must upgrade marketing capabilities to develop and sell products that accurately target market demands of the future.

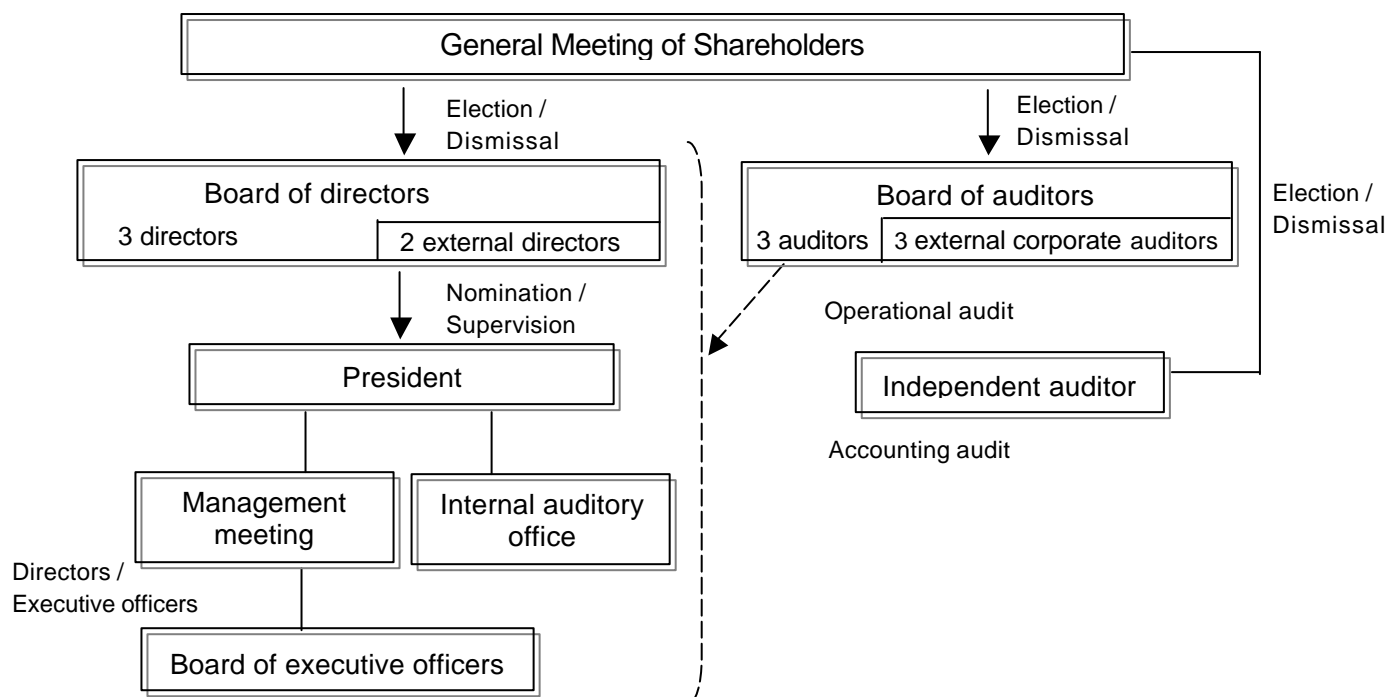
### **(7) Fundamental Approach to and Actions Regarding Corporate Governance**

#### 1) Fundamental approach to corporate governance

The most important goal of management is to sustain growth over the long term. This requires a decision-making system that is sound, efficient and speedy and backed by managers who exercise strong leadership. The Company believes that such a system demands management that is transparent and devoted to the interests of shareholders. For this purpose, the Company quickly discloses financial information on its Internet site and through other channels.

#### 2) Actions regarding corporate governance

- a. Status of management oversight organization and other corporate governance systems for management decision-making, the execution of business activities and the supervision of operations



As of September 30, 2003, the Company had a corporate auditor system in which all three corporate auditors were from outside the Company. Furthermore, two of the Company's three directors were from outside the Company. To ensure that management decisions can be reached quickly and executed with flexibility and speed, the Company adopted the executive officer system in October 2002, naming six executive officers.

b. Personnel, capital, business and other relationships between the Elmic Systems Group and external directors and external corporate auditors

One external director is representative director of IBT Corp. and a director of Toshiba LSI System Support Co., Ltd. IBT Corp. supplies Elmic Systems with information on general trends in the IT industry in Japan and the United States as well as on trends, strategies and other matters regarding prominent companies in the industry.

One external corporate auditor is a tax accountant and another is representative director of Pacific Tsusho Co.

One external director is a director of a company that has a business relationship (a consulting contract) with the Company and a shareholder of the Company.

One external corporate auditor is also a shareholder of the Company.

There are no other related party interests among other external directors and external corporate auditors.

**(8) Related Party Relationships and Fundamental Policy**

Elmic Systems USA, Inc. (100%-owned subsidiary), Airfolc Corporation (78%-owned subsidiary) and Wescom Inc. (25%-owned affiliate) hold a monthly meeting at which senior executives of these companies share information other than information that is exchanged regarding specific business transactions. These meetings are held to assist the three companies in creating a new age in which embedded systems are linked to the Internet as the use of broadband networks and technology grows.

**(9) Other Significant Items**

Not applicable.

### 3. Results of Operations and Financial Position

#### (1) Results of Operations [Six months ended September 30, 2003]

During the first half of the current fiscal year, Japan's economy began showing signs of a recovery as the war in Iraq came to a swift end, the Japanese government supported financial institutions with public funds and stock prices rebounded. Furthermore, surveys revealed that sentiment among corporate managers is improving. However, the impact of a cool summer in Japan and soft consumer spending in Japan and overseas show that it is too soon to adopt an optimistic outlook.

Net sales in the fiscal year's first half were about the same as had been planned and the profit margin recovered slightly compared with one year earlier. As is customary in the IT industry, the majority of orders tend to be placed during the first half, resulting in the majority of deliveries and sales being recorded in the second half. Therefore, the Company is making no revisions to its forecasts released at the beginning of the fiscal year.

#### Results by product category

##### Communications

Sales of multi-purpose communications boards and ISDN boards increased because of a shift in the timing of deliveries. In particular, ISDN board sales were supported by strong demand for boards used in POS equipment at fast-food restaurants. As a result, net sales increased 7.3% year on year.

##### Internet Protocol

The provision of KASAGO IPv6 at no cost to large companies to permit evaluations and research is producing results, leading to steady growth in sales of development kits and other products. Separately, a number of cell phone manufacturers have chosen IPv4, building on momentum in the first quarter. Elmic Systems believes that these manufacturers are selecting this protocol because it offers a higher processing (communication) speed than competing products, ease of migration, low memory requirements (compact size) and the outstanding support system. The large product lineup that includes many options is another major reason for the success of this protocol. Total Internet protocol sales in the first half were 3.3% lower than one year earlier.

##### Real-time OS

Although demands for operating systems are growing among users of all types, particularly with regard to system integration needs, the focus of demand is shifting to open OS such as ITRON, TEngine and Linux. As a result, OS sales have fallen sharply. Demands are growing for Linux products as many manufacturers prepare to incorporate Linux in their next models. Elmic Systems has high hopes for system integration applications. In the first half, RTOS-related net sales were 68.2% less than one year earlier.

##### System Integration

The first half saw a continuation in the growth in orders and sales for SI services at liquid crystal factories that began in the previous fiscal year. There was also a large increase in sales for system integration services involving Internet protocols. The result was a 75.7% increase in net sales in this category.

Due to these factors, first half consolidated net sales increased 9.1% to ¥808 million, there was an ordinary loss of ¥71 million and a net loss of ¥73 million.

Yen in thousands

Sales by product category				Interim ended Sept. 30, 2003	
Category		Product		Sales	Share (%)
Manufactured Products	1	Communication	Multi-purpose communications boards	130,371	16.1
			ISDN boards	51,139	6.3
		Subtotal		181,510	22.4
	2	Internet protocol		224,114	27.7
	3	Real-time OS		34,583	4.3
4	System Integration (customized)		303,812	37.6	
Total manufactured products				744,020	92.0
Purchased	5	Others		64,515	8.0
Total				808,536	100.0

Due to seasonal factors involving the nature of the Group's business activities, sales tend to be recorded mainly in the second half of each fiscal year, resulting in substantial differences between first- and second-half sales.

In the current fiscal year, first-half sales were ¥808 million, compared with ¥741 million in the first half of the previous fiscal year, when consolidated net sales amounted to ¥1,888 million for the full fiscal year.

Results by geographic segment were as follows.

a. Japan

Sales in Japan increased 19.7% to ¥741 million and there was an operating income of ¥21 million.

b. North America

Sales in North America decreased 62.4% to ¥45 million and there was an operating loss of ¥84 million.

c. Europe

Sales were ¥20 million and operating loss was ¥1 million.

Prior-year comparison is not presented because the Company started reporting Europe as a separate geographical segment from the fiscal year ended March 2003.

## (2) Financial Position

### Cash Flows

There was a net increase of ¥28,325 thousand in cash and cash equivalents during the first half to ¥1,306,362 thousand. The major components were a loss before income taxes and minority interest of ¥58,601 thousand, a ¥199,818 thousand decrease in trade receivables (down 14.9% year on year), a ¥108,425 thousand increase in inventories and other assets (up 276.9%), ¥138,784 thousand in proceeds from the sale of investment securities, ¥47,931 thousand in payments for acquisition of intangible assets (up 112.7%), and ¥10,280 thousand in payments for investment securities (down 89.2%).

Cash flows by category in the first half were as follows.

### Operating activities

Net cash used in operating activities was ¥49,976 thousand compared with net cash provided of ¥113,266 thousand in the first half of the prior fiscal year. There was a loss before income taxes and minority interest of ¥58,601 thousand, a ¥199,818 thousand decrease in trade receivables, a ¥108,425 thousand increase in inventories and other assets and a ¥74,703 thousand decrease in trade payables.

### Investing activities

Net cash provided by investing activities was ¥79,492 thousand. In the prior fiscal year's first half, investing activities used net cash of ¥138,761 thousand. The major components were proceeds of ¥138,784 thousand from the sale of investment securities, payments of ¥47,931 thousand for the purchase of intangible assets and payments of ¥10,280 thousand for the purchase of investment securities.

### Financing activities

Net cash used in financing activities was ¥2,004 thousand, 99.0% less than one year earlier. This was mainly due to payments of ¥1,854 thousand for the repayment of finance leases.

Trends in cash flow indicators were as follows.

	Year ended March 31, 2001	Year ended March 31, 2002	Year ended March 31, 2003	Six months ended Sept. 30, 2003
Shareholders' equity ratio (%)	84.1	87.5	83.8	86.3
Shareholders' equity ratio at market value (%)	114.5	54.5	28.8	86.8
Debt repayment multiple (years)	-	-	0.1	-
Interest coverage ratio	-	-	98.6	-

- Notes:
1. The above figures are calculated as follows.
    - Shareholders' equity ratio: shareholders' equity divided by total assets
    - Shareholders' equity ratio at market value: market capitalization divided by total assets
    - Debt repayment multiple: interest-bearing debt divided by operating cash flows
    - Interest coverage ratio: operating cash flows divided by interest expenses
  2. All indicators are calculated based on consolidated financial figures.
  3. Market capitalization is calculated by multiplying the value of the Company's stock at the close of each period by the total number of shares issued at the end of the period.
  4. Operating cash flows are calculated using the figures for operating cash flows in the consolidated statements of cash flows. Net interest-bearing debt is the sum of all liabilities on the consolidated balance sheets for which interest payments are made. Interest expenses as shown in the consolidated statements of cash flows are used to calculate the interest coverage ratio.
  5. The fiscal 2002 and September 2003 interim debt repayment multiples and interest coverage ratios are not shown because operating cash flows were negative in these periods.
  6. The fiscal 2001 debt repayment multiple and interest coverage ratio are not shown because there was no interest-bearing debt or interest expenses in this year.

### (3) Outlook for the Fiscal Year Ending March 2004

TCP/IP (IPv6) next-generation Internet connection software for embedded systems has been very well received by customers, indicating that it will contribute to sales and earnings in the fiscal year ending in March 2004. Manufacturers have advanced to the planning stage for next-generation mobile phones, car navigation products and home appliances. It is quite possible that the Company's IPv6 will become the industry standard. In addition, there are signs of a rebound in demand for communication boards for semiconductor manufacturing equipment, and the inheritor industrial PC is off to a good start. Furthermore, the development of a hybrid OS, ITRON with memory protection function, and other products is enabling Elmic Systems to play a leading role among suppliers of software for embedded systems. Despite these favorable trends, the Company is adopting a conservative view of market trends. Efforts will thus be focused on preserving a sound financial position while achieving steady and reliable gains in sales and earnings.

Due to the above factors, the Company is forecasting consolidated net sales of ¥2,110 million, ordinary income of ¥72 million and net income of ¥12 million in the fiscal year ending in March 2004. On a non-consolidated basis, the forecast is for net sales of ¥1,705 million, ordinary income of ¥80 million and net income of ¥27 million.

These forecasts are based on management's judgments in accordance with information that is currently available. Actual results may differ significantly due to a variety of factors. Therefore, investors are cautioned not to make investment decisions based solely on these forecasts. Factors that can affect operating results include, but are not limited to, the economic environment in major markets, changes in demand and prices for products, rapid advances in technology, changes in exchange rates, and revisions in regulations and accounting standards in Japan and overseas.

Due to the seasonal nature of the Company's operating results, in which the majority of deliveries and sales occur during the second half of each fiscal year, there are no revisions to the forecasts that were announced on May 23, 2003 when results for the prior fiscal year were released.

#### Consolidated Forecasts

	Net sales	Ordinary income	Net income
	¥ millions	¥ millions	¥ millions
Year ending March 31, 2004	2,110	72	12

Investors are cautioned not to make investment decisions solely on the basis of forecasts for the fiscal year ending on March 31, 2004. Factors that can influence operating results include, but are not limited to, the economic climate in major markets, changes in demand for products and prices, rapid technological progress, changes in foreign exchange rates, and revisions to rules and accounting standards in Japan and overseas.

#### 4. Other Important Information

Presented below is a list of risk factors that can affect the Company's business operations and other aspects of its activities. This information is being supplied from the standpoint of conducting an aggressive disclosure program for investors by providing information on items that are believed to be important to reaching investment decisions. This list even includes items that may not necessarily correspond to obvious risk factors. The Company is aware of these risk factors and is taking measures to respond in the event that any of these problems occurs. However, investors should carefully read this list and all information in this document, as well as gather information from other sources so that all factors can be carefully considered before reaching an investment decision.

##### Risks concerning business operations

###### Communication Risk

The Company is acquiring new technology primarily through joint development programs and other forms of alliances. In the event that one or more alliances are terminated, the Company could have difficulty acquiring new technology, an event that could have a material impact on operating results.

###### Internet risk

KASAGO TCP/IP (IPv4) is employed by a large number of users and sales of KASAGO IPv6 have been started based on these existing users. At present, a number of Japanese companies, mostly large manufacturers of electrical equipment, are using KASAGO IPv6 at no charge to conduct evaluations and research. Elmic Systems is now in phase 2 of the development process, which mainly entails the development of IPv6 optional software. Any delay in the market launch of this software could have an impact on operating results.

###### System integration risk

By maintaining good relationships with vendors, the Company strives to maintain access to qualified personnel, sustain the profitability of system integration operations and maintain a stable level of orders. Any difficulties concerning these relationships could have a material impact on operating results.

##### Fabless Policy

Elmic Systems designs hardware but has no manufacturing facilities of its own. The development and manufacturing companies listed below, and the new development and manufacturing outsourcing companies, are used to maintain a flexible design and manufacturing capability. This enables the Company to avoid the risk of holding excessive inventories of components and production facilities. External development and manufacturing outsourcing factories are utilized under outsourcing contracts, and every effort is made to prevent problems concerning quality. As products developed by Elmic Systems are assets of the Company, management is conducted to permit the continuous manufacture of these products at the factories of outsourcing partners.

##### Reliance on External Vendors (Orders Placed)

During the past fiscal year, the Company placed a total of ¥271 million of orders with external vendors. Major companies and orders placed are shown below.

Yen in thousands

Vendor	Product	Orders		Remarks
		Interim ended Sep. 30, 2003	Share (%)	
Elmic Systems USA, Inc.	Customized development projects	81,612	30.0	-
ELT Inc.	Customized software	21,600	7.9	-
Yamaki Electric Corporation	Hardware products	19,239	7.1	-
WESCOM Inc.	Customized software	19,200	7.1	-
Raisey Systems	Customized development projects	17,051	6.3	-
Other (36 companies)		113,102	41.6	
Total		271,804	100.0	

Notes: The above amounts do not include consumption taxes.

Elmic Systems closely monitors the management, manufacturing supervision, quality assurance and other aspects of the operations of these companies. Furthermore, precautions are taken to diversify risk to avoid excessive reliance on any particular vendor. Nevertheless, a problem in the ability of a vendor to conduct operations could affect the Company's ability to ship products. Therefore, the inability to ship products at the required time due to a problem involving the design, manufacturing or quality assurance capabilities of a vendor could have a material impact on operating results.

## Human resources

Employees involved in marketing and development activities will play an important role in the expansion of new businesses. As Elmic Systems operates in a small industry and there is a limited number of talented individuals, there is a risk that the Company may not be able to hire the necessary personnel due to intense competition. The Company is currently reviewing its personnel system in order to attract skilled individuals and motivate employees. The Company will further upgrade its target management system and compensation structure to reflect the capabilities of each employee. Any difficulty in hiring or retaining the necessary personnel could hinder the Company's ability to reach its medium- and long-term strategic goals and have a material impact on operating results.

## Investments

Elmic Systems has consistently invested in its core business. At this time, management plans to aggressively conduct a broad spectrum of business activities that are based on existing products and services. As part of this drive, the Company will be establishing subsidiaries and forming alliances in Japan and overseas.

The investments required by these actions may be large compared to the size of the Company, creating greater risks involving the Company's financial position and business operations. However, it is impossible to accurately predict the impact on the Company's operations of conditions at companies in which it has invested. In some cases, the Company may not be able to recover its investments.

## Significant alliances

Significant contracts signed during the first half of the current fiscal year were as follows.

The Elmic Systems Group enters into a large number of business agreements and alliances to acquire new technologies. Most of these actions involve systems that will be commercialized in the future. Any leaks of such information could be harmful these customers. Consequently, the Company enters into confidentiality contracts with all customers and external vendors in addition to contracts for the placement of orders. The following information is therefore provided only to the extent possible under these confidentiality contracts.

a. Nexwave Solutions Inc.

Purpose: Agreement for the resale of component structure software for the embedded systems industry

Personnel: None

b. Websoft International Inc.

Purpose: Partnership contract for the development of the "Esprit" embedded system browser software

Personnel: None

## Five-year summary

(1) The following table presents a summary of results of operations for the five-year period ended March 31, 2003.

Years ended March 31	Yen in thousands								
	1999	2000	Change (%)	2001	Change (%)	2002	Change (%)	2003 (previous year)	Change (%)
Net sales	1,115,334	1,719,550	154.2	2,005,663	116.6	1,655,266	82.5	1,585,261	95.8
Ordinary income (loss)	(175,987)	207,058	-	222,622	107.5	(197,652)	-	38,645	-
Ordinary income /Net sales (%)	(15.8)	12.0	-	11.1	-	(11.9)	-	2.4	-

### Note Regarding Significant Change in Results

Net sales were down 47.2% in the fiscal year ended March 31, 1999 compared with the previous fiscal year. This was due to the drop in demand for production equipment among major client industries for the Group, including manufacturers of semiconductor production equipment, machine tools and signals. The Group's sales and earnings are susceptible to fluctuations in capital expenditures by producers of semiconductor production equipment and other manufacturers. These fluctuations could therefore have a material impact on results of operations.

In this environment, the Company has assigned engineers to the development of major products that will be sold in the next fiscal year and subsequent years. The Company has just reported the first loss since its establishment. The Company will continue to aggressively assign engineers to the development of major new products to the degree that its resources permit.

(2) Regarding seasonal fluctuations in sales, demand exists throughout the year for products and services in the system integration, Windows and Internet businesses. Within these businesses, special development projects have the following characteristics.

- a. Completions of development themes of users tend to occur mainly at the end of fiscal periods, causing sales to rise in the final months of each six-month fiscal period.
- b. Due to the tendency for the end of user development themes to coincide with fiscal periods, second-half sales tend to be higher than in the first half.

Yen in thousands

	1H FY 2002	2H FY 2002	1H FY 2003	2H FY 2003	1H FY 2004
Period-end month	Sept. 2001	March 2002	Sept. 2002	March 2003	Sept. 2003
Sale in period-end month	258,741	404,256	247,953	406,733	268,778
Share of total interim sales (%)	36.88	42.39	40.01	42.12	36.82
Share of total annual sales (%)	15.63	24.42	15.64	25.66	-

### Research and development

Research and developments expenses in the first half totaled ¥59 million. This was 7.3% of net sales and ¥53 million less than one year earlier. Major results of research and development projects were as follows.

a. Internet protocol

As in the prior fiscal year, the primary focus was the development of TCP/IP (KASAGO IPv6). A beta-version has already been shipped, and activities in the current fiscal year have advanced to the next phase: the development of options. One example is information security (IPSec) in response to the growing scope of applications for mobile communications devices (Mobile-IP) and Internet connections. Another theme is developing peripheral software such as voice and image transmission software (H.323, embedded SIP). One more key theme is the development of software development kits for home routers, a market with considerable growth potential. In addition, the Company developed a TCP/IP (KASAGO for T-Engine) for T-Engine, which is being promoted by the TRON Association as a new standard.

b. Communications

The Company conducted research in CIM (Computer Integrated Manufacturing) for semiconductor manufacturing equipment. Other accomplishments were the development and sale of a communications protocol (SoftCOM GEM300) for manufacturing equipment using 300mm wafers and a host simulation (under the Cicadus brand) product for testing systems.

c. Real-time OS

Accomplishments included an upgraded version of the Company's exclusive OS (ELX), research in ways to make ITRON even easier to use, and the development and sale of a group management function within the OS. In conjunction with NEC's termination of production of an industrial PC, the Company developed and began selling iNHERITOR, a successor to the RTOS (ELX286) that was widely used in this PC.

As a software producer, Elmic Systems will continue working on the development of successors to and upgraded versions of established products while concentrating primarily on the above themes.

**5. Consolidated Financial Statements**  
**(1) Consolidated Balance Sheets**

Account	Period		FY2002 Interim As of Sep. 30, 2002		FY2003 Interim As of Sep. 30, 2003		FY2002 Selected data As of March 31, 2003	
	¥ thousands	%	¥ thousands	%	¥ thousands	%		
<b>Assets</b>								
I Current assets								
1. Cash and deposits	267,874		188,365		171,219			
2. Notes & accounts receivable - trade	554,763		601,116		801,048			
3. Available for sale securities	1,164,168		1,117,996		1,106,818			
4. Inventories	106,124		129,895		104,722			
5. Other current assets	104,572		204,535		116,809			
6. Reserve for doubtful receivables	(529)		(1,908)		(2,266)			
Total current assets	2,196,972	64.4	2,240,001	73.4	2,298,352	71.6		
II Fixed assets								
1. Property, plant and equipment *1	46,407		46,619		50,811			
2. Intangible assets								
(1) Goodwill	661,413		58,793		58,842			
(2) Other intangible assets	109,090		163,293		144,478			
Total intangible assets	770,504		222,086		203,320			
3. Investments and other assets								
(1) Investment securities	215,976		98,877		195,758			
(2) Deferred tax assets - non-current	-		303,212		320,924			
(3) Other	181,614		141,782		142,734			
(4) Reserve for doubtful receivables	(1,344)		(1,400)		(1,500)			
Total investments and other assets	396,246		542,471		657,917			
Total fixed assets	1,213,158	35.6	811,177	26.6	912,049	28.4		
Total assets	3,410,131	100.0	3,051,179	100.0	3,210,401	100.0		

Account	Period	FY2002 Interim As of Sep. 30, 2002		FY2003 Interim As of Sep. 30, 2003		FY2002 Selected data As of March 31, 2003	
		¥ thousands	%	¥ thousands	%	¥ thousands	%
<b>Liabilities</b>							
I Current liabilities							
1. Accounts payable-trade		71,699		58,728		133,439	
2. Income taxes payable		3,216		3,969		7,636	
3. Reserve for accrued bonuses		53,300		50,100		50,200	
4. Other current liabilities	*2	99,905		82,013		101,096	
Total current liabilities		228,121	6.7	194,810	6.4	292,372	9.1
II Long-term liabilities							
1. Reserve for employees' retirement benefits		-		-		19	
2. Reserve for directors' retirement benefits		156,716		158,235		160,225	
3. Other long-term liabilities		64,542		55,923		59,664	
Total long-term liabilities		221,259	6.5	214,159	7.0	219,909	6.9
Total liabilities		449,380	13.2	408,969	13.4	512,281	16.0
<b>Minority interest</b>							
Minority interest		7,593	0.2	7,635	0.3	7,706	0.2
<b>Shareholders' equity</b>							
I Common stock		1,160,041	34.0	1,160,041	38.0	1,160,041	36.1
II Capital surplus		1,459,152	42.8	1,459,152	47.8	1,459,152	45.5
III Retained earnings		437,218	12.8	118,211	3.9	192,041	6.0
IV Net unrealized gain (loss) on other securities		(7,226)	(0.2)	126	0.0	(16,740)	(0.5)
V Foreign currency translation adjustment		73,717	2.2	81,662	2.7	80,539	2.5
VI Treasury stock		(169,745)	(5.0)	(184,619)	(6.1)	(184,619)	(5.8)
Total shareholders' equity		2,953,157	86.6	2,634,573	86.3	2,690,414	83.8
Total liabilities, minority interest and shareholders' equity		3,410,131	100.0	3,051,179	100.0	3,210,401	100.0

## (2) Consolidated Statements of Income

Account	Period	FY2002 Interim From April 1, 2002 to September 30, 2002		FY2003 Interim From April 1, 2003 to September 30, 2003		FY2002 Selected data From April 1, 2002 to March 31, 2003				
		¥ thousands	%	¥ thousands	%	¥ thousands	%			
I Net sales	*1		741,391	100.0		808,536	100.0		1,888,436	100.0
II Cost of sales			313,119	42.2		368,493	45.6		853,308	45.2
Gross profit			428,272	57.8		440,042	54.4		1,035,128	54.8
III SG&A	*2		538,218	72.6		519,154	64.2		1,061,207	56.2
Operating loss			109,945	(14.8)		79,111	(9.8)		26,079	(1.4)
IV Non-operating income										
1. Interest income		1,541			475			2,935		
2. Dividends income		50			965			100		
3. Equity in earnings of affiliates		6,972			3,791			9,215		
4. Gain on anonymous partnerships		2,351			3,356			5,217		
5. Other non-operating income		922	11,837	1.5	1,175	9,764	1.2	2,173	19,641	1.0
V Non-operating expenses										
1. Interest expense		271			101			414		
2. Foreign exchange loss		7,860			1,679			12,873		
3. Loss on options		6,700			-			6,700		
4. Other non-operating expenses		218	15,050	2.0	0	1,781	0.2	785	20,774	1.1
Ordinary loss			113,158	(15.3)		71,128	(8.8)		27,211	(1.4)
VI Extraordinary income										
1. Gain on reversal from doubtful receivables		-			456		2.9	-		
2. Gain on sales of investment securities		-	-	-	22,904	23,360		10,150	10,150	0.5
VII Extraordinary loss										
1. Loss on removal of fixed assets		-			98			-		
2. Loss on impairment of goodwill		-			-			604,785		
3. Loss on revaluation of investment securities		10,880			10,735			32,120		
4. Loss on revaluation of inventories		-	10,880	1.4	-	10,833	1.3	14,399	651,305	34.5
Net loss before income taxes and minority interest			124,038	(16.7)		58,601	(7.2)		668,366	(35.4)
Income taxes - current		2,183			3,894			6,979		
Income taxes - deferred		20,634	22,817	3.1	11,403	15,298	1.9	(283,424)	(276,445)	(14.6)
Minority interest			437	0.1		(70)	(0.0)		550	0.0
Net loss			147,293	(19.9)		73,830	(9.1)		392,471	(20.8)

### (3) Consolidated Statements of Retained Earnings

Account	Period	FY2002 Interim From April 1, 2002 to September 30, 2002		FY2003 Interim From April 1, 2003 to September 30, 2003		FY2002 Selected data From April 1, 2002 to March 31, 2003	
		¥ thousands		¥ thousands		¥ thousands	
<b>Capital surplus</b>							
I	Capital surplus at beginning of period		1,459,152		1,459,152		1,459,152
II	Retained earnings at end of period		1,459,152		1,459,152		1,459,152
<b>Retained earnings</b>							
I	Retained earnings at beginning of period		624,316		192,041		624,316
II	Decline in retained earnings						
1.	Cash dividends	39,804		-		39,804	
2.	Net loss	147,293	187,097	73,830	73,830	392,471	432,275
III	Retained earnings at end of period		437,218		118,211		192,041

#### (4) Consolidated Statements of Cash Flows

Account	Period	FY2002 Interim From April 1, 2002 to September 30, 2002	FY2003 Interim From April 1, 2003 to September 30, 2003	FY2002 Selected data From April 1, 2002 to March 31, 2003
		¥ thousands	¥ thousands	¥ thousands
I Cash flows from operating activities				
Net loss before income taxes and minority interest		(124,038)	(58,601)	(668,366)
Depreciation and amortization		31,177	34,603	68,848
Equity in earnings of affiliates		(6,972)	(3,791)	(9,215)
Increase (decrease) in reserve for doubtful receivables		374	(456)	2,266
Increase (decrease) in reserve for accrued bonuses		637	(100)	(2,462)
Increase (decrease) in reserve for employees' retirement benefits		-	(19)	19
Increase (decrease) in reserve for directors' retirement benefits		(690)	(1,989)	2,818
Interest and dividends income		(1,591)	(1,440)	(3,035)
Interest expense		271	101	414
Gain on anonymous partnerships		(2,351)	(3,356)	(5,217)
Foreign exchange loss		6,328	458	6,827
Loss on options		6,700	-	6,700
Gain on sales of investment securities		-	(22,904)	(10,150)
Loss on removal of fixed assets		-	98	-
Loss on impairment of goodwill		-	-	604,785
Loss on revaluation of investment securities		10,880	10,735	32,120
Loss on revaluation of inventories		-	-	14,399
Decrease (increase) in notes and accounts receivable-trade		234,699	199,818	(11,444)
Increase in inventories		(20,229)	(25,082)	(33,318)
Increase (decrease) in accounts payable-trade		(36,648)	(74,703)	25,067
Increase in other assets		(7,830)	(83,342)	(11,673)
Increase (decrease) in other liabilities		10,989	(9,666)	(16)
Decrease in suspense receipt of consumption taxes		9,302	-	9,302
Increase (decrease) in suspense payment of consumption taxes		5,193	(7,760)	16,858
Subtotal		116,202	(47,399)	35,528
Interest and dividends received		1,591	3,940	10,560
Interest paid		(271)	(101)	(414)
Income taxes paid		(4,254)	(6,415)	(4,817)
Net cash (used in) provided by operating activities		113,266	(49,976)	40,857

Account	Period	FY2002 Interim From April 1, 2002 to September 30, 2002	FY2003 Interim From April 1, 2003 to September 30, 2003	FY2002 Selected data From April 1, 2002 to March 31, 2003
		¥ thousands	¥ thousands	¥ thousands
<b>II Cash flows from investing activities</b>				
Payments for acquisition of available for sale securities		(101,500)	-	(202,154)
Proceeds from redemption of available for sale securities		-	-	100,654
Payments for acquisition of property, plant and equipment		(13,124)	(1,974)	(24,470)
Payments for acquisition of intangible assets		(22,539)	(47,931)	(88,767)
Payments for acquisition of investment securities		-	(10,280)	(53,656)
Gain on sales of investment securities		-	138,784	61,267
Payments for short-term loans receivable		-	-	(10,000)
Proceeds from collection of short-term loans receivable		-	-	10,000
Payments for long-term loans receivable		-	(700)	(500)
Proceeds from collection of long-term loans		895	575	1,640
Proceeds from return of leasehold and security deposits		323	3,126	373
Others		(2,816)	(2,107)	(2,230)
Net cash provided by (used in) investing activities		(138,761)	79,492	(207,844)
<b>III Cash flows from financing activities</b>				
Payments for finance lease liabilities		(1,742)	(1,854)	(3,245)
Cash dividends paid		(39,376)	(150)	(39,504)
Payments for acquisition of treasury stock		(169,390)	-	(184,264)
Net cash used in financing activities		(210,509)	(2,004)	(227,013)
<b>IV Effect of exchange rate changes on cash and cash equivalents</b>		(14,361)	813	(10,370)
<b>V Increase (decrease) in cash and cash equivalents</b>		(250,365)	28,325	(404,370)
<b>VI Cash and cash equivalents at beginning of period</b>		1,682,407	1,278,037	1,682,407
<b>VII Cash and cash equivalents at end of period</b>		1,432,042	1,306,362	1,278,037

### Significant Accounting Policies in the Preparation of Consolidated Financial Statements

Period Item	FY2002 Interim From Apr. 1, 2002 to Sep. 30, 2002	FY2003 Interim From Apr. 1, 2003 to Sep. 30, 2003	FY2002 From Apr. 1, 2002 to Mar. 31, 2003
1. Scope of consolidation	<p>(1) Consolidated subsidiaries: 2 Names of consolidated subsidiaries: Elmic Systems USA, Inc. AIRFOLC Corporation</p> <p>(2) Unconsolidated subsidiaries: 0</p>	<p>(1) Consolidated subsidiaries: 2 Names of consolidated subsidiaries: Elmic Systems USA, Inc. AIRFOLC Corporation</p> <p>(2) Unconsolidated subsidiaries: 0</p>	<p>(1) Consolidated subsidiaries: 2 Names of consolidated subsidiaries: Elmic Systems USA, Inc. AIRFOLC Corporation</p> <p>(2) Unconsolidated subsidiaries: 0</p>
2. Equity method accounting	<p>(1) Affiliates accounted for by the equity method of accounting: 1 Affiliate name: WESCOM Inc.</p> <p>(2) RockHand Technology, an equity method affiliate, is excluded from the scope of affiliates accounted for by the equity method since it does not have material effect on consolidated interim net income (loss) or consolidated retained earnings for the period and is of relatively little significance in the context of consolidated financial statements.</p>	<p>(1) Affiliates accounted for by the equity method of accounting: 1 Affiliate name: WESCOM Inc.</p> <p>(2) RockHand Technology, an equity method affiliate, is excluded from the scope of affiliates accounted for by the equity method since it does not have material effect on consolidated interim net income (loss) (equity in earnings) and consolidated retained earnings (interest in earnings) for the period and is of relatively little significance in the context of consolidated interim financial statements.</p>	<p>(1) Affiliates accounted for by the equity method of accounting: 1 Affiliate name: WESCOM Inc.</p> <p>(2) RockHand Technology, an equity method affiliate, is excluded from the scope of affiliates accounted for by the equity method since it does not have material effect on consolidated net income (loss) (equity in earnings) and consolidated retained earnings (interest in earnings) for the period and is of relatively little significance in the context of consolidated financial statements.</p>
3. Balance sheet dates of subsidiaries	<p>The consolidated financial statements include the accounts of the following consolidated subsidiaries, of which the interim period ends on a different day: Elmic Systems USA, Inc. Interim period-end: Jun. 30 AIRFOLC Corporation Interim period-end: Aug. 31</p> <p>In the preparation of consolidated financial statements for the period, the financial statements of the subsidiaries for their respective interim period have been used. With respect to significant transactions, which occurred after the balance sheet dates of the consolidated subsidiaries, necessary adjustments have been made in the consolidated interim financial statements.</p>	<p>The consolidated financial statements include the accounts of the following consolidated subsidiaries, of which the interim period ends on a different day: Elmic Systems USA, Inc. Interim period-end: Jun. 30 AIRFOLC Corporation Interim period-end: Aug. 31</p> <p style="text-align: center;">Same as on the left.</p>	<p>The consolidated financial statements include the accounts of the following consolidated subsidiaries, of which the fiscal year ends on a different day: Elmic Systems USA, Inc. Fiscal year-end: Dec. 31 AIRFOLC Corporation Fiscal year-end: Feb. 28</p> <p>In the preparation of consolidated financial statements for the fiscal year, the financial statements of the subsidiaries for their respective fiscal year have been used. With respect to significant transactions, which occurred after the balance sheet dates of the consolidated subsidiaries, necessary adjustments have been made in the consolidated financial statements.</p>

Period Item	FY2002 Interim From Apr. 1, 2002 to Sep. 30, 2002	FY2003 Interim From Apr. 1, 2003 to Sep. 30, 2003	FY2002 From Apr. 1, 2002 to Mar. 31, 2003
4. Accounting standards	<p>A. Valuation criteria and methods for significant assets:</p> <p>(1) Securities Held-to-maturity securities Valued using the amortized cost method Affiliated company stock Stated at cost, cost using the moving average method Other securities Securities with market quotations Stated at fair value based on market prices on the balance sheet date (Unrealized holding gains and losses are accounted for as a component of the shareholders' equity; cost of other securities sold is determined using the moving average method). Securities without market quotations: Stated at cost, cost using the moving average method.</p> <p>(2) Inventories Merchandise: Stated at cost, cost being determined by the moving average method. Products, work in process and raw materials: Stated at cost, cost being determined by the period average method</p> <p>B. Depreciation and amortization of significant depreciable assets (1) Property, plant and equipment The Company and its domestic subsidiaries compute depreciation using the declining balance method, in accordance with Corporation Tax laws. Overseas consolidated subsidiaries compute depreciation using the straight-line method in accordance with the generally accepted accounting standards of the countries of their domicile.</p>	<p>A. Valuation criteria and methods for significant assets:</p> <p>(1) Securities -</p> <p>Affiliated company stock Same as on the left.</p> <p>Other securities Securities with market quotations Same as on the left.</p> <p>Securities without market quotations: Same as on the left.</p> <p>(2) Inventories Merchandise: Same as on the left. Products, work in process and raw materials: Same as on the left.</p> <p>B. Depreciation and amortization of significant depreciable assets (1) Property, plant and equipment Same as on the left.</p>	<p>A. Valuation criteria and methods for significant assets:</p> <p>(1) Securities Held-to-maturity securities Valued using the amortized cost method Affiliated company stock Same as on the left.</p> <p>Other securities Securities with market quotations Same as on the left.</p> <p>Securities without market quotations: Same as on the left.</p> <p>(2) Inventories Merchandise: Same as on the left. Products, work in process and raw materials: Same as on the left.</p> <p>B. Depreciation and amortization of significant depreciable assets (1) Property, plant and equipment Same as on the left.</p>

Period Item	FY2002 Interim From Apr. 1, 2002 to Sep. 30, 2002	FY2003 Interim From Apr. 1, 2003 to Sep. 30, 2003	FY2002 From Apr. 1, 2002 to Mar. 31, 2003
	<p>(2) Intangible assets The Company and its domestic subsidiaries amortize capitalized costs using one of two alternate methods, which is higher, depreciation based on estimated sales volume or the straight-line method based on remaining the estimated period to expiration. Software for internal use is amortized using the straight-line method over its estimated useful life of five years. Overseas consolidated subsidiaries compute depreciation in accordance with the generally accepted accounting standards of the countries of their domicile. Effective the current interim consolidated accounting period, overseas consolidated subsidiaries adopted the SEC accounting standards on "Goodwill and Other Intangible Assets" and accordingly stopped amortization of goodwill. As a result of this accounting change, amortization expense, operating loss, ordinary loss, and net loss before income taxes and minority interest declined by ¥17,637 thousand each as compared with the amounts that would have been reported if the previous accounting method had been applied consistently.</p> <p>C. Recognition of reserves (1) Reserve for doubtful receivables To prepare for credit losses on accounts receivable, the Company and its domestic subsidiaries provide an allowance equal to the estimated amount of uncollectible receivables for general receivables based on the historical write-off ratio, and bad receivables based on a case-by case determination of collectibility. Overseas consolidated subsidiaries provide allowances for credit losses based on a case-by-case determination of collectibility.</p>	<p>(2) Intangible assets The Company and its domestic subsidiaries amortize capitalized costs using one of two alternate methods, which is higher, depreciation based on estimated sales volume or the straight-line method based on remaining the estimated period to expiration. Software for internal use is amortized using the straight-line method over its estimated useful life of five years. Overseas consolidated subsidiaries compute depreciation in accordance with the generally accepted accounting standards of the countries of their domicile.</p> <p>C. Recognition of reserves (1) Reserve for doubtful receivables Same as on the left.</p>	<p>(2) Intangible assets The Company and its domestic subsidiaries amortize capitalized costs using two alternate methods, which is higher, depreciation based on estimated sales volume or the straight-line method based on remaining period to expiration. Software for internal use is amortized using the straight-line method over its estimated useful life of five years. Effective the current consolidated fiscal year, overseas subsidiaries adopted the SEC accounting standards on "Goodwill and Other Intangible Assets." The SEC accounting standards require that goodwill no longer be amortized but instead tested for impairment at least annually. The application of the new standards caused amortization expense, operating loss and ordinary loss to decline by ¥35,393 thousand compared to amounts that would have been reported if the previous method had been applied consistently. Net loss before income taxes and minority interest increased by ¥569,392 thousand since impairment evaluation for goodwill resulted in a ¥604,785 thousand extraordinary charge to income.</p> <p>C. Recognition of reserves (1) Reserve for doubtful receivables Same as on the left.</p>

Period Item	FY2002 Interim From Apr. 1, 2002 to Sep. 30, 2002	FY2003 Interim From Apr. 1, 2003 to Sep. 30, 2003	FY2002 From Apr. 1, 2002 to Mar. 31, 2003
	<p>(2) Reserve for accrued bonuses As a means of providing for bonus obligations, the Company and its domestic subsidiaries designates in the reserve account an amount accrued for the current interim period among the estimated future obligations.</p> <p>(3) Reserve for employees' retirement benefits To provide for employees' retirement benefits, an allowance for retirement benefits is provided in the amount deemed to have accrued, determined based on the estimated retirement benefit obligations and pension assets on the balance sheet date. Since pension assets at the end of the interim period exceeded the estimated retirement benefit obligations, ¥2,350 thousand was charged to income as a pre-paid pension expense.</p> <p>(4) Reserve for directors' retirement benefits To provide for directors' retirement benefits, an allowance is provided pursuant to the Company's rules on directors' retirement benefits.</p> <p>D. Accounting for lease transactions The Company and its domestic subsidiaries account all finance lease contracts other than those that are deemed to transfer the ownership of the leased assets to lessees by the method similar to that applicable to ordinary operating leases. Overseas consolidated subsidiaries account lease transactions by the method similar to that applicable to regular trading transactions.</p> <p>E. Accounting for significant hedge transactions (1) Hedge accounting method The deferred hedge accounting method is applied.</p>	<p>(2) Reserve for accrued bonuses Same as on the left.</p> <p>(3) Reserve for employees' retirement benefits To provide for employee retirement benefits, an allowance for retirement benefits is provided in the amount deemed to have accrued, determined based on the estimated retirement benefit obligations and pension assets on the balance sheet date. Since pension assets at the end of the interim period exceeded the estimated retirement benefit obligations, ¥2,062 thousand was charged to income as a pre-paid pension expense.</p> <p>(4) Reserve for directors' retirement benefits Same as on the left.</p> <p>D. Accounting for lease transactions Overseas consolidated subsidiaries account all finance lease contracts other than those that are deemed to transfer the ownership of the leased assets to lessees by the method similar to that applicable to regular trading transactions.</p> <p>E. -</p>	<p>(2) Reserve for accrued bonuses As a means of providing for bonus obligations, the Company and its domestic subsidiaries designates in the reserve account an amount accrued for the current fiscal year among the estimated future obligations.</p> <p>(3) Reserve for employees' retirement benefits To provide for employee retirement benefits, an allowance for retirement benefits is provided in the amount deemed to have accrued, determined based on the estimated retirement benefit obligations and pension assets on the balance sheet date.</p> <p>(4) Reserve for directors' retirement benefits Same as on the left.</p> <p>D. Accounting for lease transactions The Company and its domestic subsidiaries account all finance lease contracts other than those that are deemed to transfer the ownership of the leased assets to lessees by the method similar to that applicable to ordinary operating leases. Overseas consolidated subsidiaries account lease transactions by the method similar to that applicable to regular trading transactions.</p> <p>E. Accounting for significant hedge transactions (1) Hedge accounting method The deferred hedge accounting method is applied.</p>

Period Item	FY2002 Interim From Apr. 1, 2002 to Sep. 30, 2002	FY2003 Interim From Apr. 1, 2003 to Sep. 30, 2003	FY2002 From Apr. 1, 2002 to Mar. 31, 2003
	<p>(2) Hedging method and risks hedged Hedging method: Foreign currency forward contracts Risks hedged: Planned foreign currency denominated transactions</p> <p>(3) Hedging policy Currently the company uses foreign currency forward contracts only to hedge exchange rate risk on its planned future foreign currency denominated transactions.</p> <p>(4) Assessing hedge effectiveness No information is provided on the method of assessing the effectiveness of the hedge since the fair value of the cash flow from the hedged item is expected to almost fully offset the changes in the fair value of the cash flow from the hedging instrument.</p> <p>F. Other significant accounting policies in the preparation of consolidated financial statements for the period</p> <p>(1) Equity method of accounting based on the anonymous partnership agreement The Company in March 1995 entered a leveraged lease agreement (term of agreement: 12 years) with an anonymous partnership. The ¥50,000 thousands investment at the time of participation is recognized as a claim against the anonymous association. A share of the anonymous partnership's net assets (as recorded in the most recent settlement of accounts) proportional to the Company's investment in the anonymous partnership is recognized as a claim or liability against the anonymous partnership. A share of the anonymous partnership's net income (as recorded in the settlement of accounts for the interim period),</p>	<p>F. Other significant accounting policies in the preparation of consolidated financial statements for the period</p> <p>(1) Equity method of accounting based on the anonymous partnership agreement Same as on the left.</p>	<p>(2) Hedging method and risks hedged Hedging method: Foreign currency forward contracts Risks hedged: Planned foreign currency denominated transactions</p> <p>(3) Hedging policy Currently the company uses foreign currency forward contracts only to hedge exchange rate risk on its planned future foreign currency denominated transactions.</p> <p>(4) Assessing hedge effectiveness No information is provided on the method of assessing the effectiveness of the hedge since the fair value of the cash flow from the hedged item is expected to almost fully offset the changes in the fair value of the cash flow from the hedging instrument.</p> <p>F. Other significant accounting policies in the preparation of consolidated financial statements for the fiscal year</p> <p>(1) Equity method of accounting based on the anonymous partnership agreement The Company in March 1995 entered a leveraged lease agreement (term of agreement: 12 years) with an anonymous partnership. The ¥50,000 thousands investment at the time of participation is recognized as a claim against the anonymous association. A share of the anonymous partnership's net assets (as recorded in the most recent settlement of accounts) proportional to the Company's investment in the anonymous partnership is recognized as a claim or liability against the anonymous partnership. A share of the anonymous partnership's net income (as recorded in the settlement of accounts for the fiscal year),</p>

Period Item	FY2002 Interim From Apr. 1, 2002 to Sep. 30, 2002	FY2003 Interim From Apr. 1, 2003 to Sep. 30, 2003	FY2002 From Apr. 1, 2002 to Mar. 31, 2003
	<p>applicable to the current consolidated interim period, proportional to the Company's investment in the anonymous partnership is recognized as a gain or loss on investment in the anonymous partnership.</p> <p>(2) Accounting treatment for consumption taxes Consumption taxes are accounted by the tax exclusion method.</p> <p>(3) Accounting for corporation, residential and enterprise taxes Appropriation of retained earnings for the consolidated period reflects the planned reserve and withdrawal from the general reserve, program reserve, and special depreciation reserve.</p> <p>(4) -</p>	<p>(2) Accounting treatment for consumption taxes Same as on the left.</p> <p>(3) Accounting for corporation, residential and enterprise taxes Appropriation of retained earnings for the consolidated period reflects the planned withdrawal from the general reserve, program reserve, and special depreciation reserve.</p> <p>(4) -</p>	<p>applicable to the current consolidated fiscal year, proportional to the Company's investment in the anonymous partnership is recognized as a gain or loss on investment in the anonymous partnership.</p> <p>(2) Accounting treatment for consumption taxes Same as on the left.</p> <p>(3) -</p> <p>(4) Accounting standard for treasury stock and reduction of legal reserves Effective the current consolidated fiscal year, the Company has adopted the new accounting standards for treasury stock and reduction of legal reserves (Financial Accounting Standard No. 1, Accounting Standard for Treasury Stock and Reduction of Legal Reserves, Business Accounting Deliberation Council). The effect of this change on profit/loss is insignificant. Effective the current consolidated fiscal year, in accordance with the revised Regulations of Financial Statements, the "Shareholders' equity" section in the consolidated balance sheets and the "Consolidated Statements of Retained Earnings" conform with the revised Regulations of Financial Statements.</p>

Item \ Period	FY2002 Interim From Apr. 1, 2002 to Sep. 30, 2002	FY2003 Interim From Apr. 1, 2003 to Sep. 30, 2003	FY2002 From Apr. 1, 2002 to Mar. 31, 2003
	(5) -	(5) -	(5) Per share data Corporate Accounting Standard No.2 "Accounting Standard on Net Income per Share" and Corporate Accounting Standard Procedure No.4 "Accounting Standard Procedure on Net Income per Share," which became effective in the fiscal year starting on April 1, 2002, are adopted to for the consolidation fiscal year under review. Regarding the impact arising from this change, see the note in "Amounts Per Share," p.34.
5. Scope of cash and cash equivalents on consolidated statement of cash flows	For the purpose of consolidated statement of cash flows, cash and cash equivalents consists of vault cash, deposits that can be withdrawn on demand, and short-term investments, with original maturities of three months or less, that are readily convertible to known amounts of cash and present insignificant risk of change in value.	Same as on the left.	Same as on the left.

### Reclassifications

FY2002 Interim From Apr. 1, 2002 to Sep. 30, 2002	FY2003 Interim From Apr. 1, 2003 to Sep. 30, 2003
<p>Consolidated balance sheets</p> <p>Effective from the consolidated interim period ended September 30, 2002, "Investment securities", presented as a component of "Other" in the "Investments and other assets" account for the consolidated interim period ended September 30, 2001, are reclassified and presented as a separate item since the value of investment securities exceeded 5% of total assets as of the end of the consolidated interim period ended September 30, 2002. "Investment securities" totaled ¥138,793 thousand as of the end of the interim period ended September 30, 2001.</p>	<p>Consolidated balance sheets</p> <p>Effective from the consolidated interim period ended September 30, 2003 "Deferred tax assets - non-current", presented as a component of "Other" in the "Investments and other assets" account for the consolidated interim period ended September 30, 2002, are reclassified and presented as a separate item since the value of deferred assets exceeded 5% of total assets as of the end of the consolidated interim period ended September 30, 2003. "Deferred tax assets - non-current" totaled ¥38,081 thousand as of the end of the interim period ended September 30, 2002.</p>

## Supplementary Information

FY2002 Interim From Apr. 1, 2002 to Sep. 30, 2002	FY2003 Interim From Apr. 1, 2003 to Sep. 30, 2003	FY2002 From Apr. 1, 2002 to Mar. 31, 2003
<p>(Treasury stock and reduction of legal reserves)</p> <p>Effective the current interim period, the Company has adopted the new accounting standards for treasury stock and reduction of legal reserves (Financial Accounting Standard No. 1, Accounting Standard for Treasury Stock and Reduction of Legal Reserves, Business Accounting Deliberation Council). The effect of this change on profit/loss is insignificant.</p> <p>Effective the current interim period, in accordance with the revised Regulations of Interim Financial Statements, the "Shareholders' Equity Section" in the interim consolidated balance sheets and the "Interim Consolidated Statements of Retained Earnings" conform with the revised Regulations of Interim Financial Statements. Financial statements for the previous interim period and the previous fiscal year are re-stated to comply with current-term presentations.</p>	<p>(Employer contribution to employees' welfare insurance)</p> <p>A new system for assessing premiums on employees' welfare insurance and health insurance was introduced on April 1, 2003. Under the new rules, aggregate annual remuneration forms the basis of assessing insurance premiums. To comply with the revised regulations, effective the current consolidated interim period, contributions for the bonus portion of employees' remuneration are accounted as "Accrued expenses."</p> <p>The application of new rules caused "Other current liabilities (Accrued expenses)" in current liabilities, operating loss and ordinary loss to rise by ¥5,828 thousand.</p>	

## Notes to consolidated financial statements

### Notes to consolidated balance sheets

FY2002 Interim As of Sep. 30, 2002	FY2003 Interim As of Sep. 30, 2003	FY2002 As of March 31, 2003
*1. Accumulated depreciation on property, plant and equipment: ¥103,081 thousand	*1. Accumulated depreciation on property, plant and equipment: ¥114,079 thousand	*1. Accumulated depreciation on property, plant and equipment: ¥108,905 thousand
*2. Accounting for consumption taxes: Consumption tax suspense payments and receipts are included in the "Other current liabilities" account in current liabilities since the amount is insignificant in the context of total current assets.	*2. Accounting for consumption taxes Same as on the left.	*2. Accounting for consumption taxes -

### Notes to consolidated statements of income

Yen in thousands

FY2002 Interim From Apr. 1, 2002 to Sep. 30, 2002	FY2003 Interim From Apr. 1, 2003 to Sep. 30, 2003	FY2002 From Apr. 1, 2002 to Mar. 31, 2003
*1. The Company's sales are characterized by seasonal fluctuations. Since production on order is concentrated heavily in the second half, there is considerable difference in sales between the first and the second halves.	*1. Same as on the left	*1. -
*2. Principal components and corresponding amounts of SG&A expenses are as follows: Wages & allowances: 164,666 Provision of reserve for accrued bonuses: 23,149 Provision of reserve for directors' retirement benefits: 4,042 R&D: 112,637	*2. Principal components and corresponding amounts of SG&A expenses are as follows: Wages & allowances: 196,748 Provision of reserve for accrued bonuses: 22,200 Provision of reserve for directors' retirement benefits: 3,702 R&D: 59,202	*2. Principal components and corresponding amounts of SG&A expenses are as follows: Wages & allowances: 359,094 Provision of reserve for accrued bonuses: 21,302 Provision of reserve for directors' retirement benefits: 7,552 R&D: 161,383

### Notes to consolidated statements of cash flows

Yen in thousands

FY2002 Interim From Apr. 1, 2002 to Sep. 30, 2002	FY2003 Interim From Apr. 1, 2003 to Sep. 30, 2003	FY2002 From Apr. 1, 2002 to Mar. 31, 2003
1. Reconciliation of cash and cash equivalents of the statements of cash flows and account balances of consolidated balance sheets for the interim period is made as follows: As of September 30, 2002 Cash and deposits: 267,874 Short-term investments with original maturities of less than 3 months: 1,164,168 Cash and cash equivalents: 1,432,042	1. Reconciliation of cash and cash equivalents of the statements of cash flows and account balances of consolidated balance sheets for the interim period is made as follows: As of September 30, 2003 Cash and deposits: 188,365 Short-term investments with original maturities of less than 3 months: 1,117,996 Cash and cash equivalents: 1,306,362	1. Reconciliation of cash and cash equivalents of the statements of cash flows and account balances of consolidated balance sheets for the fiscal year is made as follows: As of March 31, 2003 Cash and deposits: 171,219 Short-term investments with original maturities of less than 3 months: 1,106,818 Cash and cash equivalents: 1,278,037

## Accounting for Leases

Yen in thousands

FY2002 Interim From Apr. 1, 2002 to Sep. 30, 2002	FY2003 Interim From Apr. 1, 2003 to Sep. 30, 2003	FY2002 From Apr. 1, 2002 to Mar. 31, 2003
Finance lease transactions not involving a transfer of title to the lessee	-	Finance lease transactions not involving a transfer of title to the lessee
(1) Acquisition cost, accumulated depreciation and fiscal year-end balance equivalents of the leased property.		(1) Acquisition cost, accumulated depreciation and fiscal year-end balance equivalents of the leased property.
Tangible fixed assets		Tangible fixed assets
Acquisition equivalents 4,884		Acquisition equivalents 4,884
Depreciation equivalents 4,816		Depreciation equivalents 4,884
Interim-end balance equivalents 67		Year-end balance equivalents -
(2) Outstanding lease commitments and the consolidated interim-end balance equivalents		(2) Outstanding lease commitments and the fiscal year-end balance equivalents
Within one year 75		Within one year -
Over one year -		Over one year -
Total 75		Total -
(3) Lease payments, depreciation and interest equivalents		(3) Lease payments, depreciation and interest equivalents
Lease payments 456		Lease payments 532
Depreciation 407		Depreciation 474
Interest 6		Interest 6
(4) Calculation of accumulated depreciation equivalents Depreciation is based on the straight-line method, assuming the lease period to be the useful life and no residual value.		(4) Calculation of accumulated depreciation equivalents Same as on the left.
(5) Calculation of interest equivalents The difference between total lease payments and acquisition cost equivalent is treated as interest equivalent. It is allocated to each period using the simple-interest method.		(5) Calculation of interest equivalents Same as on the left.

## Securities

As of September 30, 2002 (FY 2002 Interim)

### 1. Securities with market quotations classified as "Other securities"

Yen in thousands

Security	Acquisition cost	Carrying value	Unrealized gain/(loss)
(1) Equity securities	40,100	30,180	(9,920)
(2) Debt securities			
a. JGBs and municipal bonds	-	-	-
b. Corporate bonds	-	-	-
c. Others	-	-	-
(3) Others	94,800	93,300	(1,500)
<b>Total</b>	<b>134,900</b>	<b>123,480</b>	<b>(11,420)</b>

Note: In the interim period ended September 30, 2002, the impairment loss on securities with market quotations classified as "Other securities" totaled ¥10,880 thousand. All securities whose market values are at least 50% (inclusive) below book value on the interim balance sheet date are tested for impairment. All securities whose market values are at least 30% (inclusive) to 50% below book value on the interim balance sheet date are reviewed for impairment based on materiality of the security and prospects of recovery in market price.

### 2. Securities without market quotations

Yen in thousands

	Carrying value
(1) Other securities	
Money management funds	682,057
Free financial funds	300,016
Medium-term government bond funds	182,094
Unlisted stock (excluding OTC stock)	23,300
<b>Total</b>	<b>1,187,468</b>

As of September 30, 2003 (FY 2003 Interim)

### 1. Securities with market quotations classified as "Other securities"

Yen in thousands

Security	Acquisition cost	Carrying value	Unrealized gain/(loss)
(1) Equity securities	8,060	10,120	2,060
(2) Debt securities			
a. JGBs and municipal bonds	-	-	-
b. Corporate bonds	-	-	-
c. Others	-	-	-
(3) Others	-	-	-
<b>Total</b>	<b>8,060</b>	<b>10,120</b>	<b>2,060</b>

### 2. Securities without market quotations

Yen in thousands

	Carrying value
(1) Other securities	
Money management funds	975,876
Free financial funds	100,017
Medium-term government bond funds	42,103
Unlisted stock (excluding OTC stock)	11,354
<b>Total</b>	<b>1,129,351</b>

**As of March 31, 2003 (FY 2002)****1. Securities with market quotations classified as “Other securities”**

Yen in thousands

Security	Acquisition cost	Carrying value	Unrealized gain/(loss)
(1) Equity securities	18,860	18,860	-
(2) Debt securities			
a. JGBs and municipal bonds	-	-	-
b. Corporate bonds	-	-	-
c. Others	-	-	-
(3) Others	94,800	79,600	(15,200)
<b>Total</b>	<b>113,660</b>	<b>98,460</b>	<b>(15,200)</b>

Note: In the consolidated fiscal year ended March 31, 2003, the impairment loss on securities with market quotations classified as “Other securities” totaled ¥32,120 thousand. All securities whose market values are at least 50% (inclusive) below book value on the current fiscal year balance sheet date are tested for impairment. All securities whose market values are at least 30% (inclusive) to 50% below book value on the current fiscal year balance sheet date are reviewed for impairment based on materiality of the security and prospects of recovery in market price.

**2. Securities without market quotations**

Yen in thousands

	Carrying value
(1) Other securities	
Money management funds	924,701
Free financial funds	100,015
Medium-term government bond funds	82,101
Unlisted stock (excluding OTC stock)	22,090
<b>Total</b>	<b>1,128,908</b>

**Derivatives****FY 2002 Interim (From April 1, 2002 to September 30, 2002)**

No information is presented since the Company did not employ derivatives during the interim consolidated accounting period.

**FY 2003 Interim (From April 1, 2003 to September 30, 2003)**

No information is presented since the Company did not employ derivatives during the interim consolidated accounting period.

**FY 2002 (From April 1, 2002 to March 31, 2003)**

No reportable information. The Group did not have any outstanding derivative positions as of the end of the consolidated fiscal year ended March 31, 2003.

## Segment Information

### 1. Segment information by operating segment

#### FY 2002 Interim (From April 1, 2002 to September 30, 2002)

No reportable items. The Company and its major consolidated subsidiaries operate in a single industry commonly classified as electronics component manufacturing. These activities include manufacturing and marketing of components products related to communications and real-time operating systems.

#### FY 2003 Interim (From April 1, 2003 to September 30, 2003)

No reportable items. The Company and its major consolidated subsidiaries operate in a single industry commonly classified as electronics component manufacturing. These activities include manufacturing and marketing of components products related to communications and real-time operating systems.

#### FY 2002 (From April 1, 2002 to March 31, 2003)

No reportable items. The Company and its major consolidated subsidiaries operate in a single industry commonly classified as electronics component manufacturing. These activities include manufacturing and marketing of components products related to communications and real-time operating systems.

### 2. Geographical segment information

#### FY 2002 Interim (From April 1, 2002 to September 30, 2002)

Yen in thousands

	Japan	N. America	Total	Elimination or Corporate	Consolidated
Net sales					
(1) Sales to external customers	619,687	121,704	741,391	-	741,391
(2) Inter-segment sales and transfers	308	61,216	61,524	[61,524]	-
Total	619,995	182,920	802,915	[61,524]	741,391
Operating expenses	709,539	181,063	890,602	[39,264]	851,337
Operating income (loss)	(89,543)	1,857	(87,686)	[22,259]	(109,945)

#### FY 2003 Interim (From April 1, 2003 to September 30, 2003)

Yen in thousands

	Japan	N. America	Europe	Total	Elimination or Corporate	Consolidated
Net sales						
(1) Sales to external customers	741,932	45,770	20,833	808,536	-	808,536
(2) Inter-segment sales and transfers	-	84,657	-	84,657	[84,657]	-
Total	741,932	130,427	20,833	893,193	[84,657]	808,536
Operating expenses	720,901	214,699	22,538	958,139	[70,491]	887,647
Operating income (loss)	21,030	(84,272)	(1,704)	(64,945)	[14,165]	(79,111)

#### FY 2002 (From April 1, 2002 to March 31, 2003)

Yen in thousands

	Japan	N. America	Europe	Total	Elimination or Corporate	Consolidated
Net sales						
(1) Sales to external customers	1,599,767	282,352	6,316	1,888,436	-	1,888,436
(2) Inter-segment sales and transfers	308	63,094	-	63,402	[63,402]	-
Total	1,600,075	345,447	6,316	1,951,839	[63,402]	1,888,436
Operating expenses	1,517,151	388,977	21,793	1,927,922	[13,406]	1,914,515
Operating income (loss)	82,923	(43,529)	(15,476)	23,917	[49,996]	(26,079)

Notes: 1. Countries and regions are grouped together according to the proximity of their geographical locations.

2. The principal countries or areas included in each region, outside Japan, are as follows:

North America: U.S.A.

Europe: France

3. Unallocatable operating expenses included in eliminations or corporate.

	FY02 Interim	FY03 Interim	FY02	Significant components
Amount of unallocatable operating expenses included in eliminations or corporate.	20,355	21,396	42,393	Represent expenses related to the administration division.

4. Supplementary information

(FY 2002 Interim)

Amortization of goodwill

Effective from the interim period ended September 30, 2002, overseas subsidiaries adopted SFAS, "Goodwill and Other Intangible Assets." SFAS requires that goodwill no longer be amortized but instead tested for impairment at least annually. (See Significant Accounting Policies in the Preparation of Consolidated Financial Statements, Section 4. Accounting Standards, Subsection: B Depreciation and amortization of significant depreciable assets for the interim period ended September 30, 2002). The application of the new standards caused first half operating expenses in the North American operations to decline by ¥17,637 thousand and operating income to increase by and equivalent amount.

5. Changes in accounting treatment

(FY 2002)

Adoption of SFAS rules on accounting for "Goodwill and Other Intangible Assets"

Effective from the previous consolidated fiscal year, as noted in the section on Significant Accounting Policies in the Preparation of Consolidated Financial Statements, Section 4: Matters Concerning Accounting Standards, Sub-section (b): Depreciation of Principal Depreciable Assets, overseas subsidiaries adopted SFAS rules on accounting for "Goodwill and Other Intangible Assets." The application of the new standards caused operating expenses and operating loss in the North American operations to decline by ¥35,393 thousand each in the previous consolidated fiscal year.

### 3. Overseas sales

#### FY 2002 Interim (From April 1, 2002 to September 30, 2002)

Yen in thousands

	North America	Other	Total
I. Overseas sales	108,842	27,809	136,652
II. Consolidated net sales	-	-	741,391
II. Weight of overseas sales in total consolidated net sales	14.7%	3.7%	18.4%

#### FY 2003 Interim (From April 1, 2003 to September 30, 2003)

Yen in thousands

	North America	Other	Total
I. Overseas sales	45,770	20,833	66,604
II. Consolidated net sales	-	-	808,536
II. Weight of overseas sales in total consolidated net sales	5.6%	2.6%	8.2%

#### FY 2002 (From April 1, 2002 to March 31, 2003)

Yen in thousands

	North America	Other	Total
I. Overseas sales	262,860	42,077	304,937
II. Consolidated net sales	-	-	1,888,436
II. Weight of overseas sales in total consolidated net sales	13.9%	2.2%	16.1%

Notes: 1. Countries and regions are grouped together according to the proximity of their geographical locations.

2. The principal countries or areas included in each region, outside Japan, are as follows:

(1) North America: U.S.A., Canada

(2) Other regions: Germany, Britain, Hong Kong and India, etc.

3. Overseas sales of the Company and its consolidated subsidiaries represent sales in countries and regions other than Japan.

## Amounts Per Share

Yen

FY2002 Interim From Apr. 1, 2002 to Sep. 30, 2002	FY2003 Interim From Apr. 1, 2003 to Sep. 30, 2003	FY2002 From Apr. 1, 2002 to Mar. 31, 2003
Net assets per share      604.69 Net loss per share         28.80	Net assets per share      546.96 Net loss per share         15.33	Net assets per share      558.56 Net loss per share         78.81
Net income per share (diluted) is not presented since the company reported net loss per share for the interim period.	Same as on the left.	Net income per share (diluted) is not presented since the company reported net loss per share for the fiscal year.
Corporate Accounting Standard No.2 "Accounting Standard on Net Income per Share" and Corporate Accounting Standard Procedure No.4 "Accounting Standard Procedure on Net Income per Share, have been adopted from the current interim period under review. There is no impact caused by the change.		Corporate Accounting Standard No.2 "Accounting Standard on Net Income per Share" and Corporate Accounting Standard Procedure No.4 "Accounting Standard Procedure on Net Income per Share, have been adopted from the current fiscal year under review. There is no impact caused by the change.

Note 1: The basis of calculation of net loss per share and the diluted net loss per share for the period is as follows.

Yen in thousands

	FY2002 Interim From Apr. 1, 2002 to Sep. 31, 2002	FY2003 Interim From Apr. 1, 2003 to Sep. 31, 2003	FY2002 From April 1, 2002 to March 31, 2003
Net loss for the period	147,293	73,830	392,471
Equity in net loss not account of common shareholders	-	-	-
Common stock in net loss	147,293	73,830	392,471
Average number of shares outstanding for the period (1,000 shares)	5,115	4,816	4,979
Details on potential stock not included in the calculation of diluted net earnings per share since there is no dilution.	Pursuant to Article 280-19 of the Commercial Code of Japan, the Company has only one type of share acquisition right by way of stock options outstanding (Shares to be issued upon execution of share acquisition rights: Common shares, Number of shares to be issued upon execution of share acquisition rights: 181,000 shares)	Pursuant to Article 280-19 of the Commercial Code of Japan, the Company has only one type of share acquisition right by way of stock options outstanding (Shares to be issued upon execution of share acquisition rights: Common shares, Number of shares to be issued upon execution of share acquisition rights: 164,000 shares)	Pursuant to Article 280-19 of the Commercial Code of Japan, the Company has only one type of share acquisition right by way of stock options outstanding (Shares to be issued upon execution of share acquisition rights: Common shares, Number of shares to be issued upon execution of share acquisition rights: 179,000 shares)

## Subsequent events

None.

## 6. Production, Orders Received and Net sales

### (1) Production

Yen in thousands

Product category		FY2002 Interim From Apr. 1, 2002 to Sep. 30, 2002		FY2003 Interim From Apr. 1, 2003 to Sep. 30, 2003		FY2002 From Apr. 1, 2002 to Mar. 31, 2003	
		Sales	Shares (%)	Sales	Shares (%)	Sales	Shares (%)
Manufactured products	Communications	214,091	28.7	222,059	32.5	328,547	15.9
	Internet protocol	243,773	32.6	112,211	16.4	880,368	42.7
	Real-time OS	105,255	14.1	19,625	2.9	278,424	13.5
	SI (customized)	184,351	24.6	328,662	48.2	574,423	27.9
Total		747,473	100.0	682,558	100.0	2,061,764	100.0

- Notes: 1. Amounts are calculated based on sales prices.  
2. The above amounts do not include consumption taxes.

### (2) Orders received

Yen in thousands

Product category		FY2002 Interim From Apr. 1, 2002 to Sep. 30, 2002		FY2003 Interim From Apr. 1, 2003 to Sep. 30, 2003		FY2002 From Apr. 1, 2002 to Mar. 31, 2003	
		Orders received	Order backlog	Orders received	Order backlog	Orders received	Order backlog
Manufactured products	Communications	183,921	81,150	195,526	143,889	410,162	115,956
	Internet protocol	235,475	14,590	208,758	47,255	561,660	21,433
	Real-time OS	52,953	41,963	39,146	22,666	170,119	14,054
	SI (customized)	370,317	372,932	240,327	139,676	698,116	273,916
Total		842,667	510,636	683,758	353,487	1,840,058	425,359
Purchased products	Others	61,469	7,123	46,333	21,967	146,565	27,539
Total		904,137	517,759	730,091	375,454	1,986,624	452,899

- Notes: 1. Amounts are calculated based on sales prices.  
2. The above amounts do not include consumption taxes.

### (3) Net sales

Yen in thousands

Product category		FY2002 Interim From Apr. 1, 2002 to Sep. 30, 2002		FY2003 Interim From Apr. 1, 2003 to Sep. 30, 2003		FY2002 From Apr. 1, 2002 to Mar. 31, 2003	
		Sales	Shares (%)	Sales	Shares (%)	Sales	Shares (%)
Manufactured products	Communications	169,198	22.8	181,510	22.4	405,249	21.5
	Internet protocol	231,770	31.3	224,114	27.7	526,121	27.9
	Real-time OS	108,739	14.7	34,583	4.3	249,764	13.2
	SI (customized)	172,870	23.3	303,812	37.6	579,757	30.7
Total		682,578	92.1	744,020	92.0	1,760,893	93.3
Purchased products	Others	58,812	7.9	64,515	8.0	127,543	6.7
Total		741,391	100.0	808,536	100.0	1,888,436	100.0

- Notes: 1. Amounts are calculated based on sales prices.  
2. Sales by major customer are not presented since no single customer represented more than 10% of aggregate net sales in the current consolidated interim period.  
3. The above amounts do not include consumption taxes.

\* This financial report is solely a translation of summary of "Kessan Tanshin" (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.