

Consolidated Financial Statements for the Fiscal Year Ended March 31, 2002

(1) Consolidated Balance Sheets

Item	Period	FY2000 Full year (As of March 31, 2001)		FY2001 Full year (As of March 31, 2002)		YoY change
		¥ thousands	%	¥ thousands	%	¥ thousands
Assets						
I. Current assets						
1. Cash and deposits		432,093		350,594		(81,499)
2. Notes & accounts receivable-trade #1		784,107		793,869		9,762
3. Available for sale securities		1,622,860		1,331,813		(2,91,047)
4. Inventories		85,777		85,750		(26)
5. Deferred tax assets		8,958		66,910		57,952
6. Other current assets		15,554		50,479		34,924
7. Reserve for doubtful receivables		(2,306)		(1,499)		806
Total current assets		2,947,045	66.9	2,677,918	68.6	(269,126)
II. Fixed assets						
1. Property, plant and equipment		39,928	0.9	40,995	1.1	1,067
2. Intangible fixed assets						
(1) Goodwill		668,996		730,322		61,326
(2) Other intangible fixed assets		179,746		111,854		(67,892)
Total intangible fixed assets		848,743	19.3	842,177	21.6	(6,566)
3. Investments and other assets						
(1) Investment securities #2		320,110		176,094		(144,015)
(2) Deferred tax assets		40,333		23,194		(17,138)
(3) Other		206,580		141,925		(64,654)
Total investments and other assets		567,023	12.9	341,215	8.7	(225,808)
Total fixed assets		1,455,695	33.1	1,224,387	31.4	(231,307)
Total assets		4,402,740	100.0	3,902,306	100.0	(500,434)

Item	Period	FY2000 Full year (As of March 31, 2001)		FY2001 Full year (As of March 31, 2002)		YoY change
		¥ thousands	%	¥ thousands	%	¥ thousands
Liabilities						
I. Current liabilities						
1. Accounts payable-trade		176,246		109,075		(67,170)
2. Income tax payable		105,714		3,591		(102,122)
3. Deferred tax liabilities		-		5		5
4. Reserve for accrued bonuses		51,000		52,662		1,662
5. Other current liabilities		93,369		88,213		(5,156)
Total current liabilities		426,329	9.7	253,547	6.5	(172,781)
II. Long-term liabilities						
1. Deferred tax liabilities		54,393		-		(54,393)
2. Reserve for directors' retirement benefits		153,607		157,406		3,798
3. Other long-term liabilities		67,543		69,067		1,524
Total long-term liabilities		275,544	6.2	226,474	5.8	(49,070)
Total liabilities		701,874	15.9	480,022	12.3	(221,851)
Minority interest						
Minority interest		-	-	7,155	0.2	7,155
Shareholders' equity						
I. Common stock		1,160,041	26.4	1,160,041	29.7	-
II. Additional paid-in capital		1,459,152	33.1	1,459,152	37.4	-
III. Consolidated retained earnings		901,684	20.5	624,316	16.0	(277,368)
IV. Net unrealized holding gain (loss) on other securities		139,103	3.2	17,637	0.4	(121,465)
V. Foreign currency translation adjustment		41,518	0.9	154,335	4.0	112,817
		3,701,499	84.1	3,415,483	87.5	(286,015)
VI. Treasury stock		(632)	(0.0)	(355)	(0.0)	277
Total shareholders' equity		3,700,866	84.1	3,415,128	87.5	(285,738)
Total liabilities, minority interest and shareholders' equity		4,402,740	100.0	3,902,306	100.0	(500,434)

(2) Consolidated Statements of Income

Item	Period		FY2000 Full year (From April 1, 2000 to March 31, 2001)		FY2001 Full year (From April 1, 2001 to March 31, 2002)		YoY change
	¥ thousands	%	¥ thousands	%	¥ thousands	%	¥ thousands
I. Net sales	2,047,693	100.0	1,906,922	100.0			(140,771)
II. Cost of sales #2	916,904	44.8	903,754	47.4			(13,150)
Gross profit	1,130,789	55.2	1,003,167	52.6			(127,621)
III. Selling, general and administrative expenses # 1, 2	937,033	45.7	1,233,827	64.7			296,793
Operating income (loss)	193,755	9.5	(230,659)	(12.1)			(424,415)
IV. Non-operating income							
1. Interest received	6,073		6,345				272
2. Dividends received	65		132				67
3. Equity in earnings of affiliates	-		6,271				6,271
4. Gain on investment in anonymous partnerships	-		3,045				3,045
5. Foreign exchange gain	-		18,154				18,154
6. Other non-operating income	2,777		1,194				(1,583)
Total non-operating income	8,915	0.4	35,144	1.9			26,229
V. Non-operating expenses							
1. Interest payable	-		1,467				1,467
2. IPO expenses	25,018		-				(25,018)
3. Other non-operating expenses	2,364		1				(2,363)
Total non-operating expenses	27,383	1.3	1,468	0.1			(25,914)
Ordinary income (loss)	175,288	8.6	(196,983)	(10.3)			(372,271)
VI. Extraordinary income							
1. Gain on reversal from doubtful account reserve	493		633				139
2. Life insurance premiums surrendered	-		24,566				24,566
Total extraordinary income	493	0.0	25,199	1.3			24,706
VII. Extraordinary loss							
1. Loss on removal of fixed assets #3	1,555		43,931				42,375
2. Organization expense	59,914		-				(59,914)
3. Loss on revaluation of memberships	5,450		-				(5,450)
4. Loss on cancellation of investment securities	5,300		-				(5,300)
5. Loss on revaluation of inventories	-		14,400				14,400
Total extraordinary loss	72,220	3.5	58,331	3.1			(13,889)
Income (loss) before income taxes and minority interest	103,561	5.1	(230,115)	(12.1)			(333,677)
Current income taxes	128,545		7,367				(121,177)
Deferred income taxes	(69,403)		(1,734)				67,668
Minority interest	-		155				155
Net income (loss) for the period	44,419	2.2	(235,904)	(12.4)			(280,324)

(3) Consolidated Statements of Retained Earnings

Item	Period	FY2000 Full year (From April 1, 2000 to March 31, 2001)		FY2001 Full year (From April 1, 2001 to March 31, 2002)	
		¥ thousands		¥ thousands	
I. Consolidated retained earnings at beginning of period			895,963		901,684
II. Decrease in consolidated retained earnings					
1. Dividends		32,300		39,800	
2. Bonuses for directors		6,398	38,698	1,662	41,463
III. Net income (loss) for the period			44,419		(235,904)
IV. Consolidated retained earnings at end of period			901,684		624,316

(4) Consolidated statements of cash flows

Item	Period	FY2000 Full year (From April 1, 2000 to March 31, 2001)	FY2001 Full year (From April 1, 2001 to March 31, 2002)
		¥ thousands	¥ thousands
I. Cash flows from operating activities			
Net income (loss) before income taxes and minority interest		103,561	(230,115)
Depreciation		82,004	130,977
Equity in earnings of affiliates		-	(6,271)
Decrease in reserve for doubtful receivables		(493)	(806)
Increase in reserve for accrued bonuses		3,000	1,662
Increase in reserve for directors' retirement allowances		9,715	3,798
Interest and dividends received		(6,138)	(6,478)
Interest paid		-	1,467
Gain on investment in anonymous partnerships		-	(3,045)
Foreign exchange gain		(4,429)	(4,890)
Proceeds from life insurance premiums surrendered		-	(24,566)
IPO expenses		25,018	-
Loss on removal of fixed assets		1,555	43,931
Organization expenses		59,914	-
Loss on revaluation of memberships		5,450	-
Loss on cancellation securities held for investment		5,300	-
Loss on revaluation of inventories		-	14,400
Increase in accounts receivable-trade		(113,019)	(3,464)
Increase in inventories		(30,357)	(14,517)
Increase (decrease) in accounts payable-trade		56,543	(68,818)
Increase in other assets		(8,477)	(25,518)
Increase (decrease) in other liabilities		25,147	(12,504)
Increase in consumption and other taxes accrued		-	(9,302)
Decrease in consumption and other taxes accrued		(18,237)	(6,688)
Directors' remuneration paid		(6,398)	(1,662)
Others		-	(127)
Subtotal		189,659	(222,540)
Interest and dividends received		6,137	6,478
Interest paid		-	(1,467)
Organization expenses paid		(59,914)	-
Corporate and other taxes paid		(62,582)	(109,490)
Cash provided (used) by operating activities		73,299	(327,021)

Item	Period	FY2000 Full year (From April 1, 2000 to March 31, 2001)	FY2001 Full year (From April 1, 2001 to March 31, 2002)
		¥ thousands	¥ thousands
II. Cash flows from investing activities			
Payments for acquisition of securities		-	(166,600)
Proceeds from redemption of securities		-	166,600
Payments for acquisition of property, plant and equipment		(22,078)	(4,961)
Gain on sales of property, plant and equipment		-	414
Payments for acquisition of intangible fixed assets		(154,429)	(50,210)
Payments for acquisition of securities held for investment		(75,980)	(84,750)
Gain on sales of securities held for investment		-	1,010
Payments for acquisition of consolidated subsidiary stock		(544,248)	-
Proceeds from collection of short-term loans		1,648	-
Payments for long-term loans		(800)	(9,475)
Proceeds from collection of long-term loans		-	1,222
Proceeds from life insurance premiums surrendered		-	92,990
Proceeds from return of leasehold and security deposits		-	9,093
Others		(18,752)	(5,036)
Cash provided (used) in investing activities		(814,641)	(49,704)
III. Cash flows from financing activities			
Proceeds from issuance of common stock		2,020,981	-
Payments for finance lease commitments		-	(3,441)
Cash dividends paid		(32,300)	(39,524)
Others		-	405
Cash provided (used) by financing activities		1,988,681	(42,560)
IV. Translation gain (loss) in cash and cash equivalents		16,910	14,739
V. Increase (decrease) in cash and cash equivalents		1,264,250	(404,546)
VI. Cash and cash equivalents at beginning of period		790,703	2,054,954
VII. Cash and cash equivalents at beginning of period at newly consolidated subsidiary		-	32,000
VIII. Cash and cash equivalents at end of period		2,054,954	1,682,407

Significant Accounting Policies in the Preparation of Consolidated Financial Statements

	FY2000 Full year From April 1, 2000 to March 31,2001	FY2001 Full year From April 1, 2001 to March 31,2002
1. Matters concerning the scope of consolidation	<p>(1) Consolidated subsidiaries: 1 Name of consolidated subsidiary: Elmic Systems USA, Inc. (Delaware)</p> <p>(2) Principal unconsolidated subsidiaries: AIRFOLC Corporation Reason for excluding from the scope of consolidation: The unconsolidated subsidiary is a small business whose total assets, sales, net income (loss) (interest in earnings) or retained earnings (interest in earnings) have no significant effect on the consolidated financial statements.</p>	<p>(1) Consolidated Subsidiaries: 2 Names of consolidated subsidiaries: Elmic Systems USA, Inc., AIRFOLC Corporation</p> <p>(2) Unconsolidated subsidiaries: 0</p> <p>Effective the current consolidated fiscal year, AIRFOLC Corporation, accounted as an unconsolidated subsidiary in prior periods, has been included in the scope of consolidation since its total assets, sales, net income (loss) (interest in the earnings) and retained earnings (interest in earnings) will have a significant effect on the consolidated financial statements.</p>
2. Matters concerning the application of the equity method of accounting	<p>(1)</p> <hr style="width: 20%; margin-left: 40px;"/> <p>(2) AIRFOLC Corporation, a non-consolidated subsidiary, is excluded from the scope of affiliates accounted for by the equity method since it does not have significant effect on consolidated 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. As a result of acquisition of stock, WESCOM Inc. became an affiliate in the current consolidated fiscal year. The company is included in the scope of affiliates accounted for by equity method since it is relatively significant in the context of consolidated financial statements.</p> <p>(2) Rockhand Corporation, 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) or consolidated retained earnings for the period and is of relatively little significance in the context of consolidated financial statements.</p>
3. Matters concerning balance sheet dates of subsidiaries	<p>The consolidated financial statements include the accounts of the following consolidated subsidiaries, of which the fiscal year ends on a different day: Company: Elmic Systems USA, Inc. (Delaware) Fiscal year-end: Dec. 31 Consolidated subsidiary Elmic Systems USA, Inc. (Delaware) was established on Sept. 30, 2000, and on the same day, acquired two subsidiaries (Treck Inc. and Elmic Systems USA, Inc. (California)) through merger. The consolidated financial statements include the accounts of the consolidated subsidiary as of Dec. 31, 2000. The consolidated financial statements are adjusted for significant transactions from Jun. 1, 2001 to March 31, 2001.</p>	<p>The consolidated financial statements include the accounts of the following consolidated subsidiaries, of which the fiscal year ends on a different day: Company: Elmic Systems USA, Inc.: Fiscal year-end: Dec. 31 AIRFOLC Corporation: Fiscal year-end: Feb. 28 The consolidated financial statements include the accounts of the consolidated subsidiary as of their respective balance sheet dates. The consolidated financial statements are adjusted for significant transactions from the respective balance sheet dates to March 31, 2001.</p>

	FY2000 Full year From April 1, 2000 to March 31,2001	FY2001 Full year From April 1, 2001 to March 31,2002
4. Matters concerning accounting standards	<p><i>A. Valuation criteria and methods for significant assets:</i></p> <p><i>(1) Securities</i> Subsidiary stock Stated at cost, cost being determined by the moving average method</p> <p>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 using the moving average method.</p> <p><i>(2) Derivatives:</i> -</p> <p><i>(3) Inventories</i> 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><i>B. Depreciation and amortization of significant depreciable assets</i></p> <p><i>(1) Property, plant and equipment</i> The Company computes depreciation using the declining balance method, in accordance with Corporation Tax laws. Overseas consolidated subsidiaries compute depreciation in accordance with the generally accepted accounting standards of the countries of their domicile.</p> <p><i>(2) Intangible fixed assets</i> The Company amortizes 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 5 years. Amortization of other intangible fixed assets is computed on the straight-line method in accordance with the Corporation Tax law. Overseas consolidated subsidiaries compute depreciation in accordance with the generally accepted accounting standards of the countries of their domicile.</p>	<p><i>A. Valuation criteria and methods for significant assets:</i></p> <p><i>(1) Securities</i> Held-to-maturity securities Valued using the amortized cost method Affiliated company stock Stated at cost, cost being determined by the moving average method Other securities Securities with market quotations: Same as on the left.</p> <p>Securities without market quotations: Same as on the left.</p> <p><i>(2) Derivatives</i> Stated at fair value based on market prices</p> <p><i>(3) Inventories</i> Merchandise Same as on the left Products, work in process and raw materials: Same as on the left</p> <p><i>B. Depreciation and amortization of significant depreciable assets</i></p> <p><i>(1) Property, plant and equipment</i> The Company and its domestic subsidiaries compute depreciation using the declining balance method, in accordance with Corporation Tax laws. Overseas consolidated subsidiaries compute depreciation in accordance with the generally accepted accounting standards of the countries of their domicile.</p> <p><i>(2) Intangible fixed assets</i> 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 5 years. Amortization of other intangible fixed assets is computed on the straight-line method in accordance with the Corporation Tax law. Overseas consolidated subsidiaries compute depreciation in accordance with the generally accepted accounting standards of the countries of their domicile.</p>

	FY2000 Full year From April 1, 2000 to March 31,2001	FY2001 Full year From April 1, 2001 to March 31,2002
	<p><i>C. Recognition of reserves</i></p> <p><i>(1) Reserve for doubtful receivables</i></p> <p>The Company provides an allowance for doubtful receivables to cover possible losses on collection</p> <p>General receivables: The allowance is based on past collection experience.</p> <p>Doubtful receivables: Management's estimate of collectibility of individual receivables.</p> <p>Overseas consolidated subsidiaries provide allowance for doubtful receivables based on management's estimate of collectibility of individual receivables.</p> <p><i>(2) Reserve for accrued bonuses</i></p> <p>As a means of providing for bonus obligations, the Company designates in the reserve account an amount accrued for the current consolidated fiscal year among the estimated future obligations.</p> <p><i>(3) Reserve for retirement benefits</i></p> <p>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 period exceeded the estimated retirement benefit obligations, ¥30,000 was charged to income as a pre-paid expense.</p> <p>The one-time transitional gain of ¥283,000 from the change in accounting principle was recorded as miscellaneous income for the fiscal year.</p> <p><i>(4) Reserve for directors' retirement benefits</i></p> <p>To provide for directors retirement benefits, an allowance is provided pursuant to the Company's rules on directors' retirement benefits.</p> <p><i>D. Accounting for lease transactions</i></p> <p>All finance lease contracts other than those that are deemed to transfer the ownership of the leased assets to lessees are accounted for by the method similar to that applicable to ordinary operating leases.</p>	<p><i>C. Recognition of reserves</i></p> <p><i>(1) Reserve for doubtful receivables</i></p> <p>The Company and its domestic subsidiaries provide an allowance for doubtful receivables to cover possible losses on collection</p> <p>General receivables: The allowance is based on past collection experience.</p> <p>Doubtful receivables: Management's estimate of collectibility of individual receivables.</p> <p>Overseas consolidated subsidiaries provide allowance for doubtful receivables based on management's estimate of collectibility of individual receivables.</p> <p><i>(2) Reserve for accrued bonuses</i></p> <p>As a means of providing for bonus obligations, the Company and its domestic subsidiaries designate in the reserve account an amount accrued for the current consolidated fiscal year among the estimated future obligations.</p> <p><i>(3) Reserve for retirement benefits</i></p> <p>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 at the end of the period. Since pension assets at the end of the period exceeded the estimated retirement benefit obligations ¥1,593,000 was charged to income as a pre-paid expense.</p> <p><i>(4) Reserve for directors' retirement benefits</i></p> <p>Same as on the left.</p> <p><i>D. Accounting for lease transactions</i></p> <p>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.</p> <p>Overseas consolidated subsidiaries account lease transactions by the method similar to that applicable to regular trading transactions.</p>

	FY2000 Full year From April 1, 2000 to March 31,2001	FY2001 Full year From April 1, 2001 to March 31,2002
	<p><i>E. Accounting for significant hedge transactions</i></p> <hr/> <p><i>F. Other significant accounting policies in the preparation of consolidated financial statements for the period</i></p> <p><i>(1) Equity method of accounting based on the anonymous partnership agreement</i> 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), 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><i>(2) Accounting treatment for Consumption Taxes</i> Consumption Tax is accounted by the tax exclusion method.</p>	<p><i>E. Accounting for significant hedge transactions</i></p> <p><i>(1) Hedge accounting method</i> The deferred hedge accounting method is applied.</p> <p><i>(2) Hedging method and risks hedged</i> Hedging method: Foreign currency forward contracts Risks hedged: Planned foreign currency denominated transactions</p> <p><i>(3) Hedging policy</i> Currently the company uses foreign currency forward contracts only to hedge exchange rate risk on its planned future foreign currency denominated transactions.</p> <p><i>(4) Assessing hedge effectiveness</i> 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><i>F. Other significant accounting policies in the preparation of consolidated financial statements for the period</i></p> <p><i>(1) Equity method of accounting based on the anonymous partnership agreement.</i></p> <p>Same as on the left</p> <p><i>(2) Accounting treatment for Consumption Taxes</i> Same as on the left.</p>

	FY2000 Full year From April 1, 2000 to March 31,2001	FY2001 Full year From April 1, 2001 to March 31,2002
5. Matters concerning valuation of assets and liabilities of consolidated subsidiaries	Assets and liabilities of consolidated subsidiaries are valued at market.	Same as on the left.
6. Matters concerning the appropriation of retained earnings	The appropriation of retained earnings of consolidated subsidiaries included in the consolidated statement of appropriation of retained earnings reflects the appropriation of profit made during the consolidated fiscal year.	Same as on the left
7. 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

Notes to Consolidated Financial Statements
Notes to consolidated balance sheets

FY2000 Full year As of March 31, 2001	FY2001 Full year As of March 31, 2002
<p>#1: Accounting of trade notes maturing on the balance sheet date of the period</p> <p>The settlement of trade notes maturing on the balance sheet date of the period is accounted on the clearance date. As the balance sheet date of the period was a bank holiday, the trade notes maturing on the balance sheet date of the period, in the following amounts were included in notes and accounts receivable trade at the end of the period.</p> <p style="padding-left: 40px;">Notes receivable-trade: ¥29,710 thousands</p> <p>#2: Unconsolidated and affiliated company stock: Investment securities: ¥25,000 thousands</p>	<p>#1: Accounting of trade notes maturing on the balance sheet date of the period</p> <p>The settlement of trade notes maturing on the balance sheet date of the period is accounted on the clearance date. As the balance sheet date of the period was a bank holiday, the trade notes maturing on the balance sheet date of the period, in the following amounts were included in notes and accounts receivable-trade at the end of the period.</p> <p style="padding-left: 40px;">Notes receivable-trade: ¥15,986 thousands</p> <p>#2: Affiliated company stock: Investment securities: ¥70,834 thousands</p>

Notes to consolidated statements of income

Unit: ¥ thousands

FY2000 Full year From April 1, 2000 to March 31,2001	FY2001 Full year From April 1, 2001 to March 31,2002																														
<p># 1 Principal components and amounts of selling, general and administrative expenses</p> <table border="1" style="width: 100%;"> <tr> <td style="width: 80%;">Wages and allowances</td> <td style="text-align: right;">238,421</td> </tr> <tr> <td>Provision for reserve for accrued bonuses</td> <td style="text-align: right;">25,809</td> </tr> <tr> <td>Provision for reserve for directors retirement allowance</td> <td style="text-align: right;">9,715</td> </tr> <tr> <td>Research & development expenses</td> <td style="text-align: right;">244,273</td> </tr> </table> <p>#2 Research and development expenses included in SG&A expenses</p> <p style="text-align: right;">256,823</p> <p>#3 Breakdown of loss on removal of fixed assets</p> <table border="1" style="width: 100%;"> <tr> <td style="width: 80%;">Buildings</td> <td style="text-align: right;">466</td> </tr> <tr> <td>Tools, furniture and fixtures</td> <td style="text-align: right;">1,088</td> </tr> <tr> <td>Total</td> <td style="text-align: right;">1,555</td> </tr> </table>	Wages and allowances	238,421	Provision for reserve for accrued bonuses	25,809	Provision for reserve for directors retirement allowance	9,715	Research & development expenses	244,273	Buildings	466	Tools, furniture and fixtures	1,088	Total	1,555	<p># 1 Principal components and amounts of selling, general and administrative expenses</p> <table border="1" style="width: 100%;"> <tr> <td style="width: 80%;">Wages and allowances</td> <td style="text-align: right;">323,724</td> </tr> <tr> <td>Provision for reserve for accrued bonuses</td> <td style="text-align: right;">25,458</td> </tr> <tr> <td>Provision for reserve for directors retirement allowance</td> <td style="text-align: right;">9,741</td> </tr> <tr> <td>Research & development expenses</td> <td style="text-align: right;">346,013</td> </tr> </table> <p>#2 Research and development expenses included in SG&A expenses</p> <p style="text-align: right;">394,773</p> <p>#3 Breakdown of loss on removal of fixed assets</p> <table border="1" style="width: 100%;"> <tr> <td style="width: 80%;">Buildings</td> <td style="text-align: right;">174</td> </tr> <tr> <td>Tools, furniture and fixtures</td> <td style="text-align: right;">407</td> </tr> <tr> <td>Software</td> <td style="text-align: right;">43,350</td> </tr> <tr> <td>Total</td> <td style="text-align: right;">43,931</td> </tr> </table>	Wages and allowances	323,724	Provision for reserve for accrued bonuses	25,458	Provision for reserve for directors retirement allowance	9,741	Research & development expenses	346,013	Buildings	174	Tools, furniture and fixtures	407	Software	43,350	Total	43,931
Wages and allowances	238,421																														
Provision for reserve for accrued bonuses	25,809																														
Provision for reserve for directors retirement allowance	9,715																														
Research & development expenses	244,273																														
Buildings	466																														
Tools, furniture and fixtures	1,088																														
Total	1,555																														
Wages and allowances	323,724																														
Provision for reserve for accrued bonuses	25,458																														
Provision for reserve for directors retirement allowance	9,741																														
Research & development expenses	346,013																														
Buildings	174																														
Tools, furniture and fixtures	407																														
Software	43,350																														
Total	43,931																														

Notes to consolidated statements of cash flows

Unit: ¥ thousands

FY2000 Full year From April 1, 2000 to March 31,2001	FY2001 Full year From April 1, 2001 to March 31,2002												
<p>1. Reconciliation of cash and cash equivalents of the statements of cash flows and account balances of consolidated balance sheets for the period is made as follows: As of March 31, 2001</p> <table border="1"> <tr> <td>Cash and deposits</td> <td style="text-align: right;">432,093</td> </tr> <tr> <td>Short-term investments with maturities of three months or less (securities)</td> <td style="text-align: right;">1,622,860</td> </tr> <tr> <td>Cash and cash equivalents</td> <td style="text-align: right;">2,054,954</td> </tr> </table>	Cash and deposits	432,093	Short-term investments with maturities of three months or less (securities)	1,622,860	Cash and cash equivalents	2,054,954	<p>1. Reconciliation of cash and cash equivalents of the statements of cash flows and account balances of consolidated balance sheets for the period is made as follows: As of March 31, 2002</p> <table border="1"> <tr> <td>Cash and deposits</td> <td style="text-align: right;">350,594</td> </tr> <tr> <td>Short-term investments with maturities of three months or less (securities)</td> <td style="text-align: right;">1,331,813</td> </tr> <tr> <td>Cash and cash equivalents</td> <td style="text-align: right;">1,682,407</td> </tr> </table>	Cash and deposits	350,594	Short-term investments with maturities of three months or less (securities)	1,331,813	Cash and cash equivalents	1,682,407
Cash and deposits	432,093												
Short-term investments with maturities of three months or less (securities)	1,622,860												
Cash and cash equivalents	2,054,954												
Cash and deposits	350,594												
Short-term investments with maturities of three months or less (securities)	1,331,813												
Cash and cash equivalents	1,682,407												
<p>2. Principal components of assets and liabilities upon merger of acquired subsidiary with a newly established consolidated subsidiary. The Company turned Treck Inc. into a subsidiary through acquisition of stock and merged the subsidiary with newly established consolidated subsidiary Elmic Systems USA, Inc (Delaware). Principal components of Treck Inc.'s assets and liabilities at the time of merger are as follows. Cash and cash equivalents (¥1,978 thousands) of Treck Inc. at the time merger are exclusive of the payment (¥546,227 thousands) for the acquisition of the subsidiary.</p> <table border="1"> <tr> <td>Current assets</td> <td style="text-align: right;">22,179</td> </tr> <tr> <td>Fixed assets</td> <td style="text-align: right;">6,173</td> </tr> <tr> <td>Total assets</td> <td style="text-align: right;">28,353</td> </tr> <tr> <td>Current liabilities</td> <td style="text-align: right;">54,506</td> </tr> <tr> <td>Total liabilities</td> <td style="text-align: right;">54,506</td> </tr> </table>	Current assets	22,179	Fixed assets	6,173	Total assets	28,353	Current liabilities	54,506	Total liabilities	54,506			
Current assets	22,179												
Fixed assets	6,173												
Total assets	28,353												
Current liabilities	54,506												
Total liabilities	54,506												

Accounting for leases

Unit: ¥ thousands

FY2000 Full year From April 1, 2000 to March 31, 2001				FY2001 Full year From April 1, 2001 to March 31, 2002			
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.				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.			
	Acquisition cost equivalents	Accumulated depreciation equivalents	Period-end balance equivalents		Acquisition cost equivalents	Accumulated depreciation equivalents	Period-end balance equivalents
Tools, furniture & fixtures	4,884	3,595	1,288	Tools, furniture & fixtures	4,884	4,409	474
Total	4,884	3,595	1,288	Total	4,884	4,409	474
(2) Outstanding lease commitments and the fiscal year-end balance equivalents				(2) Outstanding lease commitments and the fiscal year-end balance equivalents			
Due within one year		873		Due within one year		525	
Due after one year		525		Due after one year		-	
Total		1,399		Total		525	
(3) Lease payments, depreciation and interest equivalents				(3) Lease payments, depreciation and interest equivalents			
Lease payments		912		Lease payments		912	
Depreciation		814		Depreciation		814	
Interest		70		Interest		38	
(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

Previous Consolidated Fiscal Year (As of March 31, 2001)

1. Other securities with market quotations

Unit: ¥ thousands

	Instrument	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost	(1) Stocks	32,000	274,800	242,800
	(2) Debt securities			
	a. JGBs and municipal bonds	-	-	-
	b. Corporate bonds	-	-	-
	c. Others	-	-	-
	(3) Others	-	-	-
	Subtotal	32,000	274,800	242,800
Securities whose carrying value does not exceed their acquisition cost	(1) Stocks	18,980	16,000	(2,980)
	(2) Debt securities			
	a. JGBs and municipal bonds	-	-	-
	b. Corporate bonds	-	-	-
	c. Others	-	-	-
	(3) Others	-	-	-
	Subtotal	18,980	16,000	(2,980)
	Total	50,980	290,800	239,820

2. Securities without market quotations

Unit: ¥ thousands

	Carrying value	Remarks
(1) Other securities		
Money management funds	691,155	
Free financial funds	650,577	
Medium-term government bond funds	281,126	
Unlisted stock (Excluding OTC stocks)	4,310	
	Total	1,627,170

Securities

Current Consolidated Fiscal Year (As of March 31, 2002)

1. Other securities with market quotations

Unit: ¥ thousands

	Instrument	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost	(1) Stocks	32,000	71,880	39,880
	(2) Debt securities			
	a. JGBs and municipal bonds	-	-	-
	b. Corporate bonds	-	-	-
	c. Others	-	-	-
	(3) Others	-	-	-
	Subtotal	32,000	71,880	39,880
Securities whose carrying value does not exceed their acquisition cost	(1) Stocks	18,980	10,080	(8,900)
	(2) Debt securities			
	a. JGBs and municipal bonds	-	-	-
	b. Corporate bonds	-	-	-
	c. Others	-	-	-
	(3) Others	-	-	-
	Subtotal	18,980	10,080	(8,900)
	Total	50,980	81,960	30,980

2. Securities without market quotations

Unit: ¥ thousands

	Carrying value	Remarks
(1) Held-to-maturity securities		
Commercial paper	299,937	
(2) Other securities		
Money management funds	609,796	
Free financial funds	150,011	
Medium-term government bond funds	272,067	
Unlisted stock (excluding OTC stocks)	23,300	
Total	1,355,113	

3. Redemption schedule of held-to-maturity securities

Unit: ¥ thousands

	Due in 1 year	Due in after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
1. Debt securities				
(1) JGBs and municipal bonds	-	-	-	-
(2) Corporate bonds	-	-	-	-
(3) Other	299,937	-	-	-
2. Other	-	-	-	-
Total	299,937	-	-	-

Derivatives

Previous consolidated fiscal year (From April 1, 2000 to March 31, 2001)

No information is presented since the Company did not employ derivatives.

Current consolidated fiscal year (From April 1, 2001 to March 31, 2002)

1. Matter concerning derivatives

(1) Description

The Company employs foreign exchange forward contracts (currency exchange related). The Company also acquired certain yen-denominated corporate bonds with warrants.

(2) Policy

Derivatives are employed to hedge foreign currency exposures, but the Company establishes certain limits on derivatives positions. The Company also holds derivative instruments for speculative purposes.

(3) Objective

The Company employs foreign currency forward contracts to hedge exposure of exchange rate fluctuations on scheduled foreign currency denominated transactions. The Company also holds derivative instruments for speculative purposes. These include financial products with options contracts.

The Company accounts derivatives by the hedge accounting method. For details, see Section 5: Significant Accounting Policies in the Preparation of Consolidated Financial Statements.

(4) Risks

Foreign exchange transactions are exposed to the risk of exchange rate fluctuations. Exchangable bonds are exposed to the stock price fluctuation risk.

(5) Risk management

An authorized executive approves all new derivative transactions the Company enters into.

2. Market value of contract amounts

Information is not presented since derivatives are foreign currency forward contracts which are accounted by the hedge accounting method. In the current consolidated fiscal year, there were no other outstanding derivative positions other than the above.

Retirement Benefit

Description of retirement benefit plans

(1) Retirement benefit plans of the Company and its consolidated subsidiaries

The Company and its consolidated subsidiaries offer defined benefit plans, i. e., a tax-qualified pension plan, and a certain mutual aid retirement benefit plan, i. e., a defined contribution pension plan, covering substantially all employees. Other affiliates do not offer retirement benefit plans.

(2) Supplementary information

A. Mutual aid retirement benefit plan: Established 1979

The Company participates in the Mutual Aid Retirement Benefit Plan established by the Yokohama Chamber of Commerce to offer retirement benefits to employees retiring voluntarily.

Pension fund assets: ¥98,712 thousands

B. Tax-qualified pension plan: Established: 1985

To provide for retirement benefits, in addition to the above, to employees with three or more years of service, the Company offers the tax-qualified pension plan.

2. Principal components of retirement benefit obligations

Unit: ¥ thousands

	FY2000 Full year As of March 31, 2001	FY2001 Full year As of March 31, 2002
(1) Retirement benefit obligation	(24,129)	(24,749)
(2) Plan assets at fair value	24,159	26,342
(3) Prepaid pension costs	30	1,593

Note: Retirement benefit obligations are calculated using the Simple method.

3. Principal components of retirement benefit expenses

Unit: ¥ thousands

	FY2000 Full year From April 1, 2000 to March 31,2001	FY2001 Full year From April 1, 2001 to March 31,2002
Retirement benefit expenses		
(1) Service cost	2,231	(1,562)
(2) Contribution to mutual aid pension plan	10,143	10,815
(3) Net retirement benefit obligation at transition	(283)	-
Total	12,091	9,252

Note: Service cost is computed using the Simple method

4. Matters concerning the accounting standards for retirement benefit obligations

FY2000 Full year From April 1, 2000 to March 31,2001	FY2001 Full year From April 1, 2001 to March 31,2002
In the calculation of retirement benefit liabilities, in recent years, the Company has been using the fair value of pension assets as of the end of the term to estimate pension assets. Moreover, the retirement benefit obligation at transition was amortized lump-sum in the year of its recognition.	In the calculation of retirement benefit liabilities, in recent years, the Company has been using the fair value of pension assets as of the end of the term to estimate pension assets.

Tax effect accounting

Unit: ¥ thousands

	FY2000 Full year As of March 31, 2001	FY2001 Full year As of March 31, 2002
1. The significant components of deferred tax assets and liabilities		
Deferred tax assets		
Unadmitted Enterprise Tax payable	9,438	29
Reserve for directors' retirement allowance in excess of maximum allowance allowed	64,510	66,105
Unadmitted valuation loss on inventories	4,471	10,519
Unadmitted loss on revaluation of memberships	8,840	8,840
Provision of reserves for accrued bonuses in excess of maximum	11,247	13,218
Unadmitted organization expenses	23,965	12,297
Unadmitted goodwill	3,387	-
Deficit carried forward	12,980	143,129
Retained earnings carried forward	-	10,556
Other	68	2,336
Deferred tax assets subtotal	138,909	267,033
Valuation reserve	-	(123,396)
Total deferred tax assets	138,909	143,637
Deferred tax liabilities		
Unadmitted special depreciation reserve	(4,631)	(3,794)
Unadmitted program reserve	(38,627)	(35,109)
Other unrealized losses on other securities	(100,716)	(13,010)
Others	(35)	(1,622)
Total deferred tax assets	(144,011)	(53,536)
Net deferred tax assets or liabilities	(5,102)	90,100
Net deferred tax assets or liabilities are included in the following consolidated balance sheet accounts		
Current assets – Deferred tax assets	-	-
Fixed assets – Deferred tax assets	8,958	66,910
Current assets – Deferred tax liabilities	40,333	23,194
Long-term liabilities – Deferred tax liabilities	-	5
	(54,393)	-
2. Significant sources of the difference in corporate and other tax liabilities as calculated according to the effective tax rate and tax-effect accounting		
Statutory tax rate	42.0%	Significant sources of difference are not presented since the Company reported net loss before income taxes in the current consolidated fiscal year. The statutory tax rate is 42.0%.
Adjustments		
Entertainment expenses and other items not to be included in expense indefinitely	5.2%	
Per capita portion of inhabitants taxes	5.0%	
Amortization of unrealized income	2.5%	
Difference in statutory tax rate between the Company and its consolidated subsidiaries	1.9%	
Others	0.5%	
Effective tax rate based on tax-effect accounting	57.1%	

Segment Information

1. Segment Information by Operating Segment

Previous consolidated fiscal year (From April 1, 2000 to March 31, 2001)

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.

Current consolidated fiscal year (From April 1, 2001 to March 31, 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.

2. Geographical Segment Information

Geographical segment information: Two-year summary

Previous consolidated fiscal year (From April 1, 2000 to March 31, 2001)

Unit: ¥ thousands

	Japan	N. America	Total	Elimination or Corporate	Consolidated
.Net sales and operating income					
Net sales					
(1) Sales to external customers	2,005,663	42,030	2,047,693	-	2,047,693
(2) Inter-segment and transfers	-	26,383	26,383	(26,383)	-
Total	2,005,663	68,413	2,074,076	(26,383)	2,047,693
Operating expenses	1,722,892	109,888	1,832,781	21,156	1,853,938
Operating income (loss)	282,770	(41,474)	241,295	(47,539)	193,755
II. Assets	2,311,387	811,951	3,123,338	1,279,401	4,402,740

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.

3. Unallocatable expenses included in eliminations or corporate total ¥41,146 thousands much of which represent expenses related to the administration division.

4. Unallocatable assets included in eliminations or corporate total ¥2,075,950 thousands the principal components of which are idle funds under management (cash and securities available for sale) and assets of the administration division.

Current consolidated fiscal year (From April 1, 2001 to March 31, 2002)

Unit: ¥ thousands

	Japan	N. America	Total	Elimination or Corporate	Consolidated
.Net sales and operating income					
Net sales					
(1) Sales to external customers	1,665,166	241,755	1,906,922	-	1,906,922
(2) Inter-segment and transfers	-	167,110	167,110	(167,110)	-
Total	1,665,166	408,866	2,074,032	(167,110)	1,906,922
Operating expenses	1,833,876	434,512	2,268,389	(130,807)	2,317,581
Operating income (loss)	(168,710)	(25,645)	(194,356)	(36,303)	(230,659)
II. Assets	2,126,191	887,011	3,013,203	889,102	3,902,306

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. and Canada

3. Unallocatable expenses included in eliminations or corporate total ¥42,666 thousands much of which represent expenses related to the administration division.

4. Unallocatable assets included in eliminations or corporate total ¥1,657,941 thousands the principal components of which are idle funds under management (cash and securities available for sale) and assets of the administration division.

3. Overseas Sales

Previous consolidated fiscal year (From April 1, 2000 to March 31, 2001)

No reportable items since overseas sales accounted for less than 10% of total consolidated sales.

Current consolidated fiscal year (From April 1, 2001 to March 31, 2002)

Unit: ¥ thousands

	North America	Other	Total
I. Overseas sales	168,833	138,982	307,815
II. Consolidated net sales			1,906,922
II. Weight of overseas sales in total consolidated net sales	8.85	7.29	16.14

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. and 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 their countries of domicile.

Related Party Transactions

Previous consolidated fiscal year (From April 1, 2000 to March 31, 2001)

Directors and major individual shareholders and others

Unit: ¥ thousands

Type	Company etc. name	Address	Capital or investment	Activities or occupation	Voting rights held by investor (or in investor)	Business relationship Joint director Transactions	Transaction description	Transaction amount	Item	Account balance
Directors and relatives	Seiichi Nobehara			Company director CEO IBT Co., Ltd.	None		Consultation and language services related to domestic business and overseas expansion Notes2	5,805	Accounts payable-other	315

Notes:

1. Transaction amounts are exclusive of consumption taxes. Fiscal year-end account balances are inclusive of consumption taxes.

2. Transactions are arms length.

Current consolidated fiscal year (From April 1, 2001 to March 31, 2002)

Directors and major individual shareholders and others

Unit: ¥ thousands

Type	Company etc. name	Address	Capital or investment	Activities or occupation	Voting rights (held)	Business relationship Joint director Transactions	Transaction description	Transaction amount	Item	Account balance
Directors and relatives	Seiichi Nobehara			Company director CEO IBT Co., Ltd.	None		Consultation and language services related to domestic business and overseas expansion Notes2	3,600	Accounts payable-other	315

Notes:

1. Transaction amounts are exclusive of consumption taxes. Fiscal year-end account balances are inclusive of consumption taxes.
2. Transactions are arms length.

Amounts Per Share

Unit: ¥

	FY2000 Full year From April 1, 2000 to March 31,2001	FY2001 Full year From April 1, 2001 to March 31,2002
Net assets	697.39	643.49
Net income or loss (basic)	8.89	(44.45)
Net income or loss (diluted)	8.77	Net income per share (diluted) is not presented since the company reported net loss per share

Subsequent events

None