

Consolidated Financial Results for the Year Ended March 2003

Company name:	ELMIC SYSTEMS, INC.
Stock code:	4770
Stock market listing:	TSE Mothers Market
Head office:	4-59 Benten-Dori, Naka-ku, Yokohama 231-0007 Japan
Company Domicile:	Kanagawa prefecture
URL:	http://www.elmic.co.jp
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Date of board meeting for approving financial results:	May 23, 2003
SEC accounting standards:	The Company does not apply SEC accounting standards

1. Consolidated Financial Results (From April 1, 2002 to March 31, 2003)

(1) Financial results

(Amounts rounded down to million yen)

	Net sales		Operating income		Ordinary income	
	¥ millions	%	¥ millions	%	¥ millions	%
Fiscal Year ended March 2003	1,888	(1.0)	(26)	-	(27)	-
Fiscal Year ended March 2002	1,906	(6.9)	(230)	-	(196)	-

	Net income		Net income per share, (basic)	Net income per share, (diluted)
	¥ millions	%	¥	¥
Fiscal Year ended March 2003	(392)	-	(78.81)	-
Fiscal Year ended March 2002	(235)	-	(44.45)	-

	Return on equity	Ratio of ordinary income to total assets	Ratio of ordinary income to net sales
	%	%	%
Fiscal Year ended March 2003	(14.6)	(0.8)	(1.4)
Fiscal Year ended March 2002	(6.6)	(4.7)	(10.3)

Notes: 1. Equity in earnings of unconsolidated subsidiaries:

Fiscal year ended March 2003: ¥ 9 millions

Fiscal year ended March 2002: ¥ 6 millions

2. Average number of shares outstanding:

Fiscal year ended March 2003: 4,979,746 shares

Fiscal year ended March 2002: 5,307,072 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 previous year.

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

(2) Financial position

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	¥ millions	¥ millions	%	¥
As of March 31, 2003	3,210	2,690	83.8	558.55
As of March 31, 2002	3,902	3,415	87.5	643.49

Note: 1. Number of shares outstanding:

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

As of March 31, 2002: 5,307,220 shares

(3) Cash flows position

	Net cash provided by (used in) operating activities	Net cash used in investing activities	Net cash used in financing activities	Cash and cash equivalents at end of period
	¥ millions	¥ millions	¥ millions	¥ millions
Fiscal Year ended March 2003	40	(207)	(227)	1,278
Fiscal Year ended March 2002	(327)	(49)	(42)	1,682

(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 were 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 9 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).

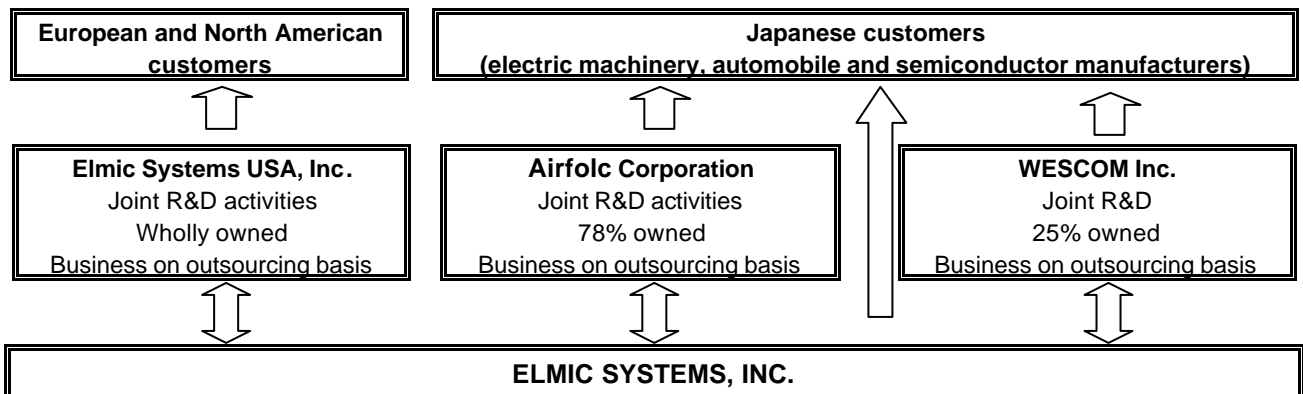
Wescom is a software house established in 1982 by Kazuya Murashima, who has served as deputy chairman of the Japan System House Association. This company performs a broad range of software development ranging from applications for microprocessors to general-purpose computers, stand-alone units and large-scale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

Major products are as follows.

Major Products		Description	Elmic Systems Group			
			ELMIC SYSTEMS	Elmic Systems USA	Airfolc	WESCOM
Manufactured products	Communications	Software and hardware for wire line and wireless communications	○			
	Internet protocol	Embedded TCP/IP modules, products for Kasago application modules	○	○	○	○
	Windows	Windows CE for embedded information devices, products for Accel - μ	○			○
	Realtime OS	The ELX exclusive RTOS. ITRON and other existing OS-related products	○			
	SI (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. The Communications category was called Communications-related through the prior fiscal year.
 2. The Internet Protocol category was called Internet-related through the prior fiscal year.
 3. The Windows category was called Windows-related through the prior fiscal year.
 4. The Real-Time OS category was called RTOS-related through the prior fiscal year.
 5. The System Integration (customized) category was called Systems Integration-related through the prior fiscal year.
 6. The Others category was called Other Company Software and PC, etc. through the prior fiscal year.
 7. The content of each of these major product categories is the same as in prior fiscal years.

[Business Flowchart]



2. Management Policies

(1) Fundamental Management Policy

The name Elmic stands for Electronics, Logic, Mechanism, Information and Communication. Since its establishment in 1977, the Company has concentrated mainly on the development and manufacture of operating systems (real-time operating systems) for control computers and/or embedded systems, and of software for communications functions.

As is expressed in the corporate motto "Justice & Logic," the Company's fundamental policy is to conduct its operations in a manner that emphasizes fairness and logical decisions.

The growing use of broadband technology in communications infrastructures is leading to the increasing use of systems that utilize the Internet, a trend that indicates the advent of the ubiquitous society (when people are linked to a network at all times and in all places) is near. The main product of Elmic Systems is the OS and communications software required by these systems. The Company's policy is to use these products to contribute social advances in the near future. For this purpose, the Company is placing the highest priority on the quality of its products and technologies to earn an even higher degree of trust from customers, putting customer satisfaction above all else.

As business models expand from the B-to-B to the B-to-C domains, the Company is using its base of technology accumulated over many years to sell nothing but products developed internally. Through this stance, the Company strives to supply products that meet the demands of end users.

In line with the policy of developing and producing software products, the Company will work on enlarging its product lineup over the medium and long terms. In concrete terms, mergers and acquisitions were employed to establish Elmic Systems USA and Arfolc (in 2000 and 2001), and investments were made to form business alliances. Management believes that expanding the scale of business activities, mainly by developing new products, is the best means of capturing a prominent position in the industry.

(2) Fundamental Policy Regarding Distribution of Earnings

Regarding the distribution of earnings, returning earnings to shareholders is one of the Company's central management goals. The policy is to maintain a stable dividend while strengthening the operating base. Unfortunately, the dividend applicable to the past fiscal year was suspended because of an extraordinary loss resulting from a valuation loss on stock in a subsidiary. The Company will work hard to resume dividend payments in the current fiscal year.

Shareholders approved a resolution for the issue of stock options at the annual meeting held on June 27, 2002. However, no options were issued because of the low level of the Company's stock price. The Company plans to issue these options in the future because it views stock options as an incentive that is effective at motivating executives and employees.

At the June 2002 shareholder meeting, a resolution was approved that authorizes the repurchase of 530,000 shares of common stock at a cost of up to ¥265 million. The purpose is to adapt to changes in the operating environment, improve the return on equity and increase shareholder value by reducing the number of shares outstanding. As of the end of December 2002, a total of 490,000 shares had been repurchased at a total cost of ¥184 million.

(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. As there were net losses in the past two fiscal years, it is not possible to calculate an ROE or ROA. Therefore, the first goal is to generate ordinary income and net income. The Company

is currently working on creating a profitable operating structure even if that requires reducing sales. In this regard, the most important point is constantly implementing a variety of actions, including a rigorous cost cutting program.

(5) Medium- and Long-Term Management Strategy

The benefits of restructuring programs are producing encouraging signs in the automobile and semiconductor industries, the primary markets for Elmic Systems. Accordingly, these companies are now aggressively working on the development of next-generation products. The most notable trend is the impending arrival of the ubiquitous society. From a time when the PC was the primary Internet link, there has been a new wave of the information age due to the popularity of mobile phones, the major user of embedded systems for consumer products. Now Internet links are extending not only to digital home appliances, but also to refrigerators and washing machines, items closely linked to day-to-day living, as well as car navigation systems. These advances are making it possible to use networks for control and information exchange functions anywhere and anytime. That means all these devices need an address. Another requirement is security against a virus, hacker or other unauthorized entry.

Elmic Systems is the pioneer in developing the operating systems and communications software (TCP/IP) that must be embedded in devices to make the ubiquitous society possible. Ubiquitous-age consumer products are expected to begin appearing in stores in fiscal 2005. All manufacturers are now hard at work planning such products. A protocol called IPv6 is capable of increasing the number of addresses from the current 4.3 billion to a virtually infinite level. Exclusive software developed by Elmic Systems for compatibility with this technology went on sale in October 2002. Since then, this software has earned high marks from many companies. The software was developed by Elmic Systems USA, which also developed optional software such as IPSec, an upgraded version of IPv6, and MobileIP for mobile applications.

(6) Key Issues

As a manufacturer specializing in operating systems and communications software for embedded systems, Elmic Systems has much experience in product technology and engineering. By using this expertise, the Company is aiming to acquire a broad spectrum products and technology to cater to a full range of demands as the ubiquitous society takes shape. Of particular importance is TCP/IP, which is essential to any Internet connection. In the post-PC society, information appliances and kitchen appliances will be linked to the Internet. This will require software that is more compact, faster and better able to store information, mirroring trends in hardware. And mobile communications and certain other themes will also be vital. This is uncharted territory. Elmic Systems will use its experience to make possible an organic link between hardware and software, seeking to remain at the leading edge of progress. Consequently, the Company is concentrating on the following key issues, and is formulating a business plan that is based on an effective marketing strategy.

1) Form and deepen alliances and partnerships

To rapidly develop core technologies that meet market needs and upgrade the needed software groups, the Company will cooperate with selected partners and build stronger ties with customers in order to develop next-generation products.

2) Locate external suppliers

Locate high-grade vendors that can quickly adapt to changes in customer needs.

3) Maintain technological development skills

Acquire next-generation technologies and train engineers.

4) Upgrade risk management skills

The Company regards consumer trends, technological trends and economic trends as the dynamic risks it faces, and plans to upgrade risk management skills by adding the ability to manage risks associated with new core technologies and market trends.

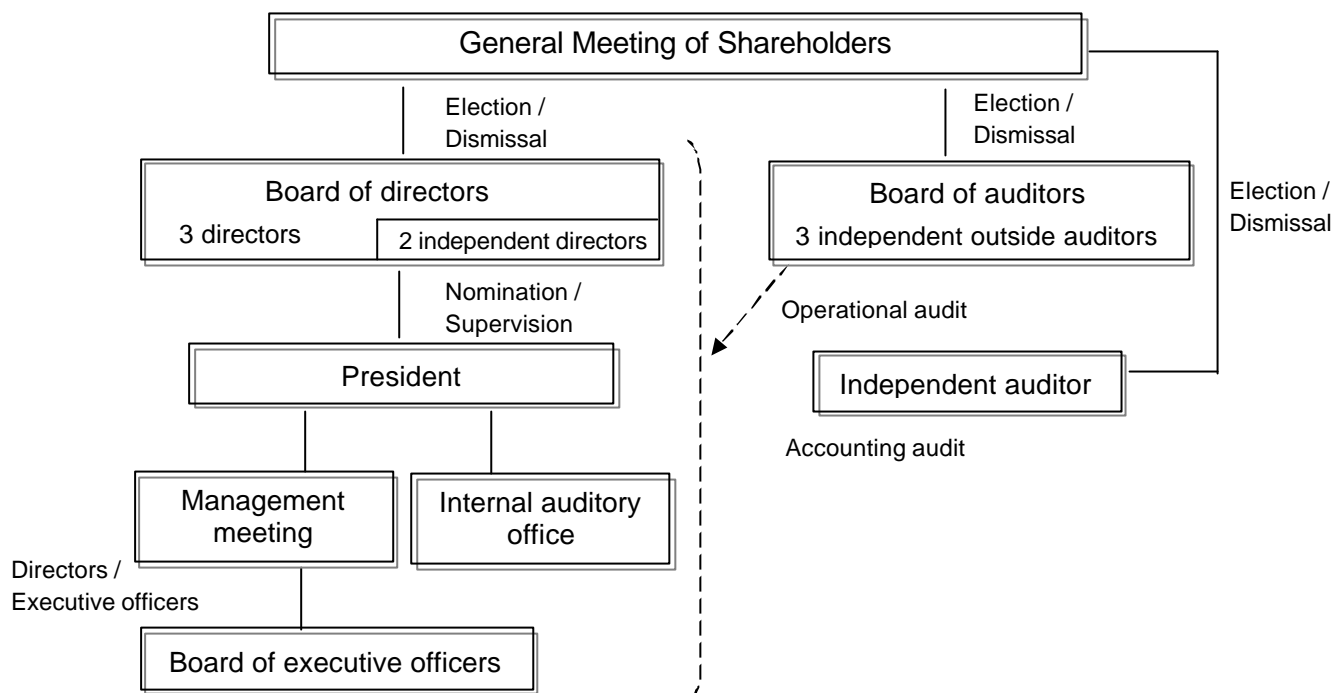
(7) Fundamental Approach to and Actions Regarding Corporate Governance

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 March 31, 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. None of these individuals have careers that involve the Company or any group companies. 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 another is a director of Toshiba LSI Support Inc.

One external corporate auditor is a tax accountant and 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.

c. Corporate governance actions during the past year

An executive officer system with a clear mission has been adopted. This move has enabled the board of directors to reach decisions faster.

To increase the transparency of management, the Company is upgrading IR activities, including the expansion of its Internet site (adding English-language IR information, etc.).

(8) Other Significant Items

None

3. Results of Operations and Financial Position

(1) Results of Operations

1) Summary of year ended March 31, 2003

During the past fiscal year, Japan's economy felt the effects of a soft global economy. Stock prices fell and there was instability among financial institutions, retailers and many other sectors of the economy. Private-sector capital spending remained weak as did consumer spending as individuals were concerned about unemployment and their income levels. In this difficult environment, companies in the semiconductor and data communications industries, the Company's key customer segments, conducted exhaustive cost cutting programs, spun off companies, merged with competitors and took other actions to remain profitable. Despite these measures, these companies were still unable to increase sales or otherwise expand.

In this environment, the Elmic Systems Group was unable to reach its projected sales for the fiscal year. Impacting earnings were expenses involving measures to be a leader in the ubiquitous society, specifically the ongoing development of the IPv6 communication protocol and its options. However, the enhancement of internal management systems enabled the Company to report ordinary income.

Below this level of the income statement, however, earnings were held back by the posting of a ¥604 million charge for the impairment of goodwill at U.S. subsidiary Elmic Systems USA in accordance with U.S. accounting standards.

2) Results by product category

- In communications products, the LCD manufacturing sector is becoming a huge component of the semiconductor industry. General-purpose board sales increased 15.6% year-on-year, but a delay in shipments of POS terminals for retailers caused a delay in ISDN board deliveries until the following fiscal year. As a result, net sales were down 14.5%.
- Internet protocol products are TCP/IP (IPv4, IPv6; sold under the KASAGO brand), which are vital to linking embedded systems to the Internet, and options such as protocol stacks. Sales are generated by initial and license fees. As was noted above, the Company has supplied samples of these products at no cost to large companies and has earned an excellent reputation. Some of these companies have begun placing orders. Presently, IPv6 is mainly generating initial fees because it is mainly used in end-user products now under development. However, orders are growing for use in custom LSIs and other applications. The result was a 10.7% increase in sales.
- In Windows products, the Company has a number of prospects in the market for embedded systems, such as consulting for automotive information terminals. But delays in plans of manufacturers hurt sales of other systems, causing sales to decline 17.8%.
- In real time operating systems, sales were supported by Accel-Linux (hybrid OS) that was developed in the prior fiscal year as well as the newly developed Hyper ITRON, which adds object protection and memory protection functions to ITRON. Strong market response to these products produced a sales increase of 52.9%.
- In system integration (customized) products, the Company adopted the unprecedented sales strategy of supplying large manufacturers at no cost with its IPv6 (Phase I) in the third quarter. This led to a large order. In addition, there was growth in development-related orders in anticipation of the upcoming ubiquitous society, leading to orders for the Company's products for use in IT home appliances, mobile phones and custom LSIs. However, as most manufacturers are still in the R&D stage, sales declined 6.2%.

Due to the above factors, consolidated net sales decreased 1.0% to ¥1,888 million, there was an ordinary loss of ¥27 million and a net loss of ¥392 million.

Results by geographic area were as follows.

a. Japan

Net sales decreased 3.9% to ¥1,599 million and operating income was ¥82 million.

b. North America

Net sales in the United States increased 16.8% to ¥282 million and there was an operating loss of ¥43 million.

3) Research and development

Research and development expenses declined ¥184 million to ¥161 million. This was 8.5% of net sales. Major accomplishments were as follows.

a. Internet protocol

Work continued on the development of TCP/IP (KASAGO IPv6). A beta-version has already been shipped. The Company is now working on the next phase and upgraded options. Two examples are Mobile-IP for mobile communications applications and IPSec, which provides data security to address needs stemming from the growing variety of devices linked to the Internet. Another theme is peripheral software such as voice and image transmission software (H.323, embedded SIP). The Company is also working on a software development kit for the home router market, a field where much growth is foreseen. In addition, the Company developed a TCP/IP for T-Engines (KASAGO for T-Engine), which are being promoted by the TRON Association as the new standard.

b. Communications

In research for CIM (Computer Integrated Manufacturing) for semiconductor production equipment, the Company completed development and began sales of the SoftCOM GEM300 communications protocol for 300mm wafer-compatible production equipment and the host simulator 'CICADUS' for system tests.

c. Real Time OS

In addition to creating an upgraded version of its proprietary OS (ELX), research was conducted to make ITRON even easier to use. For this purpose, a group management function within the OS was newly developed and put on sale. Due to NEC's termination of the manufacture of industrial PCs, in which the Elmic Systems RTOS (ELX286) was used extensively, the Company developed and began selling a successor product called 'iNHERITOR'.

As a software manufacturer, Elmic Systems will continue to focus R&D activities on these areas while continuing to work on the development of a variety of products and upgraded versions of existing products.

(2) Financial Position

Cash flows

Cash and cash equivalents decreased ¥404 million during the past fiscal year.

There was a loss before income taxes and minority interest of ¥668 million, 190.4% more than the previous year's loss, a charge of ¥604 million (¥604 million higher than one year ago) due to the impairment of goodwill by Elmic Systems USA, and payments of ¥184 million (¥184 million more than one year ago) for the repurchase of stock. Due to these and other factors, cash and cash equivalents totaled ¥1,278 million at the end of the fiscal year.

Cash flows by category were as follows.

(Operating activities)

Net cash provided by operating activities was ¥40 million, compared with net cash used of ¥327 million one year earlier. There was a loss before income taxes and minority interest of ¥668 million, but there was a goodwill impairment loss of ¥604 million, depreciation of ¥68 million (down 47.3%) and a valuation loss of ¥32 million (up ¥32 million) on investment securities.

(Investing activities)

Net cash used in investing activities was ¥207 million (up 318.2%). Payments for the purchase of marketable securities were ¥202 million (up 21.3%), but the prior fiscal year included proceeds of ¥92 million from the cancellation of an insurance policy, a source of funds that did not occur in the past fiscal year.

(Financing activities)

Net cash used in financing activities was ¥227 million (up 433.4%). This was mainly due to payments of ¥184 million for the repurchase of stock.

A table presenting the equity ratio for the past three years is shown below.

Shareholders' Equity Ratio

	As of March 31, 2001	As of March 31, 2002	As of March 31, 2003
Shareholders' equity ratio	84.1%	87.5%	83.8%

(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 industrial PC 'iNHERITOR' 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.

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

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

First phase products have been completed for the KASAGO IPv6 Internet connection software for next-generation embedded systems. However, work continues on more advanced versions and a variety of options. Delays in the timely commercialization of such products could have a material impact on operating results.

System integration

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 ¥596 million of orders with external vendors. Major companies and orders placed are shown below.

Yen in thousands				
Vendor	Product	Orders		Remarks
		Year ended March 31, 2003		
			Share (%)	
AIRFOLC Corporation.	Customized software	77,051	12.9	
Elmic Systems USA, Inc.	Customized software	62,917	10.6	
WESCOM Inc.	Customized software	59,206	9.9	
ELT Inc.	Customized software	42,106	7.1	
Rockhand Technology Inc.	Customized software	34,161	5.7	
Other (36 companies)		320,591	53.8	
Total		596,034	100.0	

Notes: The above amounts do not include consumption tax.

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

To grow in new fields of business, the Company requires people who can perform marketing and development work. However, there is intense competition in the IT industry for qualified employees, and there is a limited number of talented individuals who have the necessary knowledge and experience. The Company is therefore exposed to the risk of being unable to hire such individuals. In the event that the Company is unable to hire the individuals it requires, or in the event that current employees move to other companies, the Company could experience difficulty in its operations, including difficulty attaining its medium-term strategic objectives. The Company has started revising its remuneration system and establishing a merit-based evaluation system. However, if the Company is unable to thoroughly implement a merit-based evaluation system, there could be a material impact on operating results.

Investments

Elmic Systems has over the years consistently invested funds in its core businesses. Looking ahead, the policy is to aggressively conduct a broad range of activities involving software for embedded systems, chiefly targeting communications, the Internet and RTOS. To achieve its goals in this regard, the Company plans to form subsidiaries, acquire other companies, form alliances with other companies and take other actions 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 this fiscal year were as follows.

The Elmic Systems Group is acquiring new technology primarily through agreements and alliances with other companies. Alliances such as those described in "2. Management Policies (6) Key Issues" must be strictly managed to preserve secrecy until the time products are shipped. If any information is compromised, not only would the alliance be terminated, but there could be litigation to recover damages from the Company. Consequently, the following list contains information only to the extent allowed under secrecy agreements.

1) NEC

Purpose: Creation of common specifications for real-time Linux.
There is no exchange of personnel.

2) Monta Vista Software Japan

Purpose: Sales of Monta Vista Linux communications middleware and cooperation in system integration.
Personnel have been sent to assist in the establishment of core technologies.

3) Microsoft

Purpose: Creation of common specifications for embedded OS for car navigation.
Developmental personnel have been sent to assist in the development project.

4) DENSO

Purpose: Development of uniform standards for automotive systems.
There is no notable exchange of personnel.

5) Fujitsu LSI Solution

Purpose: Use of KASAGO TCP/IP in this company's custom LSIs for home routers.
There is no exchange of personnel.

3. Consolidated Financial Statements for the Fiscal Year Ended March 31, 2003

(1) Consolidated Balance Sheets

Account	Period	FY2001 As of March 31, 2002		FY2002 As of March 31, 2003		YoY change
		¥thousands	%	¥thousands	%	¥thousands
Assets						
I	Current assets					
1.	Cash and deposits	350,594		171,219		(179,375)
2.	Notes & accounts receivable *1	793,869		801,048		7,179
3.	Available for sale securities	1,331,813		1,106,818		(224,995)
4.	Inventories	85,750		104,722		18,972
5.	Deferred tax assets - current	66,910		63,201		(3,709)
6.	Other current assets	50,479		53,607		3,128
7.	Reserve for doubtful receivables	(1,499)		(2,266)		(766)
	Total current assets	2,677,918	68.6	2,298,352	71.6	(379,566)
II	Fixed assets					
1.	Property, plant and equipment	40,995	1.1	50,811	1.6	9,816
2.	Intangible assets					
(1)	Goodwill	730,322		58,842		(671,480)
(2)	Other intangible assets	111,854		144,478		32,623
	Total intangible assets	842,177	21.6	203,320	6.3	(638,856)
3.	Investments and other assets					
(1)	Investment securities *2	176,094		195,758		19,664
(2)	Deferred tax assets – non current	23,194		320,924		297,729
(3)	Other	141,925		142,734		808
(4)	Reserve for doubtful receivables	-		(1,500)		(1,500)
	Total investments and other assets	341,215	8.7	657,917	20.5	316,702
	Total fixed assets	1,224,387	31.4	912,049	28.4	(312,337)
	Total assets	3,902,306	100.0	3,210,401	100.0	(691,904)

Account	Period	FY2001		FY2002		YoY change
		As of March 31, 2002		As of March 31, 2003		
		¥thousands	%	¥thousands	%	
Liabilities						
I	Current liabilities					
1.	Accounts payable-trade	109,075		133,439		24,363
2.	Income taxes payable	3,591		7,636		4,045
3.	Deferred tax liabilities	5		-		(5)
4.	Reserve for accrued bonuses	52,662		50,200		(2,462)
5.	Other current liabilities	88,213		101,096		12,883
	Total current liabilities	253,547	6.5	292,372	9.1	38,824
II	Long-term liabilities					
1.	Reserve for employees' retirement benefits	-		19		19
2.	Reserve for directors' retirement benefits	157,406		160,225		2,818
3.	Other long-term liabilities	69,067		59,664		(9,402)
	Total long-term liabilities	226,474	5.8	219,909	6.9	(6,564)
	Total liabilities	480,022	12.3	512,281	16.0	32,259
Minority interest						
	Minority interest	7,155	0.2	7,706	0.2	550
Shareholders' equity						
I	Common stock	1,160,041	29.7	-	-	1,160,041
II	Additional paid-in capital	1,459,152	37.4	-	-	1,459,152
III	Consolidated retained earnings	624,316	16.0	-	-	624,316
IV	Net Unrealized gain on other securities	17,637	0.4	-	-	17,637
V	Foreign currency translation adjustment	154,335	4.0	-	-	154,335
VI	Treasury stock	(355)	(0.0)	-	-	(355)
	Total shareholders' equity	3,415,128	87.5	-	-	3,415,128
I	Common stock *3	-	-	1,160,041	36.1	(1,160,041)
II	Capital surplus	-	-	1,459,152	45.5	(1,459,152)
III	Retained earnings	-	-	192,041	6.0	(192,041)
IV	Net Unrealized gain on other securities	-	-	(16,740)	(0.5)	16,740
V	Foreign currency translation adjustment	-	-	80,539	2.5	(80,539)
VI	Treasury stock *4	-	-	(184,619)	(5.8)	184,619
	Total shareholders' equity	-	-	2,690,414	83.8	(2,690,414)
	Total liabilities, minority interest and shareholders' equity	3,902,306	100.0	3,210,401	100.0	(691,904)

(2) Consolidated Statements of Income

Account	Period	FY2001 From April 1, 2001 to March 31, 2002		FY2002 From April 1, 2002 to March 31, 2003		YoY change
		¥thousands	%	¥thousands	%	¥thousands
I Net sales		1,906,922	100.0	1,888,436	100.0	(18,485)
II Cost of sales *2		903,754	47.4	853,308	45.2	(50,445)
Gross profit		1,003,167	52.6	1,035,128	54.8	31,960
III SG&A *1, 2		1,233,827	64.7	1,061,207	56.2	(172,620)
Operating loss		230,659	(12.1)	26,079	(1.4)	204,580
IV Non-operating income						
1. Interest income		6,345		2,935		(3,410)
2. Dividends income		132		100		(32)
3. Equity in earnings of affiliates		6,271		9,215		2,944
4. Gain on anonymous partnerships		3,045		5,217		2,171
5. Foreign exchange gains		18,154		-		(18,154)
6. Other non-operating income		1,194		2,173		979
Total non-operating income		35,144	1.9	19,641	1.0	(15,503)
V Non-operating expenses						
1. Interest expense		1,467		414		(1,052)
2. Loss on options		-		6,700		6,700
3. Foreign exchange losses		-		12,873		12,873
4. Other non-operating expenses		1		785		784
Total non-operating expenses		1,468	0.1	20,774	1.1	19,306
Ordinary loss		196,983	(10.3)	27,211	(1.4)	169,772
VI Extraordinary income						
1. Gain on reversal from doubtful receivables		633		-		(633)
2. Insurance premiums surrendered		24,566		-		(24,566)
3. Gain on sales of investment securities		-		10,150		10,150
Total extraordinary income		25,199	1.3	10,150	0.5	(15,048)
VII Extraordinary loss						
1. Loss on removal of fixed assets *3		43,931		-		(43,931)
2. Loss on impairment of goodwill		-		604,785		604,785
3. Loss on revaluation of investment securities		-		32,120		32,120
4. Loss on revaluation of inventories		14,400		14,399		(4)
Total extraordinary loss		58,331	3.1	651,305	34.5	592,974
Net loss before income taxes and minority interest (for the period)		230,115	(12.1)	668,366	(35.4)	(438,250)
Income taxes - current		7,367		6,979		(388)
Income taxes - deferred		(1,734)		(283,424)		(281,689)
Minority interest		155	0.0	550	0.0	394
Net loss		235,904	(12.4)	392,471	(20.8)	(156,566)

(3) Consolidated Statements of Retained Earnings

Account	Period	FY2001 From April 1, 2001 to March 31, 2002		FY2002 From April 1, 2002 to March 31, 2003	
		¥thousands		¥thousands	
I Consolidated retained earnings at beginning of year			901,684		-
II Decline in consolidated retained earnings					
1. Cash dividends		39,800		-	
2. Directors' bonuses		1,662	41,463	-	-
III Net loss			235,904		-
IV Consolidated retained earnings at end of year			624,316		-
Capital surplus					
I Capital surplus at beginning of year					
Additional paid-in capital		-	-	1,459,152	1,459,152
II Capital surplus at end of year			-		1,459,152
Retained earnings					
I Retained earnings at beginning of year					
Retained earnings at beginning of year		-	-	624,316	624,316
II Decline in retained earnings					
1. Cash dividends		-		39,804	
2. Net loss		-	-	392,471	432,275
III Retained earnings at end of year			-		192,041

(4) Consolidated Statements of Cash Flows

Account	Period	FY2001	FY2002	YoY change
		From April 1, 2001 to March 31, 2002	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		(230,115)	(668,366)	
Depreciation and amortization		130,977	68,848	
Equity in earnings of affiliates		(6,271)	(9,215)	
Increase (decrease) in reserve for doubtful receivables		(806)	2,266	
Increase (decrease) in reserve for accrued bonuses		1,662	(2,462)	
Increase in reserve for employees' retirement benefits		-	19	
Increase in reserve for directors' retirement benefits		3,798	2,818	
Interest and dividends income		(6,478)	(3,035)	
Interest expense		1,467	414	
Gain on investment in anonymous partnerships		(3,045)	(5,217)	
Foreign exchange losses (gains)		(4,890)	6,827	
Loss on options		-	6,700	
Proceeds from life insurance premiums surrendered		(24,566)	-	
Gain on sales of investment securities		-	(10,150)	
Loss on impairment of goodwill		-	604,785	
Loss on removal of fixed assets		43,931	-	
Unrealized loss on investment securities		-	32,120	
Loss on revaluation of inventories		14,400	14,399	
Increase in notes and accounts receivable-trade		(3,464)	(11,444)	
Increase in inventories		(14,517)	(33,318)	
Decrease in accounts payable-trade		(68,818)	25,067	
Increase in other assets		(25,518)	(11,673)	
Decrease in other liabilities		(12,504)	(16)	
Decrease (increase) in suspense receipt of consumption tax		(9,302)	9,302	
Increase (decrease) in suspense payment of consumption tax		(6,688)	16,858	
Directors' remuneration paid		(1,662)	-	
Others		(127)	-	
Subtotal		(222,540)	35,528	258,069
Interest and dividends received		6,478	10,560	
Interest paid		(1,467)	(414)	
Income taxes paid		(109,490)	(4,817)	
Net cash provided by (used in) operating activities		(327,021)	40,857	367,879

Account	Period	FY2001 From April 1, 2001 to March 31, 2002	FY2002 From April 1, 2002 to March 31, 2003	YoY change
		¥thousands	¥thousands	¥thousands
II	Cash flows from investing activities			
	Payments for acquisition of available for sale securities	(166,600)	(202,154)	
	Proceeds from redemption of available for sale securities	166,600	100,654	
	Payments for acquisition of property, plant and equipment	(4,961)	(24,470)	
	Proceeds from sale of property, plant and equipment	414	-	
	Payments for acquisition of intangible assets	(50,210)	(88,767)	
	Payments for acquisition of investment securities	(84,750)	(53,656)	
	Gain on sales of investment securities	1,010	61,267	
	Payments for short-term loans receivable	-	(10,000)	
	Proceeds from collection of short-term loans	-	10,000	
	Payments for long-term loans receivable	(9,475)	(500)	
	Proceeds from collection of long-term loans	1,222	1,640	
	Proceeds from life insurance premiums surrendered	92,990	-	
	Proceeds from return of leasehold and security deposits	9,093	373	
	Others	(5,036)	(2,230)	
	Net cash used in investment activities	(49,704)	(207,844)	(158,140)
III	Cash flows from financing activities			
	Payments for finance lease liabilities	(3,441)	(3,245)	
	Payments for acquisition of treasury stock	-	(184,264)	
	Cash dividends paid	(39,524)	(39,504)	
	Others	405	-	
	Net cash used in financing activities	(42,560)	(227,013)	(184,452)
IV	Effect of exchange rate changes on cash and cash equivalents	14,739	(10,370)	(25,110)
V	Decrease in cash and cash equivalents	(404,546)	(404,370)	176
VI	Cash and cash equivalents at beginning of year	2,054,954	1,682,407	(372,546)
VII	Cash and cash equivalents of newly consolidated subsidiaries at beginning of year	32,000	-	(32,000)
VIII	Cash and cash equivalent at end of year	1,682,407	1,278,037	(404,370)

Significant Accounting Policies in the Preparation of Consolidated Financial Statements

Item \ Period	FY2001 From April 1, 2001 to March 31, 2002	FY2002 From April 1, 2002 to March 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>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) (equity in earnings) and retained earnings (interest in earnings) will have a 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>
2. Application of equity method of accounting	<p>(1) Affiliates accounted for by the equity method of accounting: 1 Affiliate name: WESCOM Inc.</p> <p>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 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) 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 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 fiscal year ends on a different day:</p> <p style="padding-left: 40px;">Company: Elmic Systems USA, Inc.: Fiscal year-end: Dec. 31</p> <p style="padding-left: 40px;">AIRFOLC Corporation: Fiscal year-end: Feb. 28</p> <p>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, 2002.</p>	<p>The consolidated financial statements include the accounts of the following consolidated subsidiaries, of which the fiscal year ends on a different day:</p> <p style="padding-left: 40px;">Company: Elmic Systems USA, Inc.: Fiscal year-end: Dec. 31</p> <p style="padding-left: 40px;">AIRFOLC Corporation: Fiscal year-end: Feb. 28</p> <p>Same as on the left.</p>

<div style="text-align: right;">Period</div> <div style="text-align: left;">Item</div>	FY2001 From April 1, 2001 to March 31, 2002	FY2002 From April 1, 2002 to March 31, 2003
4. Accounting standards	<p>(A) Valuation criteria and methods for significant assets:</p> <p>(1) Securities</p> <p>Held-to-maturity securities Valued using the amortized cost method</p> <p>Affiliated company stock Stated at cost, cost being determined by the moving average method</p> <p>Other securities</p> <p>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.)</p> <p>Securities without market quotations: Stated at cost using the moving average method.</p> <p>(2) Derivatives Valued at market.</p> <p>(3) Inventories</p> <p>Merchandise Stated at cost, cost being determined by the moving average method.</p> <p>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</p> <p>(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>(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 5 years. Overseas consolidated subsidiaries compute depreciation in accordance with the generally accepted accounting standards of the countries of</p>	<p>(A) Valuation criteria and methods for significant assets:</p> <p>(1) Securities</p> <p>Held-to-maturity securities Same as on the left.</p> <p>Affiliated company stock Same as on the left.</p> <p>Other securities</p> <p>Securities with market quotations Same as on the left.</p> <p>Securities without market quotations: Same as on the left.</p> <p>(2) -----</p> <p>(3) Inventories</p> <p>Merchandise Same as on the left.</p> <p>Products, work in process and raw materials: Same as on the left.</p> <p>(B) Depreciation and amortization of significant depreciable assets</p> <p>(1) Property, plant and equipment 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 5 years. Effective the current consolidated fiscal year, overseas subsidiaries adopted SFAS No. 142, "Goodwill and Other Intangible</p>

<div style="text-align: right;">Period</div> <div style="text-align: left;">Item</div>	FY2001 From April 1, 2001 to March 31, 2002	FY2002 From April 1, 2002 to March 31, 2003
	<p>their domicile.</p> <p>(C) Recognition of reserves</p> <p>(1) Reserve for doubtful receivables To prepare for credit losses on receivables, an allowance equal to the estimated amount of uncollectible receivables is provided 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 allowance for doubtful receivables based on management's estimate of collectibility of individual receivables.</p> <p>(2) Reserve for accrued bonuses 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>(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 period exceeded the estimated retirement benefit obligations, ¥1,593 thousand was charged to income as a pre-paid 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>Assets ." SFAS No. 142 requires that goodwill no longer be amortized but instead tested for impairment at least annually. The application of the new standards caused depreciation, 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</p> <p>(1) Reserve for doubtful receivables Same as on the left.</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.</p> <p>(4) Reserve for directors' retirement benefits Same as on the left.</p>

<div style="text-align: right;">Period</div> <div style="text-align: left;">Item</div>	FY2001 From April 1, 2001 to March 31, 2002	FY2002 From April 1, 2002 to March 31, 2003
	<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</p> <p>(1) Hedge accounting method The deferred hedge accounting method is applied.</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 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 fiscal year), applicable to the</p>	<p>(D) Accounting for lease transactions Same as on the left.</p> <p>(E) Accounting for significant hedge transactions</p> <p>(1) Hedge accounting method Same as on the left.</p> <p>(2) Hedging method and risks hedged Hedging method: Same as on the left. Risks hedged: Same as on the left.</p> <p>(3) Hedging policy Same as on the left.</p> <p>(4) Assessing hedge effectiveness Same as on the left.</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>

<div style="text-align: right;">Period</div> <div style="text-align: left;">Item</div>	FY2001 From April 1, 2001 to March 31, 2002	FY2002 From April 1, 2002 to March 31, 2003
	<p>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 Consumption Tax is accounted by the tax exclusion method</p> <p>-----</p> <p>-----</p>	<p>(2) Accounting treatment for Consumption Taxes Same as on the left.</p> <p>(3) 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> <p>(4) 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.35.</p>
5. Evaluation of assets and liabilities of consolidated subsidiaries	The market value method is adopted fully for the evaluation of assets and liabilities of the consolidated subsidiaries.	Same as on the left.
6. Appropriation of earnings	The consolidated statement of retained earnings is prepared based on the appropriation of earnings as finalized at the relevant consolidated entities in the consolidation fiscal year under review.	Same as on the left.

Period Item	FY2001 From April 1, 2001 to March 31, 2002	FY2002 From April 1, 2002 to March 31, 2003
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.

Reclassifications

FY2001 From April 1, 2001 to March 31, 2002	FY2002 From April 1, 2002 to March 31, 2003
<p>Consolidated statements of income</p> <p>Effective the year ended March 31, 2002, Gain on investment in anonymous partnership, included in "Others" account in the prior years, are reclassified as a separate item in the financial statements for the period since the amount exceeded 10% of the total non-operating income. Gain on investment in the anonymous partnership totaled ¥592 thousands in the previous consolidated fiscal year.</p>	-----
<p>Consolidated statements of cash flow</p> <p>Effective the year ended March 31, 2002, proceeds from the collection of leasehold and security deposits, included in the "Others" account in prior years are stated as a separate item since the amount has become significant. Proceeds from the collection of leasehold and security deposits totaled ¥3,905 thousands in the previous consolidated fiscal year.</p>	-----

Notes to consolidated financial statements

Notes to consolidated balance sheets

FY2001 As of March 31, 2002	FY2002 As of March 31, 2003
<p>*1. 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 thousand</p>	<p>*1. -----</p>
<p>*2. Affiliated company stock:</p> <p style="padding-left: 40px;">Investment securities ¥70,834 thousand (equity securities)</p>	<p>*2. Affiliated company stock:</p> <p style="padding-left: 40px;">Investment securities ¥75,208 thousand (equity securities)</p>
	<p>*3. Number of shares outstanding</p> <p style="padding-left: 40px;">Common stock 5,307,680 shares</p>
	<p>*4. Number of treasury stock held by the consolidated subsidiaries and affiliates accounted for under the equity method</p> <p style="padding-left: 40px;">Common stock 490,960 shares</p>

Notes to consolidated statements of income

Yen in thousands

FY2001 From April 1,2001 to March 31, 2002	FY2002 From April 1,2002 to March 31, 2003
<p>*1. Principal components and amounts of SG&A expenses are as follows:</p> <p style="padding-left: 40px;">Wages & allowances: ¥323,724 Provision of reserve for accrued bonuses: ¥25,458 Provision of reserve for directors' retirement allowance: ¥9,741 R&D: ¥346,013</p>	<p>*1. Principal components and amounts of SG&A expenses are as follows:</p> <p style="padding-left: 40px;">Wages & allowances: ¥359,094 Provision of reserve for accrued bonuses: ¥21,302 Provision of reserve for directors' retirement allowance: ¥7,552 R&D: ¥161,383</p>
<p>*2. Research and development expenses included in SG&A expenses</p> <p style="text-align: right;">¥394,773</p>	<p>*2. Research and development expenses included in SG&A expenses</p> <p style="text-align: right;">¥245,190</p>
<p>*3. Principal components of loss on removal of fixed assets are as follows:</p> <p style="padding-left: 40px;">Buildings: ¥174 Tools, furniture and fixtures: ¥407 Software: ¥43,350</p> <hr style="width: 100%;"/> <p style="text-align: right;">Total ¥43,931</p>	<p>*3. -----</p>

Notes to consolidated statements of cash flows

Yen in thousands

FY2001 From April 1, 2001 to March 31, 2002	FY2002 From April 1, 2002 to March 31, 2003												
<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:</p> <p style="text-align: right;">As of March 31, 2002</p> <table style="width: 100%;"> <tr> <td>Cash and cash equivalents:</td> <td style="text-align: right;">¥350,594</td> </tr> <tr> <td>Short-term investments with original maturities of less than 3 months:</td> <td style="text-align: right;">¥1,331,813</td> </tr> <tr> <td style="border-top: 1px solid black;">Cash and cash equivalents:</td> <td style="text-align: right; border-top: 1px solid black;">¥1,682,407</td> </tr> </table>	Cash and cash equivalents:	¥350,594	Short-term investments with original maturities of less than 3 months:	¥1,331,813	Cash and cash equivalents:	¥1,682,407	<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:</p> <p style="text-align: right;">As of March 31, 2003</p> <table style="width: 100%;"> <tr> <td>Cash and cash equivalents:</td> <td style="text-align: right;">¥171,219</td> </tr> <tr> <td>Short-term investments with original maturities of less than 3 months:</td> <td style="text-align: right;">¥1,106,818</td> </tr> <tr> <td style="border-top: 1px solid black;">Cash and cash equivalents:</td> <td style="text-align: right; border-top: 1px solid black;">¥1,278,037</td> </tr> </table>	Cash and cash equivalents:	¥171,219	Short-term investments with original maturities of less than 3 months:	¥1,106,818	Cash and cash equivalents:	¥1,278,037
Cash and cash equivalents:	¥350,594												
Short-term investments with original maturities of less than 3 months:	¥1,331,813												
Cash and cash equivalents:	¥1,682,407												
Cash and cash equivalents:	¥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

FY2001 From April 1, 2001 to March 31, 2002	FY2002 From April 1, 2002 to March 31, 2003																																																								
<p>Finance lease transactions not involving a transfer of title to the lessee</p> <p>(1) Acquisition cost, accumulated depreciation and fiscal year-end balance equivalents of the leased property.</p> <table style="width: 100%;"> <tr> <td colspan="2">Tools, furniture and fixtures</td> </tr> <tr> <td>Acquisition equivalents</td> <td style="text-align: right;">4,884</td> </tr> <tr> <td>Depreciation equivalents</td> <td style="text-align: right;">4,409</td> </tr> <tr> <td style="border-top: 1px solid black;">Year-end balance equivalents</td> <td style="text-align: right; border-top: 1px solid black;">474</td> </tr> <tr> <td colspan="2">Total</td> </tr> <tr> <td>Acquisition equivalents</td> <td style="text-align: right;">4,884</td> </tr> <tr> <td>Depreciation equivalents</td> <td style="text-align: right;">4,409</td> </tr> <tr> <td style="border-top: 1px solid black;">Year-end balance equivalents</td> <td style="text-align: right; border-top: 1px solid black;">474</td> </tr> </table> <p>(2) Outstanding lease commitments and the fiscal year-end balance equivalents</p> <table style="width: 100%;"> <tr> <td>Within one year</td> <td style="text-align: right;">525</td> </tr> <tr> <td>Over one year</td> <td style="text-align: right;">-</td> </tr> <tr> <td style="border-top: 1px solid black;">Total</td> <td style="text-align: right; border-top: 1px solid black;">525</td> </tr> </table> <p>(3) Lease payments, depreciation and interest equivalents</p> <table style="width: 100%;"> <tr> <td>Lease payments</td> <td style="text-align: right;">912</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">814</td> </tr> <tr> <td>Interest</td> <td style="text-align: right;">38</td> </tr> </table> <p>(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.</p> <p>(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.</p>	Tools, furniture and fixtures		Acquisition equivalents	4,884	Depreciation equivalents	4,409	Year-end balance equivalents	474	Total		Acquisition equivalents	4,884	Depreciation equivalents	4,409	Year-end balance equivalents	474	Within one year	525	Over one year	-	Total	525	Lease payments	912	Depreciation	814	Interest	38	<p>Finance lease transactions not involving a transfer of title to the lessee</p> <p>(1) Acquisition cost, accumulated depreciation and fiscal year-end balance equivalents of the leased property.</p> <table style="width: 100%;"> <tr> <td colspan="2">Tools, furniture and fixtures</td> </tr> <tr> <td>Acquisition equivalents</td> <td style="text-align: right;">4,884</td> </tr> <tr> <td>Depreciation equivalents</td> <td style="text-align: right;">4,884</td> </tr> <tr> <td style="border-top: 1px solid black;">Year-end balance equivalents</td> <td style="text-align: right; border-top: 1px solid black;">-</td> </tr> <tr> <td colspan="2">Total</td> </tr> <tr> <td>Acquisition equivalents</td> <td style="text-align: right;">4,884</td> </tr> <tr> <td>Depreciation equivalents</td> <td style="text-align: right;">4,884</td> </tr> <tr> <td style="border-top: 1px solid black;">Year-end balance equivalents</td> <td style="text-align: right; border-top: 1px solid black;">-</td> </tr> </table> <p>(2) Outstanding lease commitments and the fiscal year-end balance equivalents</p> <table style="width: 100%;"> <tr> <td>Within one year</td> <td style="text-align: right;">-</td> </tr> <tr> <td>Over one year</td> <td style="text-align: right;">-</td> </tr> <tr> <td style="border-top: 1px solid black;">Total</td> <td style="text-align: right; border-top: 1px solid black;">-</td> </tr> </table> <p>(3) Lease payments, depreciation and interest equivalents</p> <table style="width: 100%;"> <tr> <td>Lease payments</td> <td style="text-align: right;">532</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">474</td> </tr> <tr> <td>Interest</td> <td style="text-align: right;">6</td> </tr> </table> <p>(4) Calculation of accumulated depreciation equivalents Same as on the left.</p> <p>(5) Calculation of interest equivalents Same as on the left.</p>	Tools, furniture and fixtures		Acquisition equivalents	4,884	Depreciation equivalents	4,884	Year-end balance equivalents	-	Total		Acquisition equivalents	4,884	Depreciation equivalents	4,884	Year-end balance equivalents	-	Within one year	-	Over one year	-	Total	-	Lease payments	532	Depreciation	474	Interest	6
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Securities

Information regarding marketable securities as of March 31, 2002 (Previous consolidated fiscal year)
Securities classified as other

1. Securities with market quotations

Yen in thousands

Security	Acquisition cost	Carrying value	Unrealized gain or loss
Securities whose carrying value exceeds their acquisition cost			
(1) Equity securities	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) Equity securities	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

Yen in thousands

	Carrying value	Unrealized gain or loss
(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	23,300	
Total	1,355,113	

3. Redemption schedule of bonds held to maturity

Yen in thousands

	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
1. Equity securities				
(1) JGBs and municipal bonds	-	-	-	-
(2) Corporate bonds	-	-	-	-
(3) Others	299,937	-	-	-
2. Others	-	-	-	-
Total	299,937	-	-	-

Information regarding marketable securities as of March 31, 2003 (Current consolidated fiscal year)
Securities classified as other

1. Securities with market quotations

Yen in thousands

Security	Acquisition cost	Carrying value	Unrealized gain or loss
Securities whose carrying value exceeds their acquisition cost			
(1) Equity securities	-	-	-
(2) Debt securities			
a. JGBs and municipal bonds	-	-	-
b. Corporate bonds	-	-	-
c. Others	-	-	-
(3) Others	-	-	-
Subtotal	-	-	-
Securities whose carrying value does not exceed their acquisition cost			
(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)
Subtotal	113,660	98,460	(15,200)
Total	113,660	98,460	(15,200)

Note: In this 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 sold during the current fiscal year

Yen in thousands

Total amount sold	Gains on sales	Losses on sales
61,267	10,150	-

3. Securities without market quotations

Yen in thousands

	Carrying value	Unrealized gain or loss
(1) Other securities		
Money management funds	924,701	
Free financial funds	100,015	
Medium-term government bond funds	82,101	
Unlisted stock	22,090	
Total	1,128,908	

Derivatives

1. Matter concerning derivatives

FY2001 From April 1, 2001 to March 31, 2002	FY2002 From April 1, 2002 to March 31, 2003
(1) Description The Company employs foreign exchange forward contracts (currency exchange related). The Company also acquired certain yen-denominated corporate bonds with warrants.	(1) Description Same as on the left.
(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.	(2) Policy Same as on the left.
(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.	(3) Objective Same as on the left.
(4) Risks Foreign exchange transactions are exposed to the risk of exchange rate fluctuations. Exchangable bonds are exposed to the stock price fluctuation risk.	(4) Risks Same as on the left.
(5) Risk management An authorized executive approves all new derivative transactions the Company enters into.	(5) Risk management Same as on the left.

2. Market value of contract amounts

Previous consolidated fiscal year (April 1, 2001 - March 31, 2002)

Contract amounts, market values and unrealized gains/losses on derivative transactions

The Company engaged in foreign currency forward exchange contracts. However, no information is provided since the transactions are accounted by the hedge accounting method.

There were no other outstanding derivative positions as of the end of the consolidated fiscal year.

Current consolidated fiscal year (April 1, 2002 - March 31, 2003)

No information is presented since the Company did not employ derivatives during the consolidated fiscal year.

Retirement benefit

1. 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 : ¥106,200 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

Yen in thousands

	FY 2001 As of March 31, 2002	FY2002 As of March 31, 2003
(1) Retirement benefit obligation	(24,749)	(27,158)
(2) Plan assets at fair value	26,342	27,139
(3) Reserve for employees' retirement benefits	-	(19)
(4) Prepaid pension costs	1,593	-

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

3. Principal components of retirement benefit expenses

Yen in thousands

	FY 2001 From April 1, 2001 to March 31, 2002	FY 2002 From April 1, 2002 to March 31, 2003
(1) Service cost	(1,562)	2,404
(2) Contribution to mutual aid pension plan	10,815	11,824
Total	9,252	14,228

Note: Service cost is computed using the Simple method.

4. Matters concerning the accounting standards for retirement benefit obligations

FY 2001 From April 1, 2001 to March 31, 2002	FY 2002 From April 1, 2002 to March 31, 2003
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.	Same as on the left.

Tax effect accounting

	FY2001 As of March 31, 2002	FY2002 As of March 31, 2003
1. The significant components of deferred tax assets and liabilities		
Deferred tax assets		
Enterprise Tax payable	29	132
Reserve for directors' retirement allowance	66,105	64,820
Inventories	10,519	16,566
Membership	8,840	8,504
Provision of reserves for accrued bonuses in excess of maximum	13,218	17,127
Organization expenses	12,297	6,835
Deficit carried forward	143,129	421,355
Retained earnings carried forward	10,556	5,977
Others	2,336	7,304
Subtotal deferred tax assets	267,033	548,623
Valuation allowance	(123,396)	(129,660)
Total deferred tax assets	143,637	418,963
Deferred tax liabilities		
Special depreciation reserve	(3,794)	(2,849)
Program reserve	(35,109)	(30,100)
Other unrealized losses on other securities	(13,010)	-
Others	(1,622)	(1,887)
Total deferred tax liabilities	(53,536)	(34,837)
Net deferred tax assets or liabilities	90,100	384,125
Net deferred tax assets or liabilities are included in the following consolidated balance sheet accounts		
Current assets – Deferred tax assets	66,910	63,201
Fixed assets – Deferred tax assets	23,194	320,924
Current assets – Deferred tax liabilities	5	-
Long-term liabilities – Deferred tax liabilities	-	-
2. Significant sources of the difference in corporate and other tax liabilities as calculated according to the effective tax rate and tax-effect accounting	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%.	Significant sources of difference are not presented since the Company reported net loss before income taxes in the consolidated fiscal year under review. Regarding statutory tax rates applicable to timing differences as of the end of the year, 42.0% is applied to those differences which will have extinguish by the end of March 2004, and 40.5% thereafter.
3. Change of statutory tax rate	-----	Regarding statutory tax rates used in calculation of deferred tax assets and deferred tax liabilities, 42.0% is applied to those differences which will have extinguish by the end of March 2004, and 40.5% thereafter. This is made in accordance with Law No.9 in Fiscal 2003 "Law regarding Amendment on Local Tax Law and Related enforcements" issued on March 31, 2003, by which external standard

	FY2001 As of March 31, 2002	FY2002 As of March 31, 2003
		<p>taxation was introduced to corporate income taxes in the fiscal year starting on April 1, 2003.</p> <p>Due to this change of tax rate, net deferred tax assets after deduction of deferred tax liabilities has decreased 12,558 thousand yen, which amount is booked as an increase under "income taxes – deferred."</p>

Segment Information

1. Segment Information by Operating Segment

Previous consolidated fiscal year (April 1, 2001 - 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.

Current consolidated fiscal year (April 1, 2002 - 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

Previous consolidated fiscal year (April 1, 2001 – March 31, 2002)

Yen in thousands

	Japan	N. America	Total	Elimination or Corporate	Consolidated
I. Net sales and operating income/ loss					
Net sales					
(1) Sales to external customers	1,665,166	241,755	1,906,922	-	1,906,922
(2) Inter-segment sales 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]	2,137,581
Operating 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. Amount of unallocatable operating expenses included in eliminations or corporate are ¥42,666 thousand, and its significant components are 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.

Current consolidated fiscal year (April 1, 2002 – March 31, 2003)

Yen in thousands

	Japan	N. America	Europe	Total	Elimination or Corporate	Consolidated
I. Net sales and operating income/ loss						
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)
II. Assets	1,894,106	286,412	6,896	2,817,415	1,022,986	3,210,401

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. Amount of unallocatable operating expenses included in eliminations or corporate are ¥42,393 thousand, and its significant components are represent expenses related to the administration division
4. Unallocatable assets included in eliminations or corporate total ¥1,288,004 thousands the principal components of which are idle funds under management (cash and securities available for sale) and assets of the administration division.

5. Supplementary information
(Amortization of goodwill)

Effective the current consolidated fiscal year ended March 31, 2003, overseas subsidiaries adopted SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 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 for the current consolidated fiscal year ended March 2003, Section 4. Accounting Standards, Subsection: B Depreciation and amortization of significant depreciable assets). The application of the new standards caused full year operating expenses in the North American operations to decline by ¥35,393 thousand and total assets to decrease by ¥569,392 thousand.

3. Overseas Sales

Previous consolidated fiscal year (April 1, 2001 - March 31, 2002)

Yen in 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., 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.

Current consolidated fiscal year (April 1, 2002 - 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	13.92%	2.23%	16.15%

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.

Related Party Transactions

Previous consolidated fiscal year (April 1, 2001 - March 31, 2002)

Directors and major individual shareholders and others

Yen in 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 Nobebara	/	/	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.

Current consolidated fiscal year (April 1, 2002 - March 31, 2003)

Directors, principal individual shareholder and others

Yen in 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 Nobebara	/	/	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

Yen

FY2001 From April 1, 2001 to March 31, 2002		FY2002 From April 1, 2002 to March 31, 2003	
Net assets per share	643.49	Net assets per share	558.56
Net loss per share	44.45	Net loss per share	78.81
<p>Net income per share (diluted) is not presented since the company reported net loss per share for the fiscal year.</p>		<p>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 fiscal year under review. There is no impact caused by the change.</p>	

Note 1: The basis of calculation of net loss per share is as follows.

Yen in thousands

	FY2001 From April 1, 2001 to March 31, 2002	FY2002 From April 1, 2002 to March 31, 2003
Net loss for the fiscal year	-	392,471
Equity in net loss not account of regular shareholders	-	-
Regular shareholders' equity in net loss	-	392,471
Average number of shares outstanding for the year (1,000 shares)	-	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: 179,000 shares)

(5) Others

Not applicable.

Subsequent events

None

* 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.