

Consolidated Financial Results

First Three Months of the Fiscal Year Ending 31st March 2004

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 Stock code: 4770
 Stock market listing: TSE Mothers Market
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1. Financial Highlights

(1) Financial Results for the First Three Months of the Fiscal Year Ending March 2004 (From April 1, 2003 to June 30, 2003)

(Amounts rounded down to million yen)

Term	FY 2002 1st Qtr.	FY 2003 1st Qtr.	% Change	FY 2002 Full year
Net sales	309	366	18.7	1,888
Operating income	(83)	(49)	-	(26)
Ordinary income	(80)	(47)	-	(27)
Net income (for the period)	(103)	(69)	-	(392)
Total assets	3,713	3,073	(17.2)	3,210
Shareholders' equity	3,261	2,633	(19.3)	2,690

(2) Sales Breakdown

(Amounts rounded down to million yen)

Products			FY 2002 1st Qtr.		FY 2003 1st Qtr.		% Change	FY 2002 Full year	
Source	Group		¥ millions	%	¥ millions	%		¥ millions	%
Manufactured products	1	Communications	67	21.7	81	22.3	22.2	405	21.4
	2	Internet protocol	97	31.5	79	21.7	(18.1)	526	27.9
	3	Real-time OS	56	18.1	12	3.3	(78.6)	249	13.2
	4	System Integration	70	22.8	139	38.0	98.1	579	30.7
Subtotal			290	94.1	313	85.3	7.6	1,760	93.2
Purchased products	5	Others	18	5.9	53	14.7	195.9	127	6.8
Total			309	100.0	366	100.0	18.7	1,888	100.0

Notes:

- Communications, the first product category in the above table, was divided into two categories in previous fiscal years: Multi-purpose communication boards and ISDN boards. The Company combined these items to form the new communications category in the current fiscal year.
- Real-time OS, the third product category in the above table, was divided into two categories in previous fiscal years: Windows and real-time OS. The Company combined these items to form the new real-time OS category in the current fiscal year.
- There have been no revisions to products contained in each category due to the above changes.

2. Results of Operations for Three Months Ended June 30, 2003

(1) Results of Operations

There were positive trends during the first half of the current fiscal year as the war in Iraq ended quickly, public funds were injected into financial institutions and stock prices rebounded. As the economy showed signs of improving, companies began to make substantial capital investments. In addition, households rapidly embraced high-speed networks, fueling a threefold year-on-year increase in demand for ADSL and other broadband services. On the other hand, the forecast for semiconductor sales has been cut in half during the past six months and operations at many companies are still unsettled in the wake of restructuring programs. In this environment, Elmic Systems performance improved, although there were no dramatic increases in sales or earnings.

Results by product category

Certain product categories have been combined beginning with the current fiscal year.

Communications

Sales of multi-purpose communication boards increased 21.5% year-on-year as customers rushed to place orders following the Company's announcement that it would soon shift to advanced versions and cease producing conventional boards. Also contributing to sales growth was a large increase in orders for host online communication modules (SoftCom, PCI-COM) from major producers of manufacturing equipment due to an increase in investments in semiconductor equipment, particularly those for producing LCDs. Demand for ISDN boards for POS systems was strong, mainly for financial terminals and equipment upgrades by communications carriers. As a result, total sales in this category were 22.2% higher than one year earlier.

Internet protocol

Supported by the provision of source code at no cost, KASAGO TCP/IP (IPv6) development kits gained increasing acceptance among customers. Licensing sales in preparation of the use of this technology in commercial products are also climbing along growing market acceptance. Shipments of the trial version of IPv6 for the T-Engine, which represents the next generation of ITRON technology, surpassed expectations. In the mobile phone market, where competitors have a large market share, Elmic Systems signed two large licensing contracts, setting the stage for higher sales in the market sector. However, weakness at overseas consolidated subsidiary Elmic Systems USA, Inc. caused sales in this category to fall 18.1%.

Real-Time OS

Beginning with the current fiscal year, this category includes both the former RTOS and Windows categories. Reflecting in part seasonal factors, sales of stand-alone RTOS products and licensing sales declined slightly. While the Company focused sales activities on the revised version of ELX-Neo, its original OS, sales fell 42.1% compared with one year earlier. In Windows-related products, sales dropped 92.6%. Although there were revenues from consulting activities, sales of mainstay Windows-related products were impacted by weak demand in the market for embedded systems. Total category sales were therefore down 78.6%.

System Integration (Customized services to match specific user needs)

Sales were 98.1% higher than in last year's first quarter, with growth aided in part by the posting of sales from orders received in the previous quarter. Major sources of sales were projects involving semiconductor manufacturing equipment and the development of communications and network equipment. As many manufacturers are planning on introducing new products, the Company expects to see an increase in orders for its system integration services. The Company is also seeing an increase in demand for the development of embedded Linux products.

Others

This category mainly represents sales of purchased products. First quarter sales were 195.9% higher than one year earlier due to sales of SoftCom, a system for semiconductor manufacturing equipment, embedded in PCs, and to repeat demand for products used in amusement arcade machinery.

Due to these factors, first quarter consolidated net sales increased 18.7% to ¥366 million and there was an ordinary loss of ¥47 million and a net loss of ¥69 million.

(2) Financial Position

Cash flows

During the first quarter, cash and cash equivalents decreased ¥72 million to ¥1,205 million as of June 30, 2003. This was mainly attributable to a net loss before income taxes and minority interest of ¥58 million, 28.1% less than the loss in last year's first quarter. In addition, the decrease in notes and accounts receivable-trade was down 19.2% to ¥153 million, the decrease in accounts payable-trade was down 29.0% to ¥41 million, the increase in inventories was up 52.9% to ¥34 million, the increase in other assets was down 25.0% to ¥47 million, the decrease in reserve for accrued bonuses was down 5.1% to ¥22 million and payments for acquisition of intangible assets were up 49.3% to ¥28 million.

First quarter cash flows were as follows.

(Operating activities)

Net cash used in operating activities was ¥44 million, 1,602.9% more than one year earlier. In addition to the net loss before income taxes and minority interest of ¥58 million, cash provided by the decrease in notes and accounts receivable-trade was down 19.2% to ¥153 million. The decrease in accounts payable-trade was ¥41 million, down 29.0%, the increase in inventories was ¥34 million, up 52.9%, the increase in other assets was ¥47 million, down 25.0%, and the decrease in reserve for accrued bonuses was down 5.1% to ¥22 million.

(Investing activities)

Net cash used in investing activities decreased 78.9% to ¥27 million. The main use of cash was payments of ¥28 million for the acquisition of intangible assets, 49.3% more than in the first quarter of the previous fiscal year.

(Financing activities)

Net cash provided by financing activities was ¥953 thousand, 96.9% less than one year earlier. This was mainly due to payments of ¥923 thousand for the repayment of finance lease liabilities.

3. Outlook for Fiscal Year Ending March 31, 2004**Communications**

Stable demand for multi-purpose boards and ISDN boards along with deliveries in the current fiscal year of products ordered in the previous fiscal year indicate that fiscal year shipments can reach the Company's initial forecast.

Internet protocol

There is steady growth in contracts for KASAGO IPv6 (IPv4 and Dual). Markets for the Company's products are growing because of increasing use of its software in custom LSIs and mobile phones. The market has now reached the stage where planning and development has begun to prepare for the expected advent of a so-called ubiquitous society in 2005. In addition, the Company's trial version of T-Engine software (ITRON type for general use) shows signs of becoming the de facto standard for next-generation embedded software. Plans call for stepping up sales activities for KASAGO Dual (IPv4 and IPv6).

Real-Time OS

ELX (-Neo), which features an enhanced protection function, has earned an excellent reputation among customers, business partners and many other groups. Direct sales of this product are expected to contribute to operating results in the second half of the fiscal year.

System Integration (customization)

In the second quarter, the Company plans to begin selling new software for semiconductor manufacturing equipment. This is expected to lead to demand for application development and customizing services. Another positive trend is the growing development of embedded Linux products.

Others

In conjunction with stand-alone software sales, there has been growth in orders for embedding software in PCs and embedding the software of other companies. The result is a general upturn in sales of system integration (customizing) and of purchased products.

Based on the annual tendency for deliveries and sales to be concentrated in the second half of each fiscal year, the Company is making no revisions to the forecast released on May 23, 2003.

Consolidated Forecast

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

** The forecast for the fiscal year ending March 31, 2004 is based on the judgments of management in accordance with information currently available. Actual results may differ materially from the forecast for a number of reasons. Consequently, investment decisions should not be based solely on this forecast. Factors that may affect operating results include, but are not limited to, economic trends in major markets, changes in demand and pricing for products, rapid technological advances, changes in foreign exchange rates, and revisions in regulations and accounting standards in Japan and overseas.*

4. Consolidated Financial Statements for the First Three Months Ended June 30, 2003

(1) Consolidated balance sheets

Account	Period	FY2002 1st Qtr. As of June 30, 2002		FY2003 1st Qtr. As of June 30, 2003		FY2002 Selected data As of March 31, 2003	
		¥ thousands	%	¥ thousands	%	¥ thousands	%
		Assets					
I Current assets							
1. Cash and deposits		210,090		207,360		171,219	
2. Notes & accounts receivable *3		604,202		653,394		801,048	
3. Available for sale securities		1,402,225		997,917		1,106,818	
4. Inventories		108,452		139,424		104,722	
5. Other current assets		163,486		155,979		116,809	
6. Reserve for doubtful receivables		(455)		(1,910)		(2,266)	
Total current assets		2,488,001	67.0	2,152,166	70.0	2,298,352	71.6
II Fixed assets							
1. Property, plant and equipment *1		48,409		49,284		50,811	
2. Intangible assets							
(1) Goodwill		737,517		58,989		58,842	
(2) Other intangible assets		118,009		159,315		144,478	
Total intangible assets		855,527		218,304		203,320	
3. Investments and other assets							
(1) Investment securities		-		195,522		195,758	
(2) Deferred tax assets		-		319,677		320,924	
(3) Other		322,886		140,424		142,734	
(4) Reserve for doubtful receivables		(1,344)		(1,500)		(1,500)	
Total investments and other assets		321,542		654,124		657,917	
Total fixed assets		1,225,479	33.0	921,713	30.0	912,049	28.4
Total assets		3,713,480	100.0	3,073,879	100.0	3,210,401	100.0

Account	Period		FY2002		FY2003		FY2002	
	1st Qtr.		1st Qtr.		1st Qtr.		Selected data	
	As of June 30, 2002		As of June 30, 2003		As of March 31, 2003			
	¥ thousands	%	¥ thousands	%	¥ thousands	%		
Liabilities								
I Current liabilities								
1. Accounts payable-trade	50,570		91,853		133,439			
2. Income taxes payable	1,465		5,071		7,636			
3. Reserve for accrued bonuses	29,341		28,075		50,200			
4. Other current liabilities *2	142,216		93,004		101,096			
Total current liabilities	223,594	6.0	218,003	7.1	292,372	9.1		
II Long-term liabilities								
1. Reserve for employees' retirement benefits	-		-		19			
2. Reserve for directors' retirement benefits	154,694		156,603		160,225			
3. Other long-term liabilities	66,972		57,601		59,664			
Total long-term liabilities	221,667	6.0	214,205	6.9	219,909	6.9		
Total liabilities	445,261	12.0	432,209	14.0	512,281	16.0		
Minority interest								
Minority interest	6,344	0.2	8,391	0.3	7,706	0.2		
Shareholders' equity								
I Common stock	1,160,041	31.2	1,160,041	37.7	1,160,041	36.1		
II Additional paid-in capital	1,459,152	39.3	1,459,152	47.5	1,459,152	45.5		
III Consolidated retained earnings	480,673	12.9	122,304	4.0	192,041	6.0		
IV Net Unrealized gain on other securities	37	0.0	(5,077)	(0.2)	(16,740)	(0.5)		
V Foreign currency translation adjustment	162,325	4.4	81,477	2.7	80,539	2.5		
IV Treasury stock	(355)	(0.0)	(184,619)	(6.0)	(184,619)	(5.8)		
Total shareholders' equity	3,261,874	87.8	2,633,278	85.7	2,690,414	83.8		
Total liabilities, minority interest and shareholders' equity	3,713,480	100.0	3,073,879	100.0	3,210,401	100.0		

(2) Consolidated statements of income

Account	Period	FY2002 1st Qtr. From April 1, 2002 to June 30, 2002		FY2003 1st Qtr. From April 1, 2003 to June 30, 2003		FY2002 Selected data From April 1, 2002 to March 31, 2003			
		¥ thousands		¥ thousands		¥ thousands			
			%		%		%		
I Net sales *1		309,060	100.0	366,928	100.0	1,888,436	100.0		
II Cost of sales		128,316	41.5	162,963	44.4	853,308	45.2		
Gross profit		180,743	58.5	203,965	55.6	1,035,128	54.8		
III SG&A *2		263,826	85.4	253,721	69.2	1,061,207	56.2		
Operating loss		83,083	(26.9)	49,755	(13.6)	26,079	(1.4)		
IV Non-operating income									
1. Interest income	355			313		2,935			
2. Dividends income	-			50		100			
3. Equity in earnings of affiliates	4,831			1,126		9,215			
4. Gain on anonymous partnerships	1,176			1,678		5,217			
5. Business consignment income	-			405		240			
6. Other non-operating income	476	6,840	2.2	237	3,811	1.1	1,933	19,641	1.0
V Non-operating expenses									
1. Interest expense	123			57		414			
2. Foreign exchange losses	2,596			1,830		12,873			
3. Loss on revaluation of options	2,019			-		6,700			
4. Other non-operating expenses	-	4,739	1.5	-	1,887	0.5	785	20,774	1.1
Ordinary loss		80,982	(26.2)	47,832	(13.0)	27,211	(1.4)		
VI Extraordinary income									
1. Gain on reversal from doubtful receivables	-			360		-			
2. Gain on sales of investment securities	-	-	-	-	360	0.1	10,150	10,150	0.5
VII Extraordinary loss									
1. Loss on impairment of goodwill	-			-		604,785			
2. Loss on revaluation of investment securities	-			10,735		32,120			
3. Loss on revaluation of inventories	-	-	-	-	10,735	3.0	14,399	651,305	34.5
Net loss before income taxes and minority interest (for the period)		80,982	(26.2)	58,207	(15.9)	668,366	(35.4)		
Income taxes -current	3,012			4,997		6,979			
Income taxes - deferred	20,654	23,666	7.7	5,845	10,842	2.9	(283,424)	(276,445)	(14.6)
Minority interest		(811)	(0.3)		685	0.2		550	0.0
Net loss (for the period)		103,838	(33.6)	69,736	(19.0)	392,471	(20.8)		

(3) Consolidated statements of retained earnings

Account	Period	FY2002 1st Qtr. From April 1, 2002 to June 30, 2002		FY2003 1st Qtr. From April 1, 2003 to June 30, 2003		FY2002 Selected data From April 1, 2002 to March 31, 2003	
		¥ thousands		¥ thousands		¥ thousands	
Capital surplus							
I	Capital surplus at beginning of period		1,459,152		1,459,152		1,459,152
II	Capital surplus at end of period		1,459,152		1,459,152		1,459,152
Retained earnings							
I	Retained earnings at beginning of period		624,316		192,041		624,316
II	Decline in retained earnings					39,804	
1.	Cash dividends	39,804		-		392,471	
2.	Net loss at end of period	103,838	143,642	69,736	69,736		432,275
III	Retained earnings at end of period		480,673		122,304		192,041

(4) Consolidated statements of cash flows

Account	Period	FY2002	FY2003	FY2002
		1st Qtr.	1st Qtr.	Selected data
		From April 1, 2002 to June 30, 2002	From April 1, 2003 to June 30, 2003	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		(80,982)	(58,207)	(668,366)
Depreciation and amortization		16,079	16,495	68,848
Equity in earnings of affiliates		(4,831)	(1,126)	(9,215)
Increase (decrease) in reserve for doubtful receivables		300	(360)	2,266
Decrease in reserve for accrued bonuses		(23,320)	(22,125)	(2,462)
Increase (decrease) in reserve for employees' retirement benefits		-	(19)	19
Increase(decrease) in reserve for directors' retirement benefits		(2,711)	(3,621)	2,818
Interest and dividends income		(355)	(363)	(3,035)
Interest expense		123	57	414
Gain on investment in anonymous partnerships		(1,176)	(1,678)	(5,217)
Foreign exchange losses		4,690	188	6,827
Loss on revaluation of options		2,019	-	-
Loss on options		-	-	6,700
Gain on sales of investment securities		-	-	(10,150)
Loss on impairment of goodwill		-	-	604,785
Unrealized loss on investment securities		-	10,735	32,120
Loss on revaluation of inventories		-	-	14,399
Decrease (increase) in notes and accounts receivable-trade		190,127	153,705	(11,444)
Increase in inventories		(22,663)	(34,635)	(33,318)
Increase (decrease) in accounts payable-trade		(58,580)	(41,608)	25,067
Increase in other assets		(62,718)	(47,049)	(11,673)
Increase (decrease) in other liabilities		35,662	4,754	(16)
Decrease in suspense receipt of consumption tax		9,302	-	9,302
Increase (decrease) in suspense payment of consumption tax		1,324	(12,387)	16,858
Subtotal		2,289	(37,245)	35,528
Interest and dividends received		355	863	10,560
Interest paid		(123)	(57)	(414)
Income taxes paid		(5,138)	(8,135)	(4,817)
Net cash provided by (used in) operating activities		(2,617)	(44,574)	40,857
II Cash flows from investing activities				
Payments for acquisition of available for sale securities		(101,500)	-	(202,154)
Proceeds from redemption of available for sale securities		-	-	100,654
Payments for acquisition of property, plant and equipment		(10,343)	(1,418)	(24,470)
Payments for acquisition of intangible assets		(19,147)	(28,578)	(88,767)
Payments for acquisition of investment securities		-	-	(53,656)
Gain on sales of investment securities		-	-	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		-	-	(500)
Proceeds from collection of long-term loans		660	440	1,640
Proceeds from return of leasehold and security deposits		-	2,594	373
Payment for acquisition of other investments		(402)	(572)	(2,230)
Net cash used in investment activities		(130,733)	(27,534)	(207,844)
III Cash flows from financing activities				
Payments for finance lease liabilities		(964)	(923)	(3,245)
Payments for acquisition of treasury stock		-	-	(184,264)
Cash dividends paid		(29,667)	(30)	(39,504)
Net cash used in financing activities		(30,631)	(953)	(227,013)
IV Effect of exchange rate changes on cash and cash equivalents		(4,280)	303	(10,370)
V Decrease in cash and cash equivalents		(168,262)	(72,759)	(404,370)
VI Cash and cash equivalents at beginning of period		1,682,407	1,278,037	1,682,407
VII Cash and cash equivalents at end of period		1,514,144	1,205,278	1,278,037

Significant Accounting Policies in the Preparation of Consolidated Financial Statements

Consolidated three-month period ended June 30, 2003 (From April 1, 2003 to June 30, 2003)

1. Scope of consolidation

(1) Consolidated subsidiaries: 2
Names of consolidated subsidiaries: Elmic Systems USA, Inc., AIRFOLC Corporation

(2) Unconsolidated subsidiaries: None

2. Equity method accounting

(1) Affiliates accounted for by the equity method of accounting: 1
Affiliate name: WESCOM Inc.

(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 three-month periods and is of relatively little significance in the context of consolidated financial statements.

3. Balance sheet dates of subsidiaries

The consolidated financial statements for the period include the three-month accounts of the following consolidated subsidiaries, of which the three-month periods end on a different day:

Elmic Systems USA, Inc.: Three-month period ended March 31

AIRFOLC Corporation: Three-month period ended May 31

In the preparation of consolidated financial statements for the period, the financial statements of the subsidiaries for their respective three-month periods have been used. With respect to significant transactions, which occurred after the balance sheet dates of the consolidated subsidiaries, necessary adjustments have been made in the consolidated financial statements.

4. Accounting standards

A. Valuation criteria and methods for significant assets:

(1) Securities

Affiliate company stock:

Stated at cost using the moving average method

Other securities:

Securities with market quotations

Stated at fair value based on market prices on the balance sheet date

(Unrealized holding gains and losses are accounted for as a component of the shareholders' equity; cost of other securities sold is determined using the moving average method.)

Securities without market quotations:

Stated at cost using the moving average method

(2) Derivatives

No reportable information.

(3) Inventories

Merchandise:

Stated at cost, cost being determined by the moving average method.

Products, work in process and raw materials:

Stated at cost, cost being determined by the weighted average method.

B. Depreciation and amortization of significant depreciable assets

(1) Property, plant and equipment

The Company and its domestic subsidiaries compute depreciation using the declining balance method, in accordance with Corporation Tax laws. Overseas consolidated subsidiaries compute depreciation using the straight-line method in accordance with the generally accepted accounting standards of the countries of their domicile.

(2) Intangible assets

The Company and its domestic subsidiaries amortize capitalized costs using one of two alternate methods, which is higher, depreciation based on estimated sales volume or the straight-line method based on remaining the estimated period to expiration. Software for internal use is amortized using the straight-line method over its estimated useful life of five years. Overseas consolidated subsidiaries compute depreciation in accordance with the generally accepted accounting standards of the countries of their domicile.

C. Recognition of reserves

(1) Reserve for doubtful receivables

To prepare for credit losses on accounts receivable, the Company and its domestic subsidiaries provide an allowance equal to the estimated amount of uncollectible receivables for general receivables based on the

historical write-off ratio, and bad receivables based on a case-by-case determination of collectibility. Overseas consolidated subsidiaries provide allowances for credit losses based on a case-by-case determination of collectibility.

(2) Reserve for accrued bonuses

As a means of providing for bonus obligations, the Company and its domestic subsidiaries designate in the reserve account an amount accrued for the three-month periods among the estimated future obligations.

(3) Reserve for employees' retirement benefits

To provide for employees' retirement benefits, an allowance for retirement benefits is provided in the amount deemed to have accrued, determined based on the estimated retirement benefit obligations and pension assets at the end of the period. Since pension assets at the end of the period exceeded the estimated retirement benefit obligations ¥2,008 thousand was charged to income as a pre-paid pension expense.

(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.

D. Accounting for lease transactions

Overseas consolidated subsidiaries account all finance lease contracts other than those that are deemed to transfer the ownership of the leased assets to lessees by the method similar to that applicable to regular trading transactions.

E. Accounting for significant hedge transactions

No reportable information.

F. Other significant accounting policies in the preparation of consolidated financial statements for the period

(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 thousand 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 anonymous partnership's net income (as recorded in the settlement of accounts for the three-month period) proportional to the Company's investment in the anonymous partnership is recognized as a gain or loss on investment in the anonymous partnership.

(2) Accounting treatment for consumption taxes

Consumption tax is accounted by the tax exclusion method.

5. Scope of cash and cash equivalents on consolidated statements of cash flows

The Company considers cash on hand and bank deposits which may be withdrawn on demand and all highly liquid short-term investments with maturities of three months or less that are easily transferable to cash with minimal risk of diminution of principle to be funds (cash and cash equivalents).

Reclassifications

Consolidated balance sheets for the three-month period ended June 30, 2003

Effective from the consolidated three-month period ended June 30, "Investment securities", presented as a component of "Other" in the "Investments and other assets" account for the consolidated three-month period ended June 30, 2002, are reclassified and presented as a separate item since the value of investment securities exceeded 5% of total assets as of the end of the consolidated three-month period ended June 30, 2003. "Investment securities" totaled ¥147,616 thousand as of the end of the three-month period ended June 30, 2002.

Effective from the consolidated three-month period ended June 30, 2003, "Deferred tax assets - non-current," presented as a component of "Other" in the "Investments and others" account for the consolidated three-month period ended June 30, 2002, are reclassified and presented as a separate item since the amount exceeded 5% of total assets as of the end of the consolidated three-month period ended June 30, 2003. "Deferred tax assets - non-current" totaled ¥33,251 thousand for the consolidated three-month period ended June 30, 2002.

Consolidated statements of income for the three-month period ended June 30, 2003

Effective from the consolidated three-month period ended June 30, 2003, "Business consignment income" presented as a component of "Other" in the non-operating income account for the consolidated three-month period ended June 30, 2002, is reclassified and presented as a separate item since the amount exceeded 10% of the total non-operating income as of the end of the consolidated three-month period ended June 30, 2003. "Business consignment income" in the three-month period ended June 30, 2002 totaled ¥60 thousand.

Notes to Consolidated Financial Statements

Consolidated three-month period ended June 30, 2003 (From April 1, 2003 to June 30, 2003)

Notes to consolidated balance sheets

*1. Accumulated depreciation on property, plant and equipment: ¥111,958 thousand

*2. Accounting for consumption tax:

Net balance of consumption tax withheld and paid is included in "Other current liabilities" in the Current liabilities section since the amount is relatively insignificant.

Notes to consolidated statements of income

*1. The Company's financial results are affected by seasonal factors. These include a marked difference in the Company's first half and second half sales, since the weight of production on order is markedly higher heavier in the second half in comparison to the first half.

*2. Principal components and corresponding amounts of selling, general and administrative expenses:

Wages & allowances: ¥95,855 thousand

Provision for accrued bonuses: ¥10,150 thousand

Provision for directors' retirement benefits: ¥2,070 thousand

R&D expenses: ¥28,344 thousand

Notes to consolidated statements of cash flows

Reconciliation of cash and cash equivalents of the statements of cash flows and account balances of balance sheets for the period is made as follows (As of June 30, 2003):

Cash and deposits: ¥207,360 thousand

Short-term investments with original maturities of less than three months (securities): ¥997,917 thousand

Cash and cash Equivalents: ¥1,205,278 thousand

Accounting for Leases

No reportable information.

Securities

(As of June 30, 2003)

Securities classified as other securities

1. Securities with market quotations

Yen in thousands

Security	Acquisition cost	Carrying value	Unrealized gain or loss
(1) Equity securities	18,860	18,060	(800)
(2) Debt securities			
a. JGBs and municipal bonds	-	-	-
b. Corporate bonds	-	-	-
c. Others	-	-	-
(3) Others	94,800	91,800	(3,000)
Total	113,660	109,860	(3,800)

2. Securities without market quotations

Yen in thousands

	Carrying value	Remarks
Other securities		
Money management funds	855,798	
Free financial funds	100,016	
Medium-term government bond funds	42,102	
Unlisted stock	11,354	
Total	1,009,272	

Derivatives

Consolidated three-month period ended June 30, 2003 (From April 1, 2003 to June 30, 2003)

No reportable information. The Group did not have any outstanding derivative positions as of the end of the consolidated three-month period ended June 30, 2003.

Segment Information

Consolidated three-month period ended June 30, 2003 (From April 1, 2003 to June 30, 2003)

1. Segment information by operating segment

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

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	339,952	25,686	1,289	366,928	-	366,928
(2) Inter-segment sales and transfers	-	24,757	-	24,757	[24,757]	-
Total	339,952	50,443	1,289	391,685	[24,757]	366,928
Operating expenses	330,241	86,310	8,708	425,260	[8,576]	416,684
Operating income (loss)	9,710	(35,866)	(7,419)	(33,575)	[16,180]	(49,755)

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.

(2) Europe: France

3. Unallocatable operating expenses included in eliminations or corporate.

Amount of unallocatable operating expenses included in eliminations or corporate: ¥10,002 thousand

Significant components: Represent expenses related to the administration division

4. Supplementary information

Amortization of goodwill:

Effective from the three-month period 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, Section 4. Accounting Standards, Subsection: B Depreciation and amortization of significant depreciable assets for the three-month period ended March 31, 2003). The application of the new standards caused first quarter operating expenses and operating loss in the North American operations to decline by ¥9,833 thousand.

5. Changes in accounting treatment

Previous consolidated fiscal year

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

Effective from the previous consolidated fiscal year, as noted in the section on Significant Accounting Policies in the Preparation of Consolidated Financial Statements, Section 4: Matters Concerning Accounting Standards, Sub-section (b): Depreciation of Principal Depreciable Assets, overseas subsidiaries adopted SFAS rules on accounting for "Goodwill and Other Intangible Assets." The application of the new standards caused operating expenses and operating loss in the North American operations to decline by ¥35,393 thousand each and assets to decline by ¥569,392 thousand in the previous consolidated fiscal year.

3. Overseas sales

Yen in thousands

	North America	Other	Total
I. Overseas sales	25,353	1,622	26,975
II. Consolidated net sales	-	-	366,928
II. Weight of overseas sales in total consolidated net sales	6.9%	0.4%	7.4%

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.

Per Share Information

Consolidated three-month period ended June 30, 2003 (From April 1, 2003 to June 30, 2003)

Net assets per share: ¥546.70

Net loss per share (1st Qtr.) basic: ¥14.48

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

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

Net loss for the period: ¥69,736 thousand

Equity in net loss not account of regular shareholders: None

Regular shareholders' equity in net loss: ¥69,736 thousand

Average number of shares outstanding for the period: 4,816,000 shares

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: 176,000 shares)

5. Others

Financial statements for the current three-month period ended June 2003, that is consolidated balance sheet, consolidated statements of income, and consolidated statements of cash flows for the period, have been audited by the company's auditors in conformation with the "Standards for Report of the Independent Certified Public Accountants on Quarterly Financial Statements" set forth in the supplement to the "Rules Regarding Timely Disclosure of Corporate Information by Companies Issuing Listed Securities."

** 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.*