

NextCom K . K .

ANNUAL REPORT

March 31, 2001 and 2002

Report of Independent Accountants

To the Board of Directors of  
NextCom K.K.

We have audited the accompanying balance sheets of NextCom K.K. as of March 31, 2001 and 2002, and the related statements of income, shareholders' equity, and cash flows for the years ended March 31, 2001 and 2002, all expressed in Japanese yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of NextCom K.K. as of March 31, 2001 and 2002, and the results of its operations and its cash flows for the years ended March 31, 2001 and 2002 in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis.

As described in Note 2 (8), effective from the year ended March 31, 2001, NextCom K.K. has adopted new Japanese accounting standard for reserve for retirement benefits to employees.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying financial statements.

*ChuoAoyama Audit Corporation*

ChuoAoyama Audit Corporation

Tokyo, Japan

June 20, 2002

**Balance Sheets**  
As of March 31, 2001 and 2002

	Thousands of yen		Thousands of U.S. dollars (Note 1)
	2001	2002	2002
<b><u>ASSETS</u></b>			
<b>Current Assets</b>			
Cash on hand and at banks (Note 3 and 7)	¥ 2,402,639	¥ 2,584,619	\$ 19,397
Marketable securities (Note 3 )	783,266	119,931	900
Notes and accounts receivable, trade (Note 4)	5,701,300	10,530,927	79,031
Less: allowance for doubtful accounts	(91,350)	(78,670)	(590)
	<u>5,609,950</u>	<u>10,452,257</u>	<u>78,441</u>
Inventories	3,162,644	2,648,764	19,878
Prepaid expense	69,420	52,356	393
Deferred income taxes (Note 10)	200,487	156,485	1,174
Foreign exchange forward contracts	264,216	317,240	2,381
Other current assets	163,396	77,614	582
<b>Total current assets</b>	<u>12,656,018</u>	<u>16,409,266</u>	<u>123,146</u>
<b>Property and Equipment (Note 7)</b>			
Land	2,104,603	2,104,603	15,794
Buildings and structures	1,267,941	1,274,917	9,568
Machinery and equipment	919,906	1,186,531	8,905
Construction in progress	-	59,124	444
	<u>4,292,450</u>	<u>4,625,175</u>	<u>34,711</u>
Less: accumulated depreciation	(633,531)	(897,753)	(6,737)
<b>Net property and equipment</b>	<u>3,658,919</u>	<u>3,727,422</u>	<u>27,974</u>
<b>Investments and other assets</b>			
Investments in securities	50,000	30,000	225
Investments in an affiliate	-	50,000	375
Long-term deposits	-	300,000	2,252
Deferred income taxes (Note 10)	78,254	90,782	681
Foreign exchange forward contracts	352,788	404,287	3,034
Others	257,898	258,212	1,938
<b>Total investments and other assets</b>	<u>738,940</u>	<u>1,133,281</u>	<u>8,505</u>
<b>Total assets</b>	<u>¥ 17,053,877</u>	<u>¥ 21,269,969</u>	<u>\$ 159,625</u>

**Balance Sheets**  
As of March 31, 2001 and 2002

	Thousands of yen		Thousands of U.S. dollars (Note 1)
	2001	2002	2002
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>			
<b>Current Liabilities:</b>			
Short-term loans (Note 6)	¥40,000	¥920,000	\$6,904
Current portion of long-term debt (Note 6)	352,000	390,000	2,927
Notes and accounts payable, trade	3,040,387	5,880,625	44,132
Income taxes payable	998,786	348,992	2,619
Consumption taxes payable	-	142,504	1,069
Accrued expenses	355,554	370,052	2,777
Advances received	553,185	538,950	4,045
Accrued bonuses to employees	122,913	156,731	1,176
Deferred profits on hedging activities	458,238	382,943	2,874
Other current liabilities	72,917	108,874	817
<b>Total current liabilities</b>	<b>5,993,980</b>	<b>9,239,671</b>	<b>69,340</b>
<b>Long-Term Liabilities:</b>			
Long-term debt (Note 6)	1,788,000	1,398,000	10,492
Reserve for retirement benefits (Note 8)	149,752	190,687	1,431
Deposits received for guarantees	231,505	231,153	1,735
Deferred profits on hedging activities	359,909	404,287	3,034
Other long-term liabilities	92,828	207,501	1,557
<b>Total long-term liabilities</b>	<b>2,621,994</b>	<b>2,431,628</b>	<b>18,249</b>
<b>Total liabilities</b>	<b>8,615,974</b>	<b>11,671,299</b>	<b>87,589</b>
<b>Shareholders' Equity:</b>			
Common stock (Note 12)			
Authorized: 29,000 shares at March 31, 2001			
400,000 shares at March 31, 2002			
Issued: 8,361 shares at March 31, 2001			
102,096 shares at March 31, 2002	2,761,250	2,834,750	21,274
Additional paid-in-capital	4,458,959	4,533,929	34,026
Legal reserve	900	11,721	88
Retained earnings	1,216,794	2,218,270	16,648
<b>Total shareholders' equity</b>	<b>8,437,903</b>	<b>9,598,670</b>	<b>72,036</b>
<b>Total liabilities and shareholders' equity</b>	<b>¥17,053,877</b>	<b>¥21,269,969</b>	<b>\$159,625</b>

## Statements of Income

For the years ended March 31, 2001 and 2002

	Thousands of yen		Thousands of U.S. dollars
	2001	2002	(Note 1) 2002
<b>Net Sales</b>	¥ 22,089,959	¥30,188,257	\$ 226,554
<b>Cost of sales</b>	17,691,698	25,287,069	189,772
Gross profit	4,398,261	4,901,188	36,782
<b>Selling, general and administrative expenses</b> (Note 9)	2,887,561	3,315,991	24,885
Operating income	1,510,700	1,585,197	11,897
<b>Other income (expenses):</b>			
Interest income	4,234	11,786	88
Exchange gain	484,813	434,086	3,257
Rental income, net	145,355	159,009	1,193
Interest expenses	(95,738)	(63,758)	(478)
Loss on disposal of inventories	(34,405)	(38,637)	(290)
Stock issue expenses	(25,020)	(6,558)	(49)
Loss on disposal of property and equipment	(2,573)	(1,924)	(14)
Loss on write-down of investment securities	-	(49,999)	(376)
Others, net	(12,082)	32,316	243
	464,584	476,321	3,574
<b>Income before income taxes</b>	1,975,284	2,061,518	15,471
Income taxes			
- Current	1,020,918	858,561	6,443
- Deferred	(163,528)	31,475	236
	857,390	890,036	6,679
<b>Net income</b>	¥ 1,117,894	¥ 1,171,482	\$ 8,792

	Yen		U.S. dollars
	2001	2002	(Note 1)
<b>Per share information (Note 2(15)) :</b>			
Net income per share			
- Basic earnings	¥11,902.12	¥11,517.30	\$ 86.434
- Diluted earnings	11,478.30	11,326.88	85.005
Cash dividends per share	833.33	500.00	7.505

## Statement of Changes in Shareholders' Equity

For the years ended March 31, 2001 and 2002

	Number of common stock	Thousands of yen			Retained earnings
		Common Stock	Additional paid-in capital	Legal reserve	
<b>Balance at March 31, 2000</b>	7,265	¥ 588,250	¥ 424,999	¥ 900	¥ 98,900
Net income	-	-	-	-	1,117,894
New stock issued	1,000	2,125,000	3,985,000	-	-
New stock issued upon exercise of warrant	96	48,000	48,960	-	-
<b>Balance at March 31, 2001</b>	8,361	2,761,250	4,458,959	900	1,216,794
Net income	-	-	-	-	1,171,482
Stock split	93,412	-	-	-	-
Cash dividends	-	-	-	-	(83,610)
Directors' and corporate auditors' bonuses	-	-	-	-	(24,600)
Transfer to legal reserve	-	-	-	10,821	(10,820)
Interim dividends	-	-	-	-	(50,976)
New stock issued upon exercise of warrant	323	73,500	74,970	-	-
<b>Balance at March 31, 2002</b>	<u>102,096</u>	<u>¥2,834,750</u>	<u>¥ 4,533,929</u>	<u>¥11,721</u>	<u>¥ 2,218,270</u>

	Thousands of U.S. dollars			
	Common Stock	Additional paid-in capital	Legal reserve	Retained earnings
<b>Balance at March 31, 2001</b>	\$ 20,722	\$ 33,462	\$ 7	\$ 9,131
Net income	-	-	-	8,792
Cash dividends	-	-	-	(626)
Directors' and corporate auditors' bonuses	-	-	-	(184)
Transfer to legal reserve	-	-	81	(81)
Interim dividends	-	-	-	(384)
New stock issued upon exercise of warrant	552	564	-	-
<b>Balance at March 31, 2002</b>	<u>\$ 21,274</u>	<u>\$ 34,026</u>	<u>\$ 88</u>	<u>\$ 16,648</u>

**Statements of Cash flows**  
For the years ended March 31, 2001 and 2002

	Thousands of yen		Thousands of U.S. dollars (Note 1)
	2001	2002	2002
<b>Cash flows from operating activities:</b>			
Income before income taxes	¥ 1,975,284	¥ 2,061,518	\$ 15,471
Adjustments for -			
Depreciation	212,172	292,558	2,196
Decrease (increase) in allowance for doubtful accounts	49,936	(12,681)	(95)
Increase in accrued bonuses to employees	38,813	33,818	254
Increase in reserve for retirement benefits	57,821	40,935	308
Interest income	(17,216)	(26,594)	(200)
Interest expenses	96,717	63,758	478
Loss on disposal of property and equipment	2,573	1,924	14
Loss on disposal of inventories	34,405	38,638	290
Write-down of investment securities	-	49,999	375
Increase in notes and accounts receivable, trade	(1,363,794)	(4,843,861)	(36,352)
Decrease (increase) in inventories	(1,970,107)	475,392	3,568
Increase in notes and accounts payable, trade	1,186,976	2,903,841	21,792
Increase (decrease) in consumption taxes payable	(68,047)	178,844	1,342
Decrease (increase) in long-term prepaid expenses	(49,583)	35,000	263
Bonuses to directors and corporate auditors	-	(24,600)	(185)
Others, net	147,294	131,409	987
Subtotal	333,244	1,399,898	10,506
Interest received	14,361	26,313	197
Interest expenses paid	(83,460)	(64,540)	(484)
Income taxes paid	(77,972)	(1,508,355)	(11,320)
<b>Net cash provided by (used in) operating activities</b>	<b>186,173</b>	<b>(146,684)</b>	<b>(1,101)</b>
<b>Cash flows from investing activities:</b>			
Decrease in time deposit, net	(304,770)	(5,230)	(39)
Purchase of marketable securities	(534,515)	-	-
Sale of marketable securities	55,074	479,441	3,598
Purchase of property and equipment	(492,744)	(299,941)	(2,251)
Purchase of intangible assets	(18,718)	(19,942)	(150)
Purchase of investments in securities	-	(80,000)	(600)
<b>Net cash provided by (used in) investing activities</b>	<b>(1,295,673)</b>	<b>74,328</b>	<b>558</b>
<b>Cash flows from financing activities:</b>			
Proceeds from short-term loans	1,750,000	2,600,000	19,513
Repayments of short-term loans	(4,477,405)	(1,720,000)	(12,908)
Repayments of long-term debt	(689,000)	(352,000)	(2,642)
Issuance of bonds	480,000	-	-
Retirement of bonds	(470,000)	-	-
New stock issue	6,206,960	148,470	1,114
Cash dividends paid	-	(134,586)	(1,010)
<b>Net cash provided by financing activities</b>	<b>2,800,555</b>	<b>541,884</b>	<b>4,067</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>1,065</b>	<b>780</b>	<b>6</b>
<b>Net increase in cash and cash equivalents</b>	<b>1,692,120</b>	<b>470,308</b>	<b>3,530</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>532,122</b>	<b>2,224,242</b>	<b>16,692</b>
<b>Cash and cash equivalents at end of the year (Note 3)</b>	<b>¥ 2,224,242</b>	<b>¥ 2,694,550</b>	<b>\$ 20,222</b>

## 2 Summary of Significant Accounting Policies

### (1) Marketable securities, Investments in securities and Investments in affiliates

Marketable securities as of March 31, 2001 and 2002 represented Monetary Management Fund are stated at cost in accordance with the Japanese accounting standards.

Investments in securities as of March 31, 2001 and 2002 represented unlisted equity securities and are stated at cost determined by the moving-average method. Value of investments in securities decline significantly and such decline in value is not deemed temporary, those investments are written down to fair value and the resulting losses are charged to income for the period.

Investment in an affiliate is stated at cost since equity in such affiliate is deemed insignificant. The cost is determined by the moving-average method.

### (2) Inventories

Inventories are stated at cost determined by the moving-average method.

### (3) Property and equipment

Property and equipment are stated at cost. Depreciation is computed based on the declining-balance method while the straight-line method is applied to buildings acquired on and after April 1, 1998.

The rates of their useful lives are based on the estimated useful lives of assets prescribed by the Japanese income tax laws.

### (4) Intangible assets

Intangible assets are amortized on straight-line basis. Amortization period for software for internal use is 5years as the estimated useful life.

### (5) Stock issue expenses

Stock issue expenses are charged to income when incurred.

At the initial public offering on September 19, 2000, new share was issued under certain arrangements with underwriters whereby the underwriters purchased those shares to be sold in the market at the price equivalent to the selling market price less commission in the total amount of ¥390,000 thousand. Accordingly the increase in common stock and additional paid-in capital in the aggregate was decreased and stock issue expenses was decreased in that amount, respectively, as compared to those if such commission to underwriters had been paid separately from the proceeds of the public offering at the selling market price by the Company.

(6) Allowance for doubtful accounts

For normal receivables: Allowance for doubtful accounts for debtors who are not in trouble with their financial status, is determined by applying the historical credit loss rates to the balance at the end of period.

For doubtful receivables: Allowance for doubtful accounts for debtors who have not failed but has a probability to be in serious financial trouble for repayments of debts, is determined by estimating the uncollectible amount of such receivables respectively.

(7) Accrued bonuses to employees

Accrued bonuses to employees represents the estimated amounts of bonuses to employees attributable to their services rendered within the respective period.

(8) Reserve for retirement benefits

The Company has defined benefit pension plan for employees and retirement plans for directors and corporate auditors, respectively.

Until the year ended March 31, 2000, the reserve "Reserve for retirement benefits" were provided principally at 40% of the amount that would have been paid if all employees had voluntarily retired at the balance sheet date.

Effective from the year ended March 31, 2001, the Company adopted the new Japanese accounting standard for retirement benefits to employees. Under the new accounting standard, the reserve for retirement benefits is provided in the amount that would have been borne by the Company if all employees had voluntarily retired at the balance sheet date, whereas the contribution to the retirement fund is charged to income as incurred. The unrecognized transition amount at April 1, 2000 resulted from adopting the new standard in ¥16,110 thousand was charged to income for the year ended March 31, 2001.

The reserve for retirement benefit to directors and corporate auditors is recorded in the amount calculated in accordance with the relevant internal rule if all directors and corporate auditors had retired at the respective balance sheet dates. Payment of the retirement benefits to directors and corporate auditors requires the shareholders' prior approval, however the reserve for the retirement benefits to directors and corporate auditors is recognized as the generally accepted customary practice in Japan.

(9) Income taxes

Income taxes of the Company consist of corporate income taxes, corporate inhabitant taxes and enterprise taxes. Enterprise taxes are deductible when paid for the computation of other income taxes.

Deferred tax accounting is applied and the asset and liability approach is employed in accordance with the Japanese accounting standards.

#### (10) Consumption taxes

The consumption taxes are imposed at the flat rate of 5% on all domestic consumption of goods and services with certain exceptions.

The consumption taxes paid for purchase and consumption tax withheld from sales are excluded from expenses and sales amount in the accompanying financial statements. Net consumption taxes receivable was recorded in the amount of ¥36,339 thousand in other current assets in the accompanying balance sheet as of March 31, 2001.

#### (11) Derivatives and hedging activities

The Company uses foreign exchange forward contract, foreign currency options, marketable securities and time deposits denominated in foreign currencies to hedge the exchange risks associated with payables, contract obligations on import transactions and anticipated transactions denominated in foreign currencies. The Company uses also interest swaps to reduce interest rate risk.

The company does not enter into derivatives for trading purposes or speculative purpose. Internal rules have been established with respect to the purposes, policies, procedures and approvals, and reporting. As to the hedging transactions, the effectiveness of hedge over the hedged items is constantly monitored.

The new Japanese accounting standards for financial instruments effective from the year ended March 31, 2001 include accounting and reporting for derivative financial arrangements and the hedge accounting. Where the transactions do not satisfy the conditions shown in the accounting standards, such derivative arrangements and financial instruments are valued at fair value and resulting unrealized gains or losses are included in the calculation of the current year's income. However, where transactions are fallen into the category of hedging transactions, a deferral method of accounting is applied (hedge accounting). Under the hedge accounting, unrealized gains and losses on the hedge instruments are carried as assets or liabilities in the balance sheets until the profits and losses on the hedged items are realized.

#### (12) Leases

Lease transactions are accounted for in conformity with the Japanese accounting standards on leases.

All leases other than those under which the title of ownership is deemed to be transferred to the lessees are accounted for as operating leases.

#### (13) Appropriation of retained earnings

The Japanese Commercial Code (the "Code") requires the appropriation including cash dividends of retained earnings to be approved at the shareholders meeting to be held within three months after the balance sheet date. Also the Code allows the Board of Directors to make interim cash distribution (interim cash dividends) if certain conditions are satisfied. The amounts of cash dividends shown in the accompanying statements of changes in

shareholders' equity is the total of such interim cash dividends and the cash dividends paid during the respective periods.

#### (14) Cash and cash equivalents

For the purpose of the statement of cash flows, "Cash and cash equivalents" consists of cash on hand, demand deposits and certain investments with original maturity of three months or less with virtually no risk of loss of value.

#### (15) Earnings and Dividends per share

Basic earnings per share is computed based on the weighted-average number of shares of common stock outstanding during each period.

Diluted earnings per share reflects the potential dilution that could occur when contracts to issue common shares were exercised, and when dilutive securities were converted into common shares.

On August 1, 2001, the Company effected a twelve-for-one stock split, which increased the number of shares issued by 93,412. Basic earnings and diluted earnings per share as well as cash dividends per share for the year ended March 31, 2002 and 2001 were calculated assuming the twelve-for-one stock split had occurred on April 1, 2000.

The amount of cash dividends is total of interim cash dividends paid during the respective periods and such dividends declared as applicable to the respective periods.

### 3 Cash and cash equivalents

	Thousands of yen		Thousands of U.S. dollars
	2001	2002	2002
Cash on hand and at banks	¥ 2,402,639	¥ 2,584,619	\$ 19,397
Marketable securities	200,303	119,931	900
Less: Time deposits with maturity over 3 months	<u>(378,700)</u>	<u>(10,000)</u>	<u>(75)</u>
Total cash and cash equivalents	<u>¥ 2,224,242</u>	<u>¥ 2,694,550</u>	<u>\$ 20,222</u>

### 4 Notes receivable matured at year-end

Settlement on notes receivable is accounted for at the relevant dates of clearance. 31 March, 2001 and 2002 was a holiday for financial institutions in Japan, and the balances of notes receivable in the accompanying balance sheets of March 31, 2001 and 2002 includes those notes with maturity date at that time as follows.

	Thousands of yen		Thousands of U.S. dollars
	2001	2002	2002
	Notes receivable	¥362,967	¥350,519

## 5 Derivative Financial Instruments

The derivative transactions of the Company as of March 31, 2002 and 2001 were as follows:

	Thousands of yen					
	2001			2002		
	Notional Amount	Market Value	Unrealized Loss	Notional Amount	Market Value	Unrealized Loss
Options Sold(US\$)Put	-	-	-	¥839,580	(¥78,662)	(¥78,662)

	Thousands of U.S. dollars		
	2002		
	Notional Amount	Market Value	Unrealized Loss
Options Sold(US\$)Put	\$6,301	(\$590)	(\$590)

- Derivative transactions to which hedge accounting is applied are excluded from the above table.
- Unrealized loss in the above table is charged to income for the year.

## 6 Short-term Loans and Long-term Debt

### (1) Short-term loans

The weighted-average interest rate for short-term bank loans was 1.375% as of March 31, 2001 and 2002.

### (2) Long-term debt

The weighted-average interest rate for long-term bank loans was 2.934% as of March 31, 2001 and 2002.

The interest rate for unsecured bonds was 6 months Yen TIBOR plus 1.80% as of March 31, 2001 and 2002.

	Thousands of yen		Thousands of U.S. dollars
	2001	2002	2002
Payable to domestic banks			
Collateralized	¥2,130,000	¥1,778,000	\$13,344
	<u>2,130,000</u>	<u>1,778,000</u>	<u>13,344</u>
Unsecured bonds with detachable warrants due April 30, 2004	10,000	10,000	75
Less: Amounts due within one year	(352,000)	(390,000)	(2,927)
	<u>¥1,788,000</u>	<u>¥1,398,000</u>	<u>\$10,492</u>

Repayments schedule for long-term bank loans payable for the five years was as follows :

	Thousands of yen	Thousands of U.S. dollars
2003.....	¥390,000	\$2,927
2004.....	352,000	2,642
2005.....	352,000	2,642
2006.....	352,000	2,642
2007 .....	332,000	2,491
	<u>¥1,778,000</u>	<u>\$13,344</u>

## 7 Assets pledged as collateral

Assets pledged as collateral for long-term debt as of March 31, 2001 and 2002 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2001	2002	2002
Cash at bank	¥ 10,000	¥ 10,000	\$ 75
Property and equipment (net book value)	<u>3,055,738</u>	<u>2,997,276</u>	<u>22,494</u>
	<u>¥3,065,738</u>	<u>¥3,007,276</u>	<u>\$22,569</u>

## 8 Reserve for Retirement benefits

The balances of defined benefit pension plan for employees and retirement plans for directors and corporate auditors as of March 31, 2001 and 2002 are as follows:

	Thousands of yen		Thousands of U.S. dollars
	2001	2002	2002
Employees' retirement benefits	¥ 38,572	¥ 54,107	\$ 406
Directors and corporate auditors retirement benefits	111,180	136,580	1,025
Total	<u>¥ 149,752</u>	<u>¥ 190,687</u>	<u>\$ 1,431</u>

The composition of cost of reserve for employees' retirement benefits for year ended March 31, 2001 and 2002 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2001	2002	2002
Service cost	¥ 15,402	¥ 21,428	\$ 161
Pension premium	26,946	33,661	252
Amortization of transition obligations	16,110	-	-
Total cost of reserve retirement benefits	<u>¥ 58,458</u>	<u>¥ 55,089</u>	<u>\$ 413</u>

## 9 Research and Development

Research and development expenditure charged to income was ¥11,682 thousand and ¥58,571 thousand (\$440 thousand) for the year ended March 31, 2001 and 2002, respectively.

## 10 Income Taxes

The statutory income tax rates as of March 31, 2002 and 2001 were 42.0 per cent.

Significant components of deferred tax assets at March 31, 2001 and 2001 were as follows :

	Thousands of yen		Thousands of U.S. dollars
	2001	2002	2002
Deferred tax assets:			
Accrued bonuses to employees	¥ 71,013	¥ 80,590	\$ 605
Accrued enterprise taxes	88,201	30,711	230
Depreciation	20,218	16,829	126
Reserve for retirement benefits	58,036	73,953	555
Allowance for doubtful accounts	11,995	18,049	135
Others	29,278	27,135	204
Net deferred tax assets	<u>¥ 278,741</u>	<u>¥ 247,267</u>	<u>\$ 1,855</u>



## 12 Shareholders' Equity

Under the Japanese Commercial Code, an amount equivalent to 10% of interim cash dividends and at least 10% of cash distribution as a result of the appropriation of retained earnings including cash dividends and bonuses to directors and corporate auditors was required to be appropriated as a legal reserve until the reserve balance reaches 25% of common stock. In October 2001, the Japanese Commercial Code was amended to allow companies to draw down a portion of the statutory reserve (the total of additional paid-in capital and legal reserve) amount in excess of 25% of common stock. The excess may be available for dividends, provided that certain procedures required under the Japanese Commercial Code are taken and stockholders' approval is obtained at the stockholders' meeting.

The Company issued unsecured bonds with detachable warrants on April 17, 2000 but retired the portion of bonds during the year ended March 31, 2001. Detached convertible rights outstanding as of March 31, 2002 represent potential issue of 2,256 shares at ¥83,333 (\$625).

At the shareholders meeting held on June 22, 2001, shareholders approved that the Company may grant the right of allotment of issue of 3,567 shares at ¥303,000 (\$2,273.92) during the period from October 1, 2002 to September 30, 2005 to certain persons who hold offices of directors or corporate auditors of the Company or its related companies and who are employees at the time of exercise of such rights. Exercise price of the above rights are subject to subsequent adjustment in certain events including new share issue below market price.

## 13 Related Party Transactions

The parent company of the Company is CSK Corporation, which owns 43.3% and 42.6% of shares of the Company as of March 31, 2001 and 2002, respectively, and Sega Corporation owns 35.0% and 34.4% of shares of the Company as of March 31, 2001 and 2002, respectively, both of which have been listed their shares in Tokyo Stock Exchange.

The Company's transactions with those companies for the years ended March 31, 2001 and 2002 were as follows.

Company	Transaction	Thousands of yen		Thousands of U.S. dollars
		2001	2002	2002
(a)CSK Corporation	Sales	¥ 524,721	¥ 464,090	\$ 3,483
(b)Sega Corporation	Real-estate lease	254,462	254,462	1,910

## 1 Basis of Presentation of Financial Statements

The accompanying financial statements have been prepared from accounts and records maintained by NextCom K.K. (the "Company") in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Accounting Standards.

The company has no subsidiary and has not prepared consolidated financial statements, accordingly.

Relevant notes have been added, and certain reclassifications and recapitulations of account balances as disclosed in the financial statements submitted to the Director of Kanto Financial Bureau in Japan have been made so as to present them in a form which is more familiar to the readers outside Japan.

Although the statements of shareholders' equity are not disclosed in Japan for domestic reporting purposes, such statements have been prepared for the purpose of inclusion in this document.

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

The amounts presented in the financial statements are rounded to the nearest thousand yen.

The Company maintains its accounting records in Japanese yen. The U.S. dollar amounts included in the accompanying financial statements and notes thereto represent the arithmetical results of translating Japanese yen into U.S. dollars at the rate of ¥133.25 =U.S.\$1.00 prevailing at March 31, 2002. The inclusion of such U.S. dollar amounts is solely for the convenience of the readers and is not intended to imply that Japanese yen amounts have been or could be converted, realized or settled in U.S. dollars at that or any other rate.

## 14 Subsequent Events

### i. Appropriation of retained earnings

Appropriation of retained earnings of the Company for the year ended March 31, 2002, which was proposed by the Board of Directors and approved at the stockholders' meeting held on June 20, 2002 is as follows:

	Thousands of yen	Thousands of U.S. dollars
Retained earnings at March 31, 2002	¥2,218,270	\$ 16,648
Appropriations:		
Cash dividends (¥500 per share)	51,048	383
Directors' and statutory auditors' bonuses	24,600	185
Total	<u>75,648</u>	<u>568</u>
Retained earnings to be carried forward	<u>¥2,142,622</u>	<u>\$ 16,080</u>

### ii. Changes in major shareholder

On May 1, 2002, Sega Corporation sold all shares in the Company and consequently Mitsui & Co., Ltd. became a major shareholder holding 33.3% shares of the Company.