

NextCom K. K.

Financial Statements

For the years ended March 31, 2002 and 2003

Report of Independent Auditors

To the Board of Directors and Shareholders of
NextCom K.K.

We have audited the accompanying balance sheets of NextCom K.K. as of March 31, 2002 and 2003, and the related statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NextCom K.K. as of March 31, 2002 and 2003, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan (see Note 1).

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 18, 2003

Balance Sheets
As of March 31, 2002 and 2003

	Thousands of yen		Thousands of U.S. dollars (Note 1)
	2002	2003	2003
<u>ASSETS</u>			
Current Assets			
Cash on hand and at banks (Note 3 and 7)	¥ 2,584,619	¥ 1,948,228	\$ 16,208
Marketable securities (Note 3)	119,931	60,105	500
Notes and accounts receivable, trade (Note 4)	10,530,927	9,923,721	82,560
Less: allowance for doubtful accounts	(78,670)	(37,104)	(309)
	10,452,257	9,886,617	82,251
Inventories	2,648,764	4,646,488	38,656
Prepaid expense	52,356	41,357	344
Deferred income taxes (Note 10)	156,485	158,967	1,323
Foreign exchange forward contracts	317,240	162,587	1,353
Other current assets (Note 3)	77,614	86,663	721
Total current assets	16,409,266	16,991,012	141,356
Property and Equipment (Note 7)			
Land	2,104,603	2,104,603	17,509
Buildings and structures	1,274,917	1,285,443	10,694
Machinery and equipment	1,186,531	1,403,934	11,680
Construction in progress	59,124	-	-
	4,625,175	4,793,980	39,883
Less: accumulated depreciation	(897,753)	(1,151,066)	(9,576)
Net property and equipment	3,727,422	3,642,914	30,307
Investments and other assets			
Investments in securities	30,000	116,060	966
Investments in an affiliate	50,000	-	-
Long-term deposits	300,000	-	-
Deferred income taxes (Note 10)	90,782	94,692	788
Foreign exchange forward contracts	404,287	207,932	1,730
Deferred losses on hedging activities	128,837	643,937	5,357
Guarantee deposits	66,341	915,715	7,618
Others	63,034	147,444	1,227
Total investments and other assets	1,133,281	2,125,780	17,686
Total assets	¥ 21,269,969	¥ 22,759,706	\$ 189,349

The accompanying notes are an integral part of these financial statements.

Balance Sheets
As of March 31, 2002 and 2003

	Thousands of yen		Thousands of U.S. dollars (Note 1)
	2002	2003	2003
<u>LIABILITIES AND</u>			
<u>SHAREHOLDERS' EQUITY</u>			
Current Liabilities:			
Short-term loans (Note 6)	¥920,000	¥2,324,000	\$19,334
Current portion of long-term debt (Note 6)	390,000	-	-
Notes and accounts payable, trade	5,880,625	7,164,861	59,608
Income taxes payable	348,992	496,896	4,134
Consumption taxes payable	142,504	-	-
Accrued expenses	370,052	304,650	2,535
Advances received	538,950	535,129	4,452
Accrued bonuses to employees	156,731	135,257	1,125
Deferred profits on hedging activities	382,943	182,736	1,520
Other current liabilities	108,874	19,734	164
Total current liabilities	9,239,671	11,163,263	92,872
Long-Term Liabilities:			
Long-term debt (Note 6)	1,398,000	10,000	83
Reserve for retirement benefits (Note 8)	190,687	218,337	1,816
Deposits received for guarantees	231,153	670	6
Deferred profits on hedging activities	404,287	229,126	1,906
Derivative contracts with negative fair value	207,501	692,888	5,765
Total long-term liabilities	2,431,628	1,151,021	9,576
Total liabilities	11,671,299	12,314,284	102,448
Shareholders' Equity: (Note 12)			
Common stock, no par value			
Authorized: 400,000 shares			
Issued: 102,096 shares at March 31, 2002			
103,512 shares at March 31, 2003	2,834,750	2,893,750	24,074
Additional paid-in-capital	4,533,929	4,594,109	38,221
Legal reserve	11,721	11,721	98
Retained earnings	2,218,270	2,946,260	24,511
Unrealized loss on other securities	-	(418)	(3)
Total shareholders' equity	9,598,670	10,445,422	86,901
Total liabilities and shareholders' equity	¥21,269,969	¥22,759,706	\$189,349

The accompanying notes are an integral part of these financial statements.

Statements of Income

For the years ended March 31, 2002 and 2003

	Thousands of yen		Thousands of U.S. dollars (Note 1)
	2002	2003	2003
Net Sales	¥30,188,257	¥27,530,170	\$ 229,036
Cost of sales	25,287,069	22,934,605	190,804
Gross profit	4,901,188	4,595,565	38,232
Selling, general and administrative expenses (Note 9)	3,315,991	3,339,137	27,779
Operating income	1,585,197	1,256,428	10,453
Other income (expenses):			
Interest income	11,786	519	4
Exchange gain	434,086	410,826	3,418
Rental income, net	159,009	(19,416)	(162)
Interest expenses	(63,758)	(43,720)	(364)
Loss on disposal of inventories	(38,637)	(15,900)	(132)
Stock issue expenses	(6,558)	(894)	(7)
Loss on disposal of property and equipment	(1,924)	(2,486)	(21)
Loss on write-down of investment securities	(49,999)	-	-
Loss on cancellation of interest rate swap	-	(71,094)	(591)
Others, net	32,316	7,805	65
	476,321	265,640	2,210
Income before income taxes	2,061,518	1,522,068	12,663
Income taxes			
- Current	858,561	672,783	5,597
- Deferred	31,475	(6,109)	(51)
	890,036	666,674	5,546
Net income	¥ 1,171,482	¥ 855,394	\$ 7,117

	Yen		U.S. dollars (Note 1)
	2002	2003	2003
Per share information (Note 2 (15)):			
Net income per share			
- Basic earnings	¥ 11,275.45	8,114.12	\$ 67.505
- Diluted earnings	10,999.48	8,057.71	67.036
Cash dividends per share	500.00	500.00	4.160

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Shareholders' Equity
For the years ended March 31, 2002 and 2003

	Thousands of yen					
	Number of common stock	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Unrealized loss on other securities
Balance at March 31, 2001	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)	-
Bonuses to directors and corporate auditors	-	-	-	-	(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	-	-	-
Balance at March 31, 2002	102,096	¥ 2,834,750	¥ 4,533,929	¥ 11,721	¥ 2,218,270	¥ -
Net income	-	-	-	-	855,394	-
Cash dividends	-	-	-	-	(51,048)	-
Bonuses to directors and corporate auditors	-	-	-	-	(24,600)	-
Interim dividends	-	-	-	-	(51,756)	-
New stock issued upon exercise of warrant	1,416	59,000	60,180	-	-	-
Unrealized loss on other securities	-	-	-	-	-	(418)
Balance at March 31, 2003	103,512	¥ 2,893,750	¥ 4,594,109	¥ 11,721	¥ 2,946,260	¥ (418)

	Thousands of U.S. dollars (Note 1)				
	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Unrealized loss on other securities
Balance at March 31, 2002	\$ 23,583	\$ 37,720	\$ 98	\$ 18,455	\$ -
Net income	-	-	-	7,117	-
Cash dividends	-	-	-	(425)	-
Bonuses to directors and corporate auditors	-	-	-	(205)	-
Interim dividends	-	-	-	(431)	-
New stock issued upon exercise of warrant	491	501	-	-	-
Unrealized loss on other securities	-	-	-	-	(3)
Balance at March 31, 2003	\$ 24,074	\$ 38,221	\$ 98	\$ 24,511	\$ (3)

The accompanying notes are an integral part of these financial statements.

Statements of Cash flows
For the years ended March 31, 2002 and 2003

	Thousands of yen		Thousands of U.S. dollars (Note 1)
	2002	2003	2003
Cash flows from operating activities:			
Income before income taxes	¥ 2,061,518	¥ 1,522,068	\$ 12,663
Adjustments for -			
Depreciation	292,558	292,484	2,433
Decrease in allowance for doubtful accounts	(12,681)	(41,566)	(346)
Increase (decrease) in accrued bonuses to employees	33,818	(21,474)	(179)
Increase in reserve for retirement benefits	40,935	27,650	230
Interest income	(26,594)	(5,922)	(49)
Interest expenses	63,758	43,907	365
Loss on disposal of property and equipment	1,924	2,486	21
Loss on disposal of inventories	38,638	15,900	132
Loss on write-down of investments in securities	49,999	-	-
Gain on of investments in securities	-	(500)	(4)
Decrease (increase) in notes and accounts receivable, trade	(4,843,861)	603,385	5,020
Decrease (increase) in inventories	475,392	(2,013,624)	(16,752)
Increase in notes and accounts payable, trade	2,903,841	1,281,227	10,659
Increase (decrease) in consumption taxes payable	178,844	(200,253)	(1,666)
Decrease in long-term prepaid expenses	35,000	14,289	119
Increase in guarantee deposits	(2,613)	(849,373)	(7,066)
Bonuses to directors and corporate auditors	(24,600)	(24,600)	(205)
Others, net	134,022	(342,262)	(2,848)
Subtotal	1,399,898	303,822	2,527
Interest received	26,313	6,203	52
Interest expenses paid	(64,540)	(47,094)	(392)
Income taxes paid	(1,508,355)	(524,879)	(4,367)
Net cash used in operating activities	<u>(146,684)</u>	<u>(261,948)</u>	<u>(2,180)</u>
Cash flows from investing activities:			
Decrease (increase) in time deposit, net	(5,230)	300,000	2,496
Sale of marketable securities	479,441	-	-
Purchase of property and equipment	(299,941)	(241,738)	(2,011)
Purchase of intangible assets	(19,942)	(103,277)	(859)
Purchase of investments in securities	(80,000)	(36,762)	(306)
Sale of investments in securities	-	500	4
Net cash provided by (used in) investing activities	<u>74,328</u>	<u>(81,277)</u>	<u>(676)</u>
Cash flows from financing activities:			
Proceeds from short-term loans	2,600,000	6,078,000	50,566
Repayments of short-term loans	(1,720,000)	(4,674,000)	(38,885)
Repayments of long-term debt	(352,000)	(1,778,000)	(14,792)
New stock issue	148,470	119,180	992
Cash dividends paid	(134,586)	(102,804)	(855)
Net cash provided by (used in) financing activities	<u>541,884</u>	<u>(357,624)</u>	<u>(2,974)</u>
Effect of exchange rate changes on cash and cash equivalents	780	4,693	39
Net increase in cash and cash equivalents	470,308	(696,156)	(5,791)
Cash and cash equivalents at beginning of the year	2,224,242	2,694,550	22,417
Cash and cash equivalents at end of the year (Note 3)	<u>¥ 2,694,550</u>	<u>¥ 1,998,394</u>	<u>\$ 16,626</u>

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

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 ¥120.20 =U.S.\$1.00 prevailing at March 31, 2003. 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.

Notes to Financial Statements

2 Summary of Significant Accounting Policies

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

Marketable securities, which is consisted of investments in monetary management fund, are stated at cost in accordance with the Japanese accounting standards.

Investments in securities which is consisted of unlisted equity securities and are stated at cost determined by the moving-average method. Where 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 depreciation applied to property and equipment are based on the estimated useful lives of the relevant assets prescribed by the Japanese income tax laws.

(4) Intangible assets

Intangible assets are amortized on straight-line basis. Software for internal use is amortized over the period of the estimated useful life (5 years).

(5) Stock issue expenses

Stock issue expenses are charged to income when incurred.

Notes to Financial Statements

(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 a lump-sum retirement payment scheme and a defined benefit pension plan for employees and a retirement benefit plan for directors and corporate auditors.

The reserve for retirement benefits to employees 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 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.

Notes to Financial Statements

(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 amounts in the accompanying financial statements. Net consumption taxes receivable was recorded in the amount of ¥57,749 thousand in other current assets in the accompanying balance sheet as of March 31, 2003.

(11) Derivatives and hedging activities

The Company uses foreign exchange forward contract, foreign currency options, foreign currency swaps, 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 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.

Where the transactions do not satisfy the conditions stipulated in the Japanese accounting standards for financial instruments, such derivative arrangements and financial instruments are valued at fair value and resulting unrealized gains or losses are included in the determination of the current year's income, whereas a deferral method of accounting is applied where transactions are fallen into the category of hedging transactions (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 corresponding 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 leases are accounted for as operating leases.

Notes to Financial Statements

(13) Appropriation of retained earning

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 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 were calculated assuming this stock split had occurred on April 1, 2001.

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.

Effective from the year ended March 31, 2003 the new accounting standards for calculation of earnings per share is applied. Under the new standards, for the purpose of calculation of earnings per share net income shown in the statements of income for the period is deducted by the amounts deemed not attributable to the shareholders holding ordinary shares, which include dividends to preferred shares and bonuses to directors and corporate auditors which are approved by the shareholders as appropriation of retained earnings of that year at the annual general meeting held within three month after the year-end.

Per share information relating to net income per share for the year ended March 31, 2002 in the accompanying statements of income were those calculated by applying the new accounting standards stated above retrospectively for the purpose of comparison between those for the years ended March 31, 2002 and 2003.

Notes to Financial Statements

6 Short-term Loans and Long-term Debt

(1) Short-term loans

The weighted-average interest rates on short-term bank loans for the years ended March 31, 2002 and 2003 were 1.375% and 1.293%, respectively.

	Thousands of yen		Thousands of U.S. dollars
	2002	2003	2003
Payable to domestic banks			
Collateralized	¥ -	¥ 1,564,000	\$ 13,011
Unsecured	920,000	760,000	6,323
Current portion of long-term debt	390,000	-	-
	<u>¥ 1,310,000</u>	<u>¥ 2,324,000</u>	<u>\$19,334</u>

(2) Long-term debt

The interest rate for unsecured bonds was 6 months Yen TIBOR plus 1.80% as of March 31, 2002 and 2003.

	Thousands of yen		Thousands of U.S. dollars
	2002	2003	2003
Payable to domestic banks			
Collateralized	¥ 1,778,000	¥ -	\$ -
	1,778,000	-	-
Unsecured bonds with detachable warrants due April 30, 2004	10,000	10,000	83
Less: Amounts due within one year	(390,000)	-	-
	<u>¥ 1,398,000</u>	<u>¥ 10,000</u>	<u>\$83</u>

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

	Thousands of yen	Thousands of U.S. dollars
2004.....	¥ -	\$ -
2005.....	10,000	83
2006.....	-	-
2007	-	-
2008	-	-
	<u>¥ 10,000</u>	<u>\$ 83</u>

Notes to Financial Statements

7 Assets pledged as collateral

Assets pledged as collateral for long-term debt as of March 31, 2002 and 2003 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2002	2003	2003
Cash at banks	¥ 10,000	¥ 10,000	\$ 83
Property and equipment (net book value)	2,997,276	2,951,824	24,558
	<u>¥ 3,007,276</u>	<u>¥ 2,961,824</u>	<u>\$ 24,641</u>

8 Reserve for retirement benefits

The balances of reserve for retirement benefits as of March 31, 2002 and 2003 are consisted of the followings.

	Thousands of yen		Thousands of U.S. dollars
	2002	2003	2003
Retirement benefits to:			
-Employees	¥ 54,107	¥ 62,107	\$ 516
-Directors and corporate auditors	136,580	156,230	1,300
Total	<u>¥ 190,687</u>	<u>¥ 218,337</u>	<u>\$ 1,816</u>

The composition of cost of reserve for retirement benefits to employees for year ended March 31, 2002 and 2003 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2002	2003	2003
Service cost	¥ 21,428	¥ 22,245	\$ 185
Pension premium	33,661	35,057	292
Total cost of reserve retirement benefits	<u>¥ 55,089</u>	<u>¥ 57,302</u>	<u>\$ 477</u>

Notes to Financial Statements

9 Research and Development

Research and development expenditure charged to income was ¥58,571 thousand and ¥24,187 thousand (\$201 thousand) for the year ended March 31, 2002 and 2003, respectively.

10 Income Taxes

At March 31, 2002 and 2003, significant components of deferred tax assets were as follows :

	Thousands of yen		Thousands of U.S. dollars
	2002	2003	2003
Deferred tax assets:			
Accrued bonuses to employees	¥ 80,590	¥ 75,808	\$ 631
Accrued enterprise taxes	30,711	43,820	365
Depreciation	16,829	10,123	84
Reserve for retirement benefits	73,953	84,285	701
Allowance for doubtful accounts	18,049	10,995	91
Others	27,135	28,628	238
Net deferred tax assets	¥ 247,267	¥ 253,659	\$ 2,110

The effective statutory tax rate is approximately 42% for the year ended March 31, 2002 and 2003.

Amendments to the national laws relating to local taxes were made by the National Diet on March 24, 2003 and new enterprise tax rate will be applied effective from the year commencing on April 1, 2004. Accordingly the deferred income taxes non-current is recognized at the effective income tax rate reflecting the new enterprise tax rate of 40.5%.

As a result, deferred tax assets decreased by ¥3,507 thousands (\$29 thousands) as of March 31, 2003, income taxes-deferred increased by ¥3,496 thousands (\$29 thousands) for the year ended March 31, 2003 and unrealized loss on other securities increased by ¥10 thousands (\$0 thousands) as of March 31, 2003, respectively, if compared with the amounts which would have been calculated if the enterprise taxes had not been changed.

Notes to Financial Statements

11 Lease Commitments

The Companies use certain machinery and equipment under the finance lease contracts. Total lease payments were ¥13,831 thousand and ¥10,776 thousand (\$89 thousand) for the years ended March 31, 2002 and 2003, respectively.

Pro forma information regarding the leased property such as acquisition cost, accumulated depreciation and future minimum lease payments under finance leases that do not transfer the ownership of the leased property to the lessee for the years ended 31st March, 2002 and 2003 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2002	2003	2003
Machinery and equipments			
Acquisition cost	¥ 51,402	¥ 51,672	\$ 430
Accumulated depreciation	30,839	30,046	250
Net book value	<u>20,563</u>	<u>21,626</u>	<u>180</u>
Depreciation	¥ 12,018	¥ 9,608	\$ 80
Interest	¥ 1,581	¥ 929	\$ 8

	Thousands of yen		Thousands of U.S. dollars
	2002	2003	2003
Future minimum lease payments			
Due within one year	¥ 10,152	¥ 11,575	\$ 96
Due after one year	13,145	11,821	98
Total	<u>¥ 23,297</u>	<u>¥ 23,396</u>	<u>\$ 194</u>

The amounts of acquisition costs and future minimum lease payments under finance leases shown above included the imputed interest lease portion.

Notes to Financial Statements

12 Shareholders' Equity

Under the Japanese Commercial Code (the “Code”), at least 50% of the issue price of new shares is required to be designated as stated capital, which is determined by a resolution of the Board of Directors. Proceeds in excess of the amount designated as stated capital are credited to additional paid-in capital.

Under the Code, an amount equivalent to 10% of interim cash distribution (interim cash dividends) and at least 10% of cash distribution including cash dividends made as a result of the appropriation of retained earnings is required to be transferred to the legal reserve until the balance of that reserve reached 25% of the stated share capital.

In October, 2002 the Code was amended and transfer to the legal reserve is no longer required if the balance of the total of the additional paid-in capital and the legal reserve stated above reaches 25% of the stated share capital. The amount in excess of 25% of the stated share capital is allowed to be distributed as dividends when certain conditions specifically stipulated in the Code are satisfied.

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, 2003 represent potential issue of 780 shares at ¥83,333 (\$693).

At the shareholders meeting held on June 22, 2001, shareholders approved that the Company may grant the right of allotment of 3,079 shares at ¥303,000 (\$2,520.80) per share during the period from October 1, 2002 to September 30, 2005 to certain persons who hold office 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.

Notes to Financial Statements

13 Related Party Transactions

The parent company of the Company is CSK Corporation, which owns 42.6% and 43.0% of shares of the Company as of March 31, 2002 and 2003, respectively, and Sega Corporation owned 34.4% of shares of the Company as of March 31, 2002 and on May 1 2002, Sega Corporation sold all shares in the Company and Mitsui & Co., Ltd. owns 33.3% share of the Company as of March 31, 2003, all of which have been listed their shares in Tokyo Stock Exchange.

The Company's transactions with those companies for the years ended March 31, 2002 and 2003 were as follows.

Company	Transaction	Thousands of yen		Thousands of U.S. dollars
		2002	2003	2003
(a)CSK Corporation	Sales	¥ 464,090	¥ 459,140	\$ 3,819
(b)Sega Corporation	Real-estate lease	254,462	-	-

Notes to Financial Statements

14 Subsequent Events

Appropriation of retained earnings of the Company for the year ended March 31, 2003, which was proposed by the Board of Directors and approved at the stockholders' meeting held on June 18, 2003 is as follows:

i. Appropriation of retained earnings

	Thousands of yen	Thousands of U.S. dollars
Retained earnings at March 31, 2003	¥ 2,946,260	\$ 24,511
Appropriations:		
Cash dividends (¥500 per share)	51,756	430
Directors' and statutory auditors' bonuses	17,400	145
Total	69,156	575
Retained earnings to be carried forward	¥ 2,877,104	\$ 23,936

ii. The new stock option plan was approved , outline of which is as follows:

Entitled	Number of shares of common stock	Price	Period
Directors, corporate auditors and employees	3,100	Note	from July 1, 2005 through June 30, 2008

Note: These new options to be granted will be exercisable at price which multiplied average market price by 1.025%. The average market price is calculated by the closing prices of each day on previous month when the new options exercises.

The exercise price is also subject to adjustment in the cases including a stock split or a new share issue in which the price of the share is less than market price.

iii. Acquisition of treasury stock

The acquisition of treasury stock up to 5,000 shares and ¥750,000 thousands (\$6,240 thousands) was approved.