

***Data Communication System Co., Ltd.  
and Subsidiaries***

*Unaudited Semiannual Consolidated Financial Statements for  
the Six Months Ended September 30, 2002 and 2001*

**Data Communication System Co., Ltd. and Subsidiaries**

**Semiannual Consolidated Balance Sheets  
September 30, 2002 and 2001—Unaudited**

| ASSETS                                    | Millions of Yen |                 | Thousands of<br>U.S. Dollars<br>(Note 1) | LIABILITIES AND SHAREHOLDERS' EQUITY  | Millions of Yen |                 | Thousands of<br>U.S. Dollars<br>(Note 1) |
|---|-----------------|-----------------|--|---|-----------------|-----------------|--|
|   | 2002            | 2001            | 2002                                     |   | 2002            | 2001            | 2002                                     |
| <b>CURRENT ASSETS:</b>                    |                 |                 |  | <b>CURRENT LIABILITIES:</b>   |                 |                 |  |
| Cash and cash equivalents                 | ¥ 7,872         | ¥ 8,103         | \$ 64,209                                | Current portion of long-term debt (Notes 5 and 10)  | ¥ 1,723         |                 | \$ 14,054                                |
| Time deposits                             | 500             |                 | 4,078                                    | Payables:   |                 |                 |  |
| Receivables:                              |                 |                 |  | Trade accounts  | 1,876           | ¥ 1,998         | 15,302                                   |
| Trade accounts                            | 6,493           | 7,298           | 52,961                                   | Other   | 605             | 747             | 4,935                                    |
| Other                                     | 15              | 11              | 122                                      | Income taxes payable  | 646             | 1,142           | 5,269                                    |
| Allowance for doubtful receivables        | (11)            | (18)            | (90)                                     | Accrued expenses  | 1,680           | 1,815           | 13,703                                   |
| Inventories (Note 3)                      | 1,135           | 931             | 9,258                                    | Other current liabilities   | 531             | 616             | 4,330                                    |
| Deferred tax assets                       | 640             | 578             | 5,220                                    |   |                 |                 |  |
| Prepaid expenses and other current assets | 132             | 138             | 1,077                                    | Total current liabilities   | 7,061           | 6,318           | 57,593                                   |
| Total current assets                      | 16,776          | 17,041          | 136,835                                  |   |                 |                 |  |
| <b>PROPERTY, PLANT AND EQUIPMENT:</b>     |                 |                 |  | <b>LONG-TERM LIABILITIES:</b>   |                 |                 |  |
| Land                                      | 5,943           | 5,943           | 48,475                                   | Long-term debt (Note 5)   |                 | 1,023           |  |
| Buildings and structures                  | 4,924           | 4,916           | 40,163                                   | Liability for employees' retirement benefits  | 514             | 405             | 4,192                                    |
| Tools, furniture and fixtures             | 1,073           | 999             | 8,752                                    | Retirement allowances for directors and corporate auditors  | 230             | 569             | 1,877                                    |
| Other                                     | 39              | 45              | 318                                      |   |                 |                 |  |
| Total                                     | 11,979          | 11,903          | 97,708                                   | Total long-term liabilities   | 744             | 1,997           | 6,069                                    |
| Accumulated depreciation                  | (2,684)         | (2,409)         | (21,892)                                 |   |                 |                 |  |
| Net property, plant and equipment         | 9,295           | 9,494           | 75,816                                   | <b>MINORITY INTERESTS</b>   | 240             | 224             | 1,958                                    |
| <b>INVESTMENTS AND OTHER ASSETS:</b>      |                 |                 |  | <b>SHAREHOLDERS' EQUITY (Notes 5 and 6):</b>  |                 |                 |  |
| Investment securities (Note 4)            | 1,187           | 273             | 9,682                                    | Common stock—authorized, 18,000,000 shares;<br>issued and outstanding, 12,611,133 shares in 2002<br>and 12,609,633 shares in 2001 | 6,113           | 6,111           | 49,861                                   |
| Deferred tax assets                       | 511             | 555             | 4,168                                    | Capital surplus   | 6,191           | 6,189           | 50,498                                   |
| Other assets                              | 973             | 988             | 7,936                                    | Retained earnings   | 8,877           | 7,563           | 72,406                                   |
| Total investments and other assets        | 2,671           | 1,816           | 21,786                                   | Net unrealized loss on available-for-sale securities  | (4)             | (49)            | (33)                                     |
|   |                 |                 |  | Treasury stock—at cost, 115,574 shares in 2002 and<br>265 shares in 2001  | (480)           | (2)             | (3,915)                                  |
|   |                 |                 |  | Total shareholders' equity  | 20,697          | 19,812          | 168,817                                  |
| <b>TOTAL</b>                              | <b>¥ 28,742</b> | <b>¥ 28,351</b> | <b>\$ 234,437</b>                        | <b>TOTAL</b>  | <b>¥ 28,742</b> | <b>¥ 28,351</b> | <b>\$ 234,437</b>                        |

See notes to semiannual consolidated financial statements.

## Data Communication System Co., Ltd. and Subsidiaries

### Semiannual Consolidated Statements of Income Six Months Ended September 30, 2002 and 2001—Unaudited

|  | Millions of Yen |                | Thousands of<br>U.S. Dollars<br>(Note 1) |
|--|-----------------|----------------|--|
|  | <u>2002</u>     | <u>2001</u>    | <u>2002</u>                              |
| NET SALES  | ¥ 17,402        | ¥ 18,382       | \$ 141,941                               |
| COST OF SALES  | <u>14,244</u>   | <u>14,800</u>  | <u>116,182</u>                           |
| Gross profit   | 3,158           | 3,582          | 25,759                                   |
| SELLING, GENERAL AND ADMINISTRATIVE<br>EXPENSES (Note 8) | <u>1,568</u>    | <u>1,399</u>   | <u>12,790</u>                            |
| Operating income   | <u>1,590</u>    | <u>2,183</u>   | <u>12,969</u>                            |
| OTHER INCOME (EXPENSES):                                 |                 |                |  |
| Interest and dividends                                   | 8               | 6              | 65                                       |
| Interest expense   | (15)            | (10)           | (122)                                    |
| Reversal of allowance for doubtful receivables           | 7               | 6              | 57                                       |
| Loss on write-down of investment securities              |                 | (82)           |  |
| Gain from extinguishment of warrants                     | 37              |                | 302                                      |
| Loss on devaluation of membership rights                 | (22)            | (23)           | (179)                                    |
| Other—net  | <u>18</u>       | <u>19</u>      | <u>146</u>                               |
| Other income (expenses)—net                              | <u>33</u>       | <u>(84)</u>    | <u>269</u>                               |
| INCOME BEFORE INCOME TAXES AND<br>MINORITY INTERESTS     | <u>1,623</u>    | <u>2,099</u>   | <u>13,238</u>                            |
| INCOME TAXES (Note 7):                                   |                 |                |  |
| Current  | 642             | 859            | 5,237                                    |
| Deferred   | <u>84</u>       | <u>37</u>      | <u>685</u>                               |
| Total income taxes                                       | <u>726</u>      | <u>896</u>     | <u>5,922</u>                             |
| MINORITY INTERESTS IN NET INCOME                         | <u>7</u>        | <u>39</u>      | <u>57</u>                                |
| NET INCOME   | <u>¥ 890</u>    | <u>¥ 1,164</u> | <u>\$ 7,259</u>                          |
|  | <u>Yen</u>      |                | <u>U.S. Dollars</u>                      |
| PER SHARE OF COMMON STOCK (Note 2.n):                    |                 |                |  |
| Net income per share                                     | ¥ 71.20         | ¥ 92.33        | \$ 0.58                                  |
| Fully diluted net income                                 | 71.20           | 92.32          | 0.58                                     |

See notes to semiannual consolidated financial statements.

**Data Communication System Co., Ltd. and Subsidiaries**

**Semiannual Consolidated Statements of Shareholders' Equity  
Six Months Ended September 30, 2002 (Unaudited) and Year Ended March 31, 2002**

|   | Outstanding<br>Number of<br>Shares of<br>Common Stock | Millions of Yen |                    |                      |   |                   |
|---|---|-----------------|--------------------|----------------------|---|-------------------|
|   |   | Common<br>Stock | Capital<br>Surplus | Retained<br>Earnings | Net Unrealized<br>Loss on<br>Available-for-sale<br>Securities | Treasury<br>Stock |
| BALANCE, APRIL 1, 2001  | 12,609,633  | ¥ 6,111         | ¥ 6,189            | ¥ 7,026              | ¥ (51)  |                   |
| Net income  |   |                 |                    | 2,417                |   |                   |
| Cash dividends, ¥50.0 per share                                     |   |                 |                    | (630)                |   |                   |
| Bonuses to directors and corporate auditors                         |   |                 |                    | (118)                |   |                   |
| Adjustment of retained earnings for a newly consolidated subsidiary |   |                 |                    | (4)                  |   |                   |
| Net decrease in unrealized loss on available-for-sale securities    |   |                 |                    |                      | 48  |                   |
| Increase in treasury stock (115,347 shares)                         |   |                 |                    |                      |   | ¥ (480)           |
| BALANCE, MARCH 31, 2002   | 12,609,633  | 6,111           | 6,189              | 8,691                | (3)   | (480)             |
| Net income  |   |                 |                    | 890                  |   |                   |
| Cash dividends, ¥45.0 per share                                     |   |                 |                    | (562)                |   |                   |
| Bonuses to directors and corporate auditors                         |   |                 |                    | (142)                |   |                   |
| Exercise of warrants  | 1,500   | 2               | 2                  |                      |   |                   |
| Net increase in unrealized loss on available-for-sale securities    |   |                 |                    |                      | (1)   |                   |
| Increase in treasury stock (148 shares)                             |   |                 |                    |                      |   |                   |
| BALANCE, SEPTEMBER 30, 2002   | <u>12,611,133</u>                                     | <u>¥ 6,113</u>  | <u>¥ 6,191</u>     | <u>¥ 8,877</u>       | <u>¥ (4)</u>  | <u>¥ (480)</u>    |

|  | Thousands of U.S. Dollars (Note 1) |                    |                      |   |                   |
|--|------------------------------------|--------------------|----------------------|---|-------------------|
|  | Common<br>Stock                    | Capital<br>Surplus | Retained<br>Earnings | Net Unrealized<br>Loss on<br>Available-for-sale<br>Securities | Treasury<br>Stock |
| BALANCE, MARCH 31, 2002  | \$ 49,845                          | \$ 50,481          | \$ 70,889            | \$ (25)   | \$ (3,915)        |
| Net income   |                                    |                    | 7,259                |   |                   |
| Cash dividends, \$0.37 per share                                 |                                    |                    | (4,584)              |   |                   |
| Bonuses to directors and corporate auditors                      |                                    |                    | (1,158)              |   |                   |
| Exercise of warrants   | 16                                 | 17                 |                      |   |                   |
| Net increase in unrealized loss on available-for-sale securities |                                    |                    |                      | (8)   |                   |
| Increase in treasury stock                                       |                                    |                    |                      |   |                   |
| BALANCE, SEPTEMBER 30, 2002                                      | <u>\$ 49,861</u>                   | <u>\$ 50,498</u>   | <u>\$ 72,406</u>     | <u>\$ (33)</u>  | <u>\$ (3,915)</u> |

See notes to semiannual consolidated financial statements.

## Data Communication System Co., Ltd. and Subsidiaries

### Semiannual Consolidated Statements of Cash Flows Six Months Ended September 30, 2002 and 2001—Unaudited

|   | Millions of Yen |                | Thousands of<br>U.S. Dollars<br>(Note 1) |
|---|-----------------|----------------|--|
|   | <u>2002</u>     | <u>2001</u>    | <u>2002</u>                              |
| <b>OPERATING ACTIVITIES:</b>  |                 |                |  |
| Income before income taxes and minority interests   | ¥ 1,623         | ¥ 2,099        | \$ 13,238                                |
| Adjustments for:  |                 |                |  |
| Income taxes paid   | (1,487)         | (1,212)        | (12,129)                                 |
| Depreciation and amortization   | 205             | 217            | 1,672                                    |
| (Reversal of) provision for retirement allowances for<br>directors and corporate auditors | (363)           | 9              | (2,961)                                  |
| Changes in assets and liabilities:  |                 |                |  |
| Decrease (increase) in receivables  | 903             | (71)           | 7,365                                    |
| Increase in inventories   | (699)           | (33)           | (5,701)                                  |
| Decrease in payables  | (839)           | (1,070)        | (6,843)                                  |
| Increase in accrued expenses  | 183             | 417            | 1,493                                    |
| Increase (decrease) in liability for employees'<br>retirement benefits                    | 76              | (24)           | 620                                      |
| Other—net   | (461)           | (82)           | (3,760)                                  |
| Total adjustments   | <u>(2,482)</u>  | <u>(1,849)</u> | <u>(20,244)</u>                          |
| Net cash provided by (used in) operating<br>activities                                    | <u>(859)</u>    | <u>250</u>     | <u>(7,006)</u>                           |
| <b>INVESTING ACTIVITIES:</b>  |                 |                |  |
| Purchases of property, plant and equipment  | (139)           | (142)          | (1,134)                                  |
| Purchases of marketable and investment securities   | (500)           |                | (4,078)                                  |
| Increase in time deposits   | (500)           |                | (4,078)                                  |
| Payment for purchase of DATALINKS CO., LTD., net of<br>cash acquired                      |                 | (109)          |  |
| Other—net   | (3)             | 3              | (25)                                     |
| Net cash used in investing activities   | <u>(1,142)</u>  | <u>(248)</u>   | <u>(9,315)</u>                           |
| <b>FINANCING ACTIVITIES:</b>  |                 |                |  |
| Redemption of bonds   | (300)           |                | (2,447)                                  |
| Cash dividends paid   | (558)           | (501)          | (4,551)                                  |
| Other—net   | (9)             | (1)            | (74)                                     |
| Net cash used in financing activities   | <u>(867)</u>    | <u>(502)</u>   | <u>(7,072)</u>                           |
| NET DECREASE IN CASH AND CASH EQUIVALENTS   | (2,868)         | (500)          | (23,393)                                 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD  | 10,740          | 8,577          | 87,602                                   |
| CASH AND CASH EQUIVALENTS OF A NEWLY<br>CONSOLIDATED SUBSIDIARY, BEGINNING OF PERIOD      |                 | 26             |  |
| CASH AND CASH EQUIVALENTS, END OF PERIOD  | <u>¥ 7,872</u>  | <u>¥ 8,103</u> | <u>\$ 64,209</u>                         |

See notes to semiannual consolidated financial statements.

# Data Communication System Co., Ltd. and Subsidiaries

## Notes to Semiannual Consolidated Financial Statements Six Months Ended September 30, 2002 and 2001—Unaudited

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### 1. BASIS OF PRESENTING SEMIANNUAL CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited semiannual consolidated financial statements of Data Communication System Co., Ltd. (the "Company" or the "Parent") and subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law (the "Law"), and in conformity with the provisions of "Accounting and Reporting Standards of Semiannual Consolidated Financial Statements" (the "Standards") issued by the Business Accounting Deliberation Council, an advisory body to the Minister of Finance, designated to set accounting standards for business enterprises in Japan, which are different in certain respects as to application and disclosure requirements of the International Accounting Standards. The unaudited semiannual consolidated 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.

In preparing these unaudited semiannual consolidated financial statements, certain reclassifications and rearrangements have been made to the semiannual consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The unaudited semiannual consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥122.60 to \$1, the rate of exchange at September 30, 2002. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Consolidation*—The semiannual consolidated financial statements as of September 30, 2002 include the accounts of the Company and its two subsidiaries (together, the "Group").

Under the control concept, those companies in which the Parent, directly or indirectly, is able to exercise control over operations are fully consolidated.

Effective April 1, 2001, the Company started to prepare semiannual consolidated financial statements as it acquired 72% of the shares of DATALINKS CO., LTD. in April 2001 and also the significance of the other subsidiary, which had no material effect on the previous year's consolidated financial statements of the Group, has increased.

The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition is being amortized over a period of 5 years. All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

- b. Cash Equivalents*—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include demand deposits, time deposits and other short-term investments, all of which mature or become due within three months of the date of acquisition.
- c. Inventories*—Merchandise is stated at cost determined by the moving-average method. Work in process is stated at cost determined by the specific identification method. Supplies are stated at cost determined by the last purchase cost method.
- d. Property, Plant and Equipment*—Property, plant and equipment are stated at cost. Depreciation is computed basically by the declining-balance method at rates based on the estimated useful lives of the assets. The range of useful lives is principally from 3 to 50 years for buildings and structures and from 2 to 20 years for tools, furniture and fixtures.

Assets with an acquisition cost from ¥100,000 to ¥200,000 are depreciated by the straight-line method over 3 years.

- e. Software Costs*—Software development costs, incurred through the completion of a Beta version of specific software for sale to the market, are charged to income when incurred. Such costs incurred subsequent to the completion of the Beta version are deferred and amortized at the greater of either the amount to be amortized in proportion of the actual sales volume of the software during the current period to the estimated total sales volume over the estimated salable years of the software up to 3 years or the amount to be amortized by the straight-line method over such salable years. Most purchased software costs are charged to income as incurred because of the uncertainty that such costs will be recovered from related future economic benefits.
- f. Investment Securities*—Available-for-sale securities with market value are stated at fair value at each balance sheet date, with unrealized gains and losses, net of tax, reported as a component of shareholders' equity. The cost of securities sold is determined based on the moving-average method.

Non-marketable available-for-sale securities are stated at cost being determined by the moving-average method.

- g. Deferred Charges*—Stock and bond issuance costs are charged to income as incurred.
- h. Employees' Pension Plan*—The Company has a contributory and a non-contributory funded pension plans covering substantially all of its employees. The subsidiaries also have a non-contributory funded pension plan covering substantially all of their employees. Employees whose service with the Group is terminated are, under most circumstances, entitled to retirement and pension benefits determined by reference to basic rates of pay at the time of termination, length of service and conditions under which the termination occurs. If the termination is involuntary, caused by retirement at the mandatory retirement age or caused by death, the employee is entitled to greater payment than in the case of voluntary termination.

The Group accounted for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date for its non-contributory funded pension plans. The costs of the pension plan, based on actuarial computations of current and future employee benefits, are charged to operations. Actuarial gain or loss is being amortized over 5 years and its recognition starts from the following fiscal period.

The Company's policy for its contributory pension plan is to charge operations normal costs to the pension plan as accrued on the basis of an accepted actuarial method plus amortization of prior service costs.

- i. Retirement Allowances for Directors and Corporate Auditors*—Directors and corporate auditors are generally entitled to receive lump-sum payments based on compensation at the time of resignation and years of service when they resign from the Company. The accrued provisions are not funded and any amounts payable to directors and corporate auditors upon resignation are subject to the approval of the shareholders. The provision for severance payments is calculated to state the severance liability at the amount that would be payable if all directors and corporate auditors were to resign at the balance sheet date.
- j. Research and Development Costs*—Research and development costs of the Company are charged to income as incurred.
- k. Leases*—All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.
- l. Income Taxes*—Deferred income taxes are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes, based on the asset and liability method. These deferred taxes are measured by applying currently enacted tax laws to the temporary differences.
- m. Appropriations of Retained Earnings*—Appropriations of retained earnings are reflected in the semiannual consolidated financial statements for the following year upon shareholders' approval.
- n. Per Share Information*—The computation of net income per share is based on the weighted average number of shares of common stock outstanding after deducting the number of treasury stock during semiannual period. The weighted average number of shares of common stock used in the computation was 12,494,515 shares for 2002 and 12,609,421 shares for 2001.

Fully diluted net income per share of common stock assumes full exercise of outstanding warrants at the beginning of the period.

### 3. INVENTORIES

Inventories at September 30, 2002 and 2001, consisted of the following:

|                 | Millions of Yen |              | Thousands of<br>U.S. Dollars |
|-----------------|-----------------|--------------|------------------------------|
|                 | <u>2002</u>     | <u>2001</u>  | <u>2002</u>                  |
| Merchandise     | ¥ 156           | ¥ 21         | \$ 1,273                     |
| Work in process | 964             | 900          | 7,863                        |
| Supplies        | <u>15</u>       | <u>10</u>    | <u>122</u>                   |
| Total           | <u>¥ 1,135</u>  | <u>¥ 931</u> | <u>\$ 9,258</u>              |

### 4. INVESTMENT SECURITIES

Investment securities as of September 30, 2002 and 2001, consisted of non-current equity securities.

The carrying amounts and aggregate fair values of investment securities at September 30, 2002 and 2001, were as follows:

|   | Millions of Yen           |                  |                   | Fair Value |
|---|---------------------------|------------------|-------------------|------------|
|   | Cost                      | Unrealized Gains | Unrealized Losses |            |
| <u>September 30, 2002</u>                                     |                           |                  |                   |            |
| Securities classified as available-for-sale equity securities | ¥ 163                     |                  | ¥ 9               | ¥ 154      |
| <u>September 30, 2001</u>                                     |                           |                  |                   |            |
| Securities classified as available-for-sale equity securities | 327                       |                  | 87                | 240        |
|   | Thousands of U.S. Dollars |                  |                   | Fair Value |
|   | Cost                      | Unrealized Gains | Unrealized Losses |            |
| <u>September 30, 2002</u>                                     |                           |                  |                   |            |
| Securities classified as available-for-sale equity securities | \$ 1,330                  |                  | \$ 74             | \$ 1,256   |

Available-for-sale securities whose fair value is not readily determinable as of September 30, 2002 and 2001, were as follows:

|   | Carrying Amount |      |                           |
|---|-----------------|------|---------------------------|
|   | Millions of Yen |      | Thousands of U.S. Dollars |
|   | 2002            | 2001 | 2002                      |
| Investment securities, available-for-sale equity securities | ¥ 1,033         | ¥ 33 | \$ 8,426                  |

## 5. SHORT-TERM AND LONG-TERM DEBT

Short-term and long-term debt at September 30, 2002 and 2001, consisted of the following:

|   | Millions of Yen |         | Thousands of U.S. Dollars |
|---|-----------------|---------|---------------------------|
|   | 2002            | 2001    | 2002                      |
| Unsecured 2.0% bonds, due December 2002 | ¥ 23            | ¥ 23    | \$ 187                    |
| Unsecured 2.0% bonds, due June 2004     | 700             | 1,000   | 5,710                     |
| Unsecured 1.38% bonds, due October 2005 | 1,000           |         | 8,157                     |
| Total                                   | 1,723           | 1,023   | 14,054                    |
| Less current portion                    | (1,723)         |         | (14,054)                  |
| Long-term debt, less current portion    |                 | ¥ 1,023 |                           |

On September 4, 2002, the Board of Directors of the Company approved the redemption of the unsecured 2.0% bonds, due June 2004 and the unsecured 1.38% bonds. The 1.38% bonds were redeemed on October 11, 2002 and the 2.0% bonds, due June 2004 will be redeemed in June 2003.

The warrants issued with the 2.0% bonds, due June 2004 were detachable and entitled the holders to subscribe for shares of the Company's common stock through June 15, 2004, at an exercise price of ¥6,570 per share at March 31, 2002. The warrants issued with the 1.38% bonds were detachable and entitled the holders to subscribe for shares of the Company's common stock through October 12, 2005, at an exercise price of ¥4,910 per share at March 31, 2002. Those warrants were purchased by the Company and then granted to certain directors, corporate auditors and certain employees as part of an incentive stock appreciation rights plan. The proceeds of bonds with warrants were allocated between a bond portion and a warrant portion. The amounts ascribed to warrants were stated as other current liabilities.

On April 15 and September 17, 2002, the Company repurchased and extinguished all the warrants issued with those bonds.

## **6. SHAREHOLDERS' EQUITY**

The Japanese Commercial Code (the "Code") requires at least 50% of the issue price of new shares to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital are credited to additional paid-in capital.

The Code also requires companies to appropriate from retained earnings to a legal reserve an amount equal to at least 10% of all cash payments which are made as an appropriation of retained earnings until the total amount of additional paid-in capital and such reserve equals 25% of stated capital. The Company's legal reserve amount, which is included in retained earnings, totals ¥412 million (\$3,361 thousand) and ¥412 million as of September 30, 2002 and 2001, respectively.

The Company may transfer portions of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Company may also transfer portions of unappropriated retained earnings, available for dividends, to stated capital by resolution of the shareholders.

The Company may repurchase treasury stock by a resolution of the shareholders at the general shareholders meeting and dispose of such treasury stock by resolution of the Board of Directors. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of stated capital, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

Dividends are approved by shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code. On November 18, 2002, the Board of Directors approved interim dividends of ¥12 per share to the shareholders on record as of September 30, 2002.

On September 17, 2002, the Company issued new stock acquisition rights as a stock option plan for the Company's directors, corporate auditors and key employees. The number of shares to be issued is 100,000 shares of common stock of the Company. The exercise period of the options is from October 2002 to June 2012 and the exercise price of the options is ¥3,199.

## **7. INCOME TAXES**

The Group is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 42% for the periods ended September 30, 2002 and 2001.

## 8. LEASES

The Group leases vehicle, furniture and fixtures, software and other assets.

Total rental expenses under the above leases for the six months ended September 30, 2002 and 2001 were ¥29 million (\$237 thousand) and ¥29 million, respectively, including ¥23 million (\$188 thousand) and ¥24 million of lease payments under finance leases.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance lease, depreciation expense, interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the periods ended September 30, 2002 and 2001, was as follows:

|                          | Millions of Yen           |               |               |            |                        |            |             |
|--------------------------|---------------------------|---------------|---------------|------------|------------------------|------------|-------------|
|                          | 2002                      |               |               | 2001       |                        |            |             |
|                          | Furniture and Fixtures    | Software      | Total         | Vehicle    | Furniture and Fixtures | Software   | Total       |
| Acquisition cost         | ¥ 120                     | ¥ 21          | ¥ 141         | ¥ 3        | ¥ 141                  | ¥ 5        | ¥ 149       |
| Accumulated depreciation | <u>77</u>                 | <u>6</u>      | <u>83</u>     | <u>1</u>   | <u>91</u>              | <u>3</u>   | <u>95</u>   |
| Net leased property      | <u>¥ 43</u>               | <u>¥ 15</u>   | <u>¥ 58</u>   | <u>¥ 2</u> | <u>¥ 50</u>            | <u>¥ 2</u> | <u>¥ 54</u> |
|                          | Thousands of U.S. Dollars |               |               |            |                        |            |             |
|                          | 2002                      |               |               |            |                        |            |             |
|                          | Furniture and Fixtures    | Software      | Total         |            |                        |            |             |
| Acquisition cost         | \$ 979                    | \$ 171        | \$ 1,150      |            |                        |            |             |
| Accumulated depreciation | <u>628</u>                | <u>49</u>     | <u>677</u>    |            |                        |            |             |
| Net leased property      | <u>\$ 351</u>             | <u>\$ 122</u> | <u>\$ 473</u> |            |                        |            |             |

Acquisition costs and obligations include the imputed interest expense portion.

Obligations under finance leases:

|                     | Millions of Yen |             | Thousands of U.S. Dollars |
|---------------------|-----------------|-------------|---------------------------|
|                     | 2002            | 2001        | 2002                      |
| Due within one year | ¥ 25            | ¥ 24        | \$ 204                    |
| Due after one year  | <u>33</u>       | <u>30</u>   | <u>269</u>                |
| Total               | <u>¥ 58</u>     | <u>¥ 54</u> | <u>\$ 473</u>             |

Depreciation expense including imputed interest expense under finance leases is ¥13 million (\$106 thousand) for the period ended September 30, 2002.

Depreciation expense, which is not reflected in the accompanying semiannual consolidated statements of income, is computed by the straight-line method.

## 9. SEGMENT INFORMATION

The Group was mainly engaged in one industry segment that was the information service. The sales or operating income of that segment accounted for more than 90% of the total consolidated sales or operating income. Other sales or operating income were not significant compared to the above segment. Therefore, information about operations in different industry segments has been omitted. As the Group had no foreign operations and sales to foreign customers, information about geographical segments and sales to foreign customers were not disclosed.

**10. SUBSEQUENT EVENT**

On October 11, 2002, the Company redeemed ¥1,000 million (\$8,157 thousand) of unsecured 1.38% bonds. The bonds were due October 12, 2005 and all the warrants issued with the bonds had been already repurchased and extinguished in April and September 2002.

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