Data Communication System Co., Ltd.

Unaudited Semiannual Financial Statements for the Six Months Ended September 30, 1999 and 1998

Data Communication System Co., Ltd.

Semiannual Balance Sheets
September 30, 1999 and 1998—Unaudited

ASSETS	Millions of Yen 1999	Millions of Yen 1998	Thousands of U.S. Dollars (Note 1) 1999
CURRENT ASSETS:			
Cash	¥ 132	¥ 80	$ 1,234
Time deposits	4,485	4,130	41,936
Marketable securities (Note 3)		351	
Receivables:			
Trade notes		1	
Trade accounts	4,039	3,774	37,765
Other	161	11	1,505
Allowance for doubtful receivables	(16)	(18)	(150)
Inventories (Note 4)	762	598	7,125
Deferred tax assets	193		1,805
Prepaid expenses and other current assets	89	87	832
Total current assets	9,845	9,014	92,052
PROPERTY, PLANT AND EQUIPMENT:			
Land	5,946	5,544	55,596
Buildings and structures	4,875	4,103	45,582
Machinery and equipment	85	173	795
Vehicles	2	2	19
Tools, furniture and fixtures	701	526	6,554
Construction in progress		223	
Total	11,609	10,571	108,546
Accumulated depreciation	(1,801)	(1,577)	(16,840)
Net property, plant and equipment	9,808	8,994	91,706
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	456	254	4,264
Deferred tax assets	192		1,795
Other assets	759	849	7,097
Total investments and other assets	1,407	1,103	13,156
TOTAL	¥ 21,060	¥ 19,111	$ 196,914

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 1999	Millions of Yen 1998	Thousands of U.S. Dollars (Note 1) 1999
CURRENT LIABILITIES:			
Payables:			
Trade accounts	¥ 1,094	¥ 1,053	$ 10,229
Other	334	355	3,123
Income taxes payable	382	350	3,572
Accrued expenses	1,189	1,019	11,117
Other current liabilities	265	266	2,478
Total current liabilities	3,264	3,043	30,519
LONG-TERM LIABILITIES:			
Long-term debt (Note 5)	67	496	626
Retirement allowances for directors and corporate auditors	462	376	4,320
Total long-term liabilities	529	872	4,946
SHAREHOLDERS' EQUITY (Notes 5 and 6):			
Common stock, ¥50 par value—authorized, 18,000,000 shares; issued and outstanding, 12,590,197 shares in 1999 and 10,173,376 shares in 1998	6,093	5,754	56,970
Additional paid-in capital	6,148	5,798	57,485
Legal reserve	296	266	2,768
Retained earnings	4,730	3,378	44,226
Total shareholders' equity	17,267	15,196	161,449
TOTAL	¥ 21,060	¥ 19,111	$ 196,914

See notes to semiannual financial statements.

Data Communication System Co., Ltd.

Semiannual Statements of Income
Six Months Ended September 30, 1999 and 1998—Unaudited

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1999	1998	1999
NET SALES	¥ 10,859	¥ 9,715	$ 101,533
COST OF SALES	8,680	7,604	81,159
Gross profit	2,179	2,111	20,374
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	973	897	9,098
Operating income	1,206	1,214	11,276
OTHER INCOME (EXPENSES):			
Interest and dividends	6	16	56
Interest expense	(1)	(9)	(9)
Loss on sales of marketable and investment securities	(8)	(41)	(75)
Gain (loss) on valuation of marketable and investment securities	28	(290)	262
Stock issuance costs	(1)	(165)	(9)
Amortization of prior service cost of retirement benefits for directors and corporate auditors	(34)	(34)	(318)
Other—net	(85)	(57)	(795)
Other expenses—net	(95)	(580)	(888)
INCOME BEFORE INCOME TAXES	1,111	634	10,388
INCOME TAXES (Note 7):			
Current	361	357	3,376
Deferred	115		1,075
Total income taxes	476	357	4,451
NET INCOME	¥ 635	¥ 277	$ 5,937

	Yen		U.S. Dollars
NET INCOME PER SHARE (Note 2.j)	¥ 50.50	¥ 30.09	$ 0.47

See notes to semiannual financial statements.

Data Communication System Co., Ltd.

Semiannual Statements of Shareholders' Equity
Six Months Ended September 30, 1999 (Unaudited) and Year Ended March 31, 1999

	Outstanding Number of Shares of Common Stock	Millions of Yen			
		Common Stock	Additional Paid-in Capital	Legal Reserve	Retained Earnings
BALANCE, APRIL 1, 1998	8,982,089	¥ 4,337	¥ 4,382	¥ 253	¥ 3,242
Net income					823
Cash dividends, ¥17.0 per share					(160)
Bonuses to directors and corporate auditors					(29)
Transfer to legal reserve				19	(19)
Public offering of common stock	1,000,000	1,215	1,215		
Shares issued upon conversion of convertible bonds	480,258	437	436		
Exercise of warrants	58,000	66	72		
Stock split	2,034,675				
BALANCE, MARCH 31, 1999	12,555,022	6,055	6,105	272	3,857
Net income					635
Adjustment of retained earnings for newly applied accounting for tax allocation					500
Cash dividends, ¥15.0 per share					(188)
Bonuses to directors and corporate auditors					(50)
Transfer to legal reserve				24	(24)
Shares issued upon conversion of convertible bonds	2,675	2	2		
Exercise of warrants	32,500	36	41		
BALANCE, SEPTEMBER 30, 1999	12,590,197	¥ 6,093	¥ 6,148	¥ 296	¥ 4,730

	Thousands of U.S. Dollars (Note 1)			
	Common Stock	Additional Paid-in Capital	Legal Reserve	Retained Earnings
BALANCE, MARCH 31, 1999	$ 56,615	$ 57,083	$ 2,543	$ 36,064
Net income				5,937
Adjustment of retained earnings for newly applied accounting for tax allocation				4,675
Cash dividends, $0.14 per share				(1,758)
Bonuses to directors and corporate auditors				(467)
Transfer to legal reserve			225	(225)
Shares issued upon conversion of convertible bonds	19	19		
Exercise of warrants	336	383		
BALANCE, SEPTEMBER 30, 1999	$ 56,970	$ 57,485	$ 2,768	$ 44,226

See notes to semiannual financial statements.

Data Communication System Co., Ltd.

Notes to Semiannual Financial Statements
Six Months Ended September 30, 1999 and 1998—Unaudited

1. BASIS OF PRESENTING FINANCIAL STATEMENTS

The accompanying unaudited semiannual financial statements of Data Communication System Co., Ltd. (the "Company") 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 Financial Statements" 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 (the "Standards"), which are different in certain respects as to application and disclosure requirements of International Accounting Standards. Under the Standards, the following policies are applicable to the semiannual financial statements: (1) depreciation of property, plant and equipment which exist at the end of the semiannual financial period is recognized as one-half of the amount which is estimated to be provided for in the annual financial period, (2) provision for retirement allowances for directors and corporate auditors for the semiannual financial period is recognized as one-half of the amount which is estimated to be provided for in the annual financial period, and (3) income taxes are provided by a method which is the same as that for the annual financial period. The unaudited semiannual financial statements are not intended to present the financial position and results of operations in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

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

Statements of cash flows are not required under the Law or the Standards in Japan and are not presented herein.

The unaudited semiannual 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 ¥106.95 to $1, the approximate rate of exchange at September 30, 1999. 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. ***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.

b. ***Marketable and Investment Securities*—**Current and non-current marketable securities listed on the stock exchanges are stated at the lower of cost, determined by the moving-average method, or market. Other investments are stated at cost being determined by the moving-average method.

c. ***Property, Plant and Equipment*—**Property, plant and equipment are stated at cost. Depreciation is computed 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, from 5 to 15 years for machinery and equipment, 5 years for vehicles and from 2 to 15 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 three years.

d. ***Software Costs*****—**Prior to April 1, 1999, the purchased software costs were deferred and amortized by the straight-line method over five years. Effective April 1, 1999, however, the accounting standard for software has been changed and those costs are charged to income as incurred because there is insufficient certainty that such costs will be recovered from related future economic benefits.

e. ***Deferred Charges*****—**Stock issuance costs are charged to income as incurred.

f. ***Employees' Pension Plan*****—**The Company's policy for its contributory and non-contributory funded pension plans, which cover substantially all employees, is to fund and charge to operations normal costs as accrued on the basis of an accepted actuarial method plus amortization of prior service costs.

g. ***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 retirement and years of service when they leave the Company. The accrued provisions are not funded and any amounts payable to directors and corporate auditors upon retirement are subject to the approval of the shareholders. The annual 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 retire at the balance sheet date. The prior service costs are amortized over five years.

h. ***Income Taxes*****—**Effective April 1, 1999, the Company adopted accounting for allocation of income taxes based on the asset and liability method. The cumulative effect of the application of interperiod tax allocation in prior years in the amount of ¥500 million is included as an adjustment to retained earnings as of April 1, 1999.

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. These deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

i. ***Foreign Currency Transactions*****—**Convertible bonds denominated in foreign currencies are translated into Japanese yen at historical rates.

j. ***Per Share Information*****—**The computation of net income per share is based on the weighted average number of shares of common stock outstanding during each semiannual period. The weighted average number of shares of common stock used in the computation was 12,571,660 shares for 1999 and 9,209,182 shares for 1998.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of September 30, 1999 and 1998, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	1999
Current:			
Marketable equity securities	¥2	¥ 170	$ 19
Government and corporate bonds		171	
Trust fund investments and other		10	
Total	¥2	¥ 351	$ 19

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	1999
Non-current:			
Marketable and non-marketable equity securities	¥ 456	¥ 253	$ 4,264
Trust fund investments and other		1	
Total	¥ 456	¥ 254	$ 4,264

The carrying values and aggregate market value of marketable securities excluding certain securities for which market information is not available at September 30, 1999 and 1998, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	1999
Current:			
Carrying amount	¥ 2	¥ 351	$ 19
Aggregate market value	2	321	19
Unrealized gain (loss)	Nil	¥ (30)	Nil
Non-current:			
Carrying amount	¥ 413	¥ 223	$ 3,862
Aggregate market value	566	224	5,292
Unrealized gain	¥ 153	¥ 1	$ 1,430

4. INVENTORIES

Inventories at September 30, 1999 and 1998, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	1999
Merchandise	¥ 12	¥ 21	$ 112
Work in process	739	566	6,910
Supplies	11	11	103
Total	¥ 762	¥ 598	$ 7,125

5. LONG-TERM DEBT

Long-term debt at September 30, 1999 and 1998, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	1999
Unsecured 0.5% Swiss franc convertible bonds, due 2000	¥ 22	¥ 496	$ 205
Unsecured 2.0% bonds with warrants, due 2002	45		421
Total	¥ 67	¥ 496	$ 626

Annual maturities of long-term debt at September 30, 1999, were as follows:

Year Ending September 30	Millions of Yen	Thousands of U.S. Dollars
2000	¥ 22	$ 205
2003	45	421
Total	¥ 67	$ 626

The warrants issued with the 2.0% bonds are detachable and entitle the holders to subscribe for shares of the Company's common stock through December 6, 2002, at the exercise price of ¥2,260 per share at September 30, 1999. The warrants are being held by the Company and are to be granted to certain directors, auditors and employees as part of an incentive stock appreciation rights plan. If all these outstanding warrants had been exercised at March 31, 1999, 9,500 shares of common stock would have been issued.

The proceeds of bonds with warrants are allocated between a bond portion and a warrant portion. The amounts ascribed to warrants are stated as other current liabilities. This method has been applied for bonds with warrants issued after March 31, 1994.

The conversion price of 0.5% Swiss franc convertible bonds was ¥1,656 per share at September 30, 1999, using a fixed exchange rate of SFr.1 to ¥88.62.

At September 30, 1999, such bonds were convertible into 13,378 shares of the Company's common stock.

The current portion of convertible bonds, which are included in long-term debt, are translated into Japanese yen at the historical rate because the Company judged the convertible bonds shall be converted in consideration of the trend of the exchange rates and the stock price.

The exercise price of the warrants and the conversion price of the convertible bonds are subject to adjustments to reflect stock splits and certain other events.

6. SHAREHOLDERS' EQUITY

The Japanese Commercial Code (the "Code") requires at least 50% of the issue price of new shares, with a minimum of the par value thereof, 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 such reserve equals 25% of stated capital. This reserve is not available for dividends but may be used to reduce a deficit by resolution of the shareholders.

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.

Under the Code, the Company may issue new common shares to existing shareholders without consideration as a stock split pursuant to resolution of the Board of Directors. The Company may make such a stock split to the extent the aggregate par value of the shares outstanding after the stock split does not exceed the stated capital. However, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the stock split shall not be less than ¥50.

On September 6, 1998, the Company issued 1,000,000 shares of common stock at the price of ¥2,430 per share through a public offering in Japan.

On November 20, 1998, the Company made a stock split by way of a free share distribution at the rate of 0.2 share for each outstanding share and 2,034,675 shares were issued to shareholders of record on September 30, 1998. Stated capital was not changed as a result of this stock split.

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 17, 1999, the Board of Directors approved interim dividends of ¥6 per share to the shareholders on record as of September 30, 1999.

7. INCOME TAXES

The Company is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rates of approximately 42% and 48% for the years ended September 30, 1999 and 1998, respectively.

On March 31, 1999, a tax reform law was enacted in Japan which changed the normal effective statutory tax rate from approximately 48% to 42%, effective for years beginning April 1, 1999.

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