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

*Unaudited Semiannual Financial Statements for the*
*Six Months Ended September 30, 2000 and 1999*

## Data Communication System Co., Ltd.

**Semiannual Balance Sheets**
**September 30, 2000 and 1999—Unaudited**

| ASSETS | Millions of Yen 2000 | Millions of Yen 1999 | Thousands of U.S. Dollars (Note 1) 2000 |
|---|---|---|---|
| CURRENT ASSETS: | | | |
| Cash and cash equivalents | ¥ 6,688 | ¥ 4,617 | $ 61,925 |
| Receivables: | | | |
| Trade accounts | 5,749 | 4,039 | 53,231 |
| Other | 11 | 161 | 102 |
| Allowance for doubtful receivables | (17) | (16) | (157) |
| Inventories (Note 3) | 1,072 | 762 | 9,926 |
| Deferred tax assets | 501 | 193 | 4,639 |
| Prepaid expenses and other current assets | 87 | 89 | 806 |
| Total current assets | 14,091 | 9,845 | 130,472 |
| PROPERTY, PLANT AND EQUIPMENT: | | | |
| Land | 5,946 | 5,946 | 55,056 |
| Buildings and structures | 4,896 | 4,875 | 45,333 |
| Machinery and equipment | 69 | 85 | 639 |
| Vehicles | 1 | 2 | 9 |
| Tools, furniture and fixtures | 827 | 701 | 7,657 |
| Total | 11,739 | 11,609 | 108,694 |
| Accumulated depreciation | (2,090) | (1,801) | (19,352) |
| Net property, plant and equipment | 9,649 | 9,808 | 89,342 |
| INVESTMENTS AND OTHER ASSETS: | | | |
| Investment securities (Note 4) | 446 | 456 | 4,130 |
| Deferred tax assets | 456 | 192 | 4,222 |
| Other assets | 709 | 759 | 6,565 |
| Total investments and other assets | 1,611 | 1,407 | 14,917 |
| TOTAL | ¥ 25,351 | ¥ 21,060 | $ 234,731 |

| LIABILITIES AND SHAREHOLDERS' EQUITY | Millions of Yen 2000 | Millions of Yen 1999 | Thousands of U.S. Dollars (Note 1) 2000 |
|---|---|---|---|
| CURRENT LIABILITIES: | | | |
| Payables: | | | |
| Trade accounts | ¥ 1,563 | ¥ 1,094 | $ 14,472 |
| Other | 519 | 334 | 4,806 |
| Income taxes payable | 807 | 382 | 7,472 |
| Accrued expenses | 1,665 | 1,189 | 15,417 |
| Allowance for losses on investment | 133 | | 1,231 |
| Other current liabilities | 508 | 265 | 4,704 |
| Total current liabilities | 5,195 | 3,264 | 48,102 |
| LONG-TERM LIABILITIES: | | | |
| Long-term debt (Note 5) | 1,023 | 67 | 9,472 |
| Accrued employees retirement benefits | 444 | | 4,111 |
| Retirement allowances for directors and corporate auditors | 505 | 462 | 4,676 |
| Total long-term liabilities | 1,972 | 529 | 18,259 |
| SHAREHOLDERS' EQUITY (Notes 5, 6 and 9): | | | |
| Common stock, ¥50 par value—authorized, 18,000,000 shares; issued and outstanding, 12,610,575 shares in 2000 and 12,590,197 shares in 1999 | 6,112 | 6,093 | 56,593 |
| Additional paid-in capital | 6,167 | 6,148 | 57,102 |
| Legal reserve | 340 | 296 | 3,148 |
| Retained earnings | 5,568 | 4,730 | 51,555 |
| Net unrealized loss on available-for-sale securities | (3) | | (28) |
| Total shareholders' equity | 18,184 | 17,267 | 168,370 |
| TOTAL | ¥ 25,351 | ¥ 21,060 | $ 234,731 |

See notes to semiannual financial statements.

## Data Communication System Co., Ltd.

**Semiannual Statements of Income**
**Six Months Ended September 30, 2000 and 1999—Unaudited**

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2000 | 1999 | 2000 |
| NET SALES | ¥ 13,855 | ¥ 10,859 | $ 128,287 |
| COST OF SALES | 11,081 | 8,680 | 102,602 |
| Gross profit | 2,774 | 2,179 | 25,685 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 8) | 1,140 | 973 | 10,555 |
| Operating income | 1,634 | 1,206 | 15,130 |
| OTHER INCOME (EXPENSES): | | | |
| Interest and dividends | 5 | 6 | 46 |
| Interest expense | (6) | (1) | (56) |
| Loss on sales of marketable and investment securities | | (8) | |
| Gain (loss) on revaluation of marketable and investment securities | (40) | 28 | (370) |
| Stock and bond issuance costs | (12) | (1) | (111) |
| Provision for allowance for losses on investment | (133) | | (1,231) |
| Recognition of net liabilities from initial application of the new accounting standard for employees retirement benefits | (56) | | (519) |
| Amortization of prior service cost of retirement benefits for directors and corporate auditors | | (34) | |
| Other—net | 13 | (85) | 120 |
| Other expenses—net | (229) | (95) | (2,121) |
| INCOME BEFORE INCOME TAXES | 1,405 | 1,111 | 13,009 |
| INCOME TAXES (Note 7): | | | |
| Current | 806 | 361 | 7,463 |
| Deferred | (169) | 115 | (1,565) |
| Total income taxes | 637 | 476 | 5,898 |
| NET INCOME | ¥ 768 | ¥ 635 | $ 7,111 |

| | Yen | | U.S. Dollars |
|---|---|---|---|
| PER SHARE OF COMMON STOCK (Note 2.l): | | | |
| Net income per share | ¥ 60.90 | ¥ 50.50 | $ 0.56 |
| Fully diluted net income | 60.87 | | 0.56 |

See notes to semiannual financial statements.

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

**Semiannual Statements of Shareholders' Equity**
**Six Months Ended September 30, 2000 (Unaudited) and Year Ended March 31, 2000**

| | Outstanding Number of Shares of Common Stock | Millions of Yen: Common Stock | Additional Paid-in Capital | Legal Reserve | Retained Earnings | Net Unrealized Loss on Available-for-sale Securities |
|---|---|---|---|---|---|---|
| BALANCE, APRIL 1, 1999 | 12,555,022 | ¥ 6,055 | ¥ 6,105 | ¥ 272 | ¥ 3,857 | |
| Adjustment of retained earnings for the adoption of accounting standard for interperiod allocation of income taxes (Note 2.k) | | | | | 501 | |
| Net income | | | | | 1,186 | |
| Cash dividends, ¥21.0 per share | | | | | (264) | |
| Bonuses to directors and corporate auditors | | | | | (50) | |
| Transfer to legal reserve | | | | 31 | (31) | |
| Shares issued upon conversion of convertible bonds | 16,053 | 13 | 13 | | | |
| Exercise of warrants | 38,500 | 43 | 48 | | | |
| BALANCE, MARCH 31, 2000 | 12,609,575 | 6,111 | 6,166 | 303 | 5,199 | |
| Net income | | | | | 768 | |
| Cash dividends, ¥23.0 per share | | | | | (290) | |
| Bonuses to directors and corporate auditors | | | | | (72) | |
| Transfer to legal reserve | | | | 37 | (37) | |
| Exercise of warrants | 1,000 | 1 | 1 | | | |
| Revaluation of investment securities | | | | | | ¥ (3) |
| BALANCE, SEPTEMBER 30, 2000 | 12,610,575 | ¥ 6,112 | ¥ 6,167 | ¥ 340 | ¥ 5,568 | ¥ (3) |

| | Thousands of U.S. Dollars (Note 1): Common Stock | Additional Paid-in Capital | Legal Reserve | Retained Earnings | Net Unrealized Loss on Available-for-sale Securities |
|---|---|---|---|---|---|
| BALANCE, MARCH 31, 2000 | $ 56,583 | $ 57,092 | $ 2,805 | $ 48,139 | |
| Net income | | | | 7,111 | |
| Cash dividends, $0.21 per share | | | | (2,685) | |
| Bonuses to directors and corporate auditors | | | | (667) | |
| Transfer to legal reserve | | | 343 | (343) | |
| Exercise of warrants | 10 | 10 | | | |
| Revaluation of investment securities | | | | | $ (28) |
| BALANCE, SEPTEMBER 30, 2000 | $ 56,593 | $ 57,102 | $ 3,148 | $ 51,555 | $ (28) |

See notes to semiannual financial statements.

## Data Communication System Co., Ltd.

**Semiannual Statement of Cash Flows**
**Six Months Ended September 30, 2000—Unaudited**

| | Millions of Yen | Thousands of U.S. Dollars (Note 1) |
|---|---|---|
| | 2000 | 2000 |
| OPERATING ACTIVITIES: | | |
| Income before income taxes | ¥ 1,405 | $ 13,009 |
| Adjustments for: | | |
| Income taxes paid | (861) | (7,972) |
| Depreciation | 174 | 1,611 |
| Provision for allowance for losses on investment | 133 | 1,231 |
| Provision for retirement allowances for directors and corporate auditors | (11) | (102) |
| Changes in assets and liabilities: | | |
| Increase in receivables | (863) | (7,991) |
| Increase in inventories | (161) | (1,491) |
| Decrease in payables | (279) | (2,583) |
| Increase in accrued expenses | 584 | 5,407 |
| Increase in accrued employees retirement benefits | 444 | 4,111 |
| Decrease in accrued prior service costs | (439) | (4,065) |
| Other—net | 3 | 29 |
| Total adjustments | (1,276) | (11,815) |
| Net cash provided by operating activities | 129 | 1,194 |
| INVESTING ACTIVITIES: | | |
| Purchases of investment securities | (30) | (278) |
| Purchases of property, plant and equipment | (145) | (1,342) |
| Net increase in other assets | (43) | (398) |
| Other—net | 1 | 9 |
| Net cash used in investing activities | (217) | (2,009) |
| FINANCING ACTIVITIES: | | |
| Issuance of bonds with warrants | 1,043 | 9,658 |
| Cash dividends paid | (288) | (2,667) |
| Other—net | 3 | 28 |
| Net cash provided by financing activities | 758 | 7,019 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 670 | 6,204 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 6,018 | 55,721 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | ¥ 6,688 | $ 61,925 |

See notes to semiannual financial statements.

## Data Communication System Co., Ltd.

**Notes to Semiannual Financial Statements**
**Six Months Ended September 30, 2000 and 1999—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 the International Accounting Standards. The unaudited semiannual 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 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.

Certain reclassifications have been made in the 1999 semiannual financial statements to conform to the classifications used in 2000.

Effective April 1, 2000, semiannual statements of cash flows are required to be prepared under Japanese accounting standards. The semiannual statement of cash flows for the six months ended September 30, 2000, is presented herein. Such statement for the six months ended September 30, 1999 is not presented, as Japanese accounting standards do not require retroactive preparation or presentation for prior periods' financial statements.

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 ¥108.00 to $1, the approximate rate of exchange at September 30, 2000. 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. 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.

***b. 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.

***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—***The 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 higher 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 three years or the amount to be amortized by the straight-line method over such salable years. The purchased software costs are charged to income as incurred because of the uncertainty that such costs will be recovered from related future economic benefits.

*e.* ***Investment Securities—***Prior to April 1, 2000, current and non-current marketable securities listed on stock exchanges were stated at the lower of cost, determined by the moving-average method, or market. Effective April 1, 2000, the Company adopted a new accounting standard for financial instruments. Under this standard, available-for-sale securities with fair 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. The effect of this change is to increase income before income taxes by ¥26 million ($241 thousand) for the six months ended September 30, 2000.

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

*f.* ***Deferred Charges—***Stock and bond issuance costs are charged to income as incurred.

*g.* ***Allowance for Losses on Investment—***Allowance for losses on investment is provided for possible losses from the liquidation of an invested company.

*h.* ***Employees' Pension Plan—***Prior to April 1, 2000, the Company's policy for its contributory and non-contributory funded pension plans, which cover substantially all employees, was to charge to operations normal costs to the pension plan and the present value of prior service costs at the most recent valuation date of the pension plan. Effective April 1, 2000, the Company adopted a new accounting standard for employees retirement benefits. Under this standard, the costs of the pension plan, based on actuarial computations of current and future employee benefits, are charged to operations. The net liabilities from initial application of the new standard in the amount of ¥56 million ($519 thousand) are charged to operations as of April 1, 2000. The effect of this change is to increase income before income taxes by ¥40 million ($370 thousand) for the six months ended September 30, 2000.

*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 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 resign at the balance sheet date.

*j.* ***Research and Development Costs—***Research and development costs are charged to income as incurred.

*k.* ***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.

*l.* ***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 12,609,629 shares for 2000 and 12,571,660 shares for 1999.

Fully diluted net income per share of common stock assumes full exercise of outstanding warrants at the end of the year. This information was not required under the Law or the Standards in Japan in 1999.

## 3. INVENTORIES

Inventories at September 30, 2000 and 1999, consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2000 | 1999 | 2000 |
| Merchandise | ¥ 14 | ¥ 12 | $ 130 |
| Work in process | 1,050 | 739 | 9,722 |
| Supplies | 8 | 11 | 74 |
| Total | ¥ 1,072 | ¥ 762 | $ 9,926 |

## 4. INVESTMENT SECURITIES

Investment securities available for sale at September 30, 2000 and 1999, consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2000 | 1999 | 2000 |
| Non-current: | | | |
| Marketable equity securities | ¥ 383 | ¥ 413 | $ 3,546 |
| Non-marketable equity securities | 63 | 43 | 584 |
| Total | ¥ 446 | ¥ 456 | $ 4,130 |

## 5. LONG-TERM DEBT

Long-term debt at September 30, 2000 and 1999, consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2000 | 1999 | 2000 |
| Unsecured 0.5% Swiss franc convertible bonds, due 2000 | | ¥ 22 | |
| Unsecured 2.0% bonds, due 2002 | ¥ 23 | 45 | $ 213 |
| Unsecured 2.0% bonds, due 2004 | 1,000 | | 9,259 |
| Total | ¥ 1,023 | ¥ 67 | $ 9,472 |

Annual maturities of long-term debt at September 30, 2000, were as follows:

| Period Ending September 30 | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| 2003 | ¥ 23 | $ 213 |
| 2004 | 1,000 | 9,259 |
| Total | ¥ 1,023 | $ 9,472 |

The warrants issued with the 2.0% bonds due 2002 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, 2000. The warrants were purchased by the Company and then granted to certain directors, corporate auditors and employees as part of an incentive stock appreciation rights plan. If all these outstanding warrants had been exercised at September 30, 2000, 2,500 shares of common stock would have been issued.

The warrants issued with the 2.0% bonds due 2004 are detachable and entitle the holders to subscribe for shares of the Company's common stock through June 15, 2004, at the exercise price of ¥6,570 per share at September 30, 2000. The warrants were purchased by the Company and then granted to certain directors, corporate auditors and employees as part of an incentive stock appreciation rights plan. If all these outstanding warrants had been exercised at September 30, 2000, 152,207 shares of common stock would have been issued.

The proceeds of bonds with warrants are allocated between a bond portion resulting in a bond discount and a warrant portion. The amounts ascribed to warrants are stated as other current liabilities.

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 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.

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, 2000, the Board of Directors approved interim dividends of ¥8 per share to the shareholders on record as of September 30, 2000.

**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% for the periods ended September 30, 2000 and 1999.

**8. RESEARCH AND DEVELOPMENT COSTS**

Research and development costs charged to income are ¥54 million ($500 thousand) for the period ended September 30, 2000.

**9. SUBSEQUENT EVENT**

On December 13, 2000, the Board of Directors of the Company approved the merger, dated as of March 22, 2001, with DTS CO., LTD. a shareholder of the Company. Under the terms and conditions of the merger, the Company will issue 23 shares of its common stock for each DTS CO., LTD. common share, which will result in issuance of 653,890 shares and increase common stock of the Company by ¥695 million ($6,435 thousand). The Company will repurchase and cancel 654,832 shares of common stock of the Company at the time of the merger, and decrease common stock by ¥696 million ($6,444 thousand).

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