Data Communication System Co., Ltd. and Subsidiaries

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

Data Communication System Co., Ltd. and Subsidiaries

Semiannual Consolidated Balance Sheet
September 30, 2001—Unaudited

ASSETS	Millions of Yen	Thousands of U.S. Dollars (Note 1)
CURRENT ASSETS:		
Cash and cash equivalents	¥ 8,103	$ 67,865
Receivables:		
Trade accounts	7,298	61,122
Other	11	92
Allowance for doubtful receivables	(18)	(151)
Inventories (Note 3)	931	7,797
Deferred tax assets	578	4,841
Prepaid expenses and other current assets	138	1,156
Total current assets	17,041	142,722
PROPERTY, PLANT AND EQUIPMENT:		
Land	5,943	49,774
Buildings and structures	4,916	41,172
Tools, furniture and fixtures	999	8,367
Other	45	377
Total	11,903	99,690
Accumulated depreciation	(2,409)	(20,176)
Net property, plant and equipment	9,494	79,514
INVESTMENTS AND OTHER ASSETS:		
Investment securities (Note 4)	273	2,287
Deferred tax assets	555	4,648
Other assets	988	8,275
Total investments and other assets	1,816	15,210
TOTAL	¥ 28,351	$ 237,446

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen	Thousands of U.S. Dollars (Note 1)
CURRENT LIABILITIES:		
Payables:		
Trade accounts	¥ 1,998	$ 16,734
Other	747	6,256
Income taxes payable	1,142	9,564
Accrued expenses	1,815	15,201
Other current liabilities	616	5,160
Total current liabilities	6,318	52,915
LONG-TERM LIABILITIES:		
Long-term debt (Note 5)	1,023	8,568
Liability for employees' retirement benefits	405	3,392
Retirement allowances for directors and corporate auditors	569	4,765
Total long-term liabilities	1,997	16,725
MINORITY INTERESTS	224	1,876
SHAREHOLDERS' EQUITY (Notes 5, 6 and 11):		
Common stock, ¥50 par value—authorized, 18,000,000 shares; issued and outstanding, 12,609,633 shares	6,111	51,181
Additional paid-in capital	6,189	51,834
Retained earnings	7,563	63,342
Net unrealized loss on available-for-sale securities	(49)	(410)
Treasury stock—at cost	(2)	(17)
Total shareholders' equity	19,812	165,930
TOTAL	¥ 28,351	$ 237,446

See notes to semiannual consolidated financial statements.

Data Communication System Co., Ltd. and Subsidiaries

Semiannual Consolidated Statement of Income
Six Months Ended September 30, 2001—Unaudited

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
NET SALES	¥ 18,382	$ 153,953
COST OF SALES	14,800	123,953
Gross profit	3,582	30,000
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 8)	1,399	11,717
Operating income	2,183	18,283
OTHER INCOME (EXPENSES):		
Interest and dividends	6	50
Interest expense	(10)	(84)
Loss on write-down of investment securities	(82)	(687)
Loss on devaluation of membership rights	(23)	(192)
Other—net	25	210
Other expenses—net	(84)	(703)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	2,099	17,580
INCOME TAXES (Note 7):		
Current	859	7,194
Deferred	37	310
Total income taxes	896	7,504
MINORITY INTERESTS IN NET INCOME	39	327
NET INCOME	¥ 1,164	$ 9,749

	Yen	U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.n):		
Net income per share	¥ 92.33	$ 0.77
Fully diluted net income	92.32	0.77

See notes to semiannual consolidated financial statements.

Data Communication System Co., Ltd. and Subsidiaries

Semiannual Consolidated Statement of Shareholders' Equity
Six Months Ended September 30, 2001—Unaudited

	Outstanding Number of Shares of Common Stock	Millions of Yen				
		Common Stock	Additional Paid-in Capital	Retained Earnings	Net Unrealized Loss on Available-for-sale Securities	Treasury Stock
BALANCE, APRIL 1, 2001	12,609,633	¥ 6,111	¥ 6,189	¥ 7,025		
Net income				1,164		
Cash dividends, ¥40.0 per share				(504)		
Bonuses to directors and corporate auditors				(118)		
Adjustment of retained earnings for a newly consolidated subsidiary				(4)		
Valuation of investment securities					¥ (49)	
Increase in treasury stock						¥ (2)
BALANCE, SEPTEMBER 30, 2001	12,609,633	¥ 6,111	¥ 6,189	¥ 7,563	¥ (49)	¥ (2)

	Thousands of U.S. Dollars (Note 1)				
	Common Stock	Additional Paid-in Capital	Retained Earnings	Net Unrealized Loss on Available-for-sale Securities	Treasury Stock
BALANCE, APRIL 1, 2001	$ 51,181	$ 51,834	$ 58,836		
Net income			9,749		
Cash dividends, $0.34 per share			(4,221)		
Bonuses to directors and corporate auditors			(988)		
Adjustment of retained earnings for a newly consolidated subsidiary			(34)		
Valuation of investment securities				$ (410)	
Increase in treasury stock					$ (17)
BALANCE, SEPTEMBER 30, 2001	$ 51,181	$ 51,834	$ 63,342	$ (410)	$ (17)

See notes to semiannual consolidated financial statements.

Data Communication System Co., Ltd. and Subsidiaries

Semiannual Consolidated Statement of Cash Flows
Six Months Ended September 30, 2001—Unaudited

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
OPERATING ACTIVITIES:		
Income before income taxes and minority interests	¥ 2,099	$ 17,580
Adjustments for:		
Income taxes paid	(1,212)	(10,151)
Depreciation and amortization	217	1,817
Provision for retirement allowances for directors and corporate auditors	9	75
Changes in assets and liabilities:		
Increase in receivables	(71)	(595)
Increase in inventories	(33)	(276)
Decrease in payables	(1,070)	(8,961)
Increase in accrued expenses	417	3,492
Increase in liability for employees' retirement benefits	(24)	(201)
Other—net	(82)	(686)
Total adjustments	(1,849)	(15,486)
Net cash provided by operating activities	250	2,094
INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(142)	(1,189)
Payment for purchase of DATALINKS CO., LTD., net of cash acquired	(109)	(913)
Other—net	3	25
Net cash used in investing activities	(248)	(2,077)
FINANCING ACTIVITIES:		
Cash dividends paid	(501)	(4,196)
Other—net	(1)	(9)
Net cash used in financing activities	(502)	(4,205)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(500)	(4,188)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	8,577	71,834
CASH AND CASH EQUIVALENTS OF A NEWLY CONSOLIDATED SUBSIDIARY, BEGINNING OF PERIOD	26	218
CASH AND CASH EQUIVALENTS, END OF PERIOD	¥ 8,103	$ 67,864

See notes to semiannual consolidated financial statements.

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" 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 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 ¥119.40 to $1, the rate of exchange at September 30, 2001. 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, 2001 include the accounts of the Company and its 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. 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. Subsidiaries also have a non-contributory funded pension plans 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 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 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 during semiannual period. The weighted average number of shares of common stock used in the computation was 12,609,421 shares for 2001.

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

3. INVENTORIES

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

	Millions of Yen	Thousands of U.S. Dollars
Merchandise	¥ 21	$ 176
Work in process	900	7,538
Supplies	10	83
Total	¥ 931	$ 7,797

4. INVESTMENT SECURITIES

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

The acquisition cost and aggregate fair value of investment securities at September 30, 2001, were as follows:

	Millions of Yen		
	Cost	Unrealized Losses	Fair Value
Securities classified as—			
Available-for-sale equity securities	¥ 327	¥ 87	¥ 240

	Thousands of U.S. Dollars		
	Cost	Unrealized Losses	Fair Value
Securities classified as—			
Available-for-sale equity securities	$ 2,739	$729	$ 2,010

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

	Carrying Amount	
	Millions of Yen	Thousands of U.S. Dollars
Investment securities, available-for-sale equity securities	¥ 33	$ 276

5. LONG-TERM DEBT

Long-term debt at September 30, 2001, consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Unsecured 2.0% bonds, due 2002	¥ 23	$ 193
Unsecured 2.0% bonds, due 2004	1,000	8,375
Total	¥ 1,023	$ 8,568

Annual maturities of long-term debt at September 30, 2001, were as follows:

Period Ending September 30	Millions of Yen	Thousands of U.S. Dollars
2003	¥ 23	$ 193
2004	1,000	8,375
Total	¥ 1,023	$ 8,568

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, 2001. 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, 2001, 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, 2001, 152,207 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.

The exercise price of the warrants is subject to adjustments to reflect stock splits and certain other events.

6. SHAREHOLDERS' EQUITY

The Company is subject to the Japanese Commercial Code (the "Code"), to which certain amendments became effective as from October 1, 2001. Prior to October 1, 2001, the Code required 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 were credited to additional paid-in capital. Effective October 1, 2001, the Code was revised and common stock par values were eliminated resulting in all shares being recorded with no par value.

Prior to October 1, 2001, the Code also provided that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other cash payments which are made as an appropriation of retained earnings applicable to each fiscal period shall be appropriated and set aside as a legal reserve until such reserve equals 25% of stated capital. Effective October 1, 2001, the revised Code allows for such appropriations to be determined based on total additional paid-in capital and legal reserves. The amount of total additional paid-in capital and legal reserve which exceeds 25% of stated capital can be transferred to retained earnings by resolution of the shareholders, which may be available for dividends. The Company's legal reserve amount, which is included in retained earnings, totals ¥412 million ($3,451 thousand) as of September 30, 2001.

Under the Code, companies may issue new common shares to existing shareholders without consideration as a stock split pursuant to a resolution of the Board of Directors. Prior to October 1, 2001, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the stock split could not be less than ¥50. The revised Code eliminated this restriction.

Prior to October 1, 2001, the Code imposed certain restrictions on the repurchase and use of treasury stock. Effective October 1, 2001, the Code eliminated these restrictions allowing companies to 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 after March 31, 2002. The repurchased amount of treasury stock cannot exceed the total amount of stated capital and additional paid-in capital.

The Code permits companies to transfer a portion of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Code also permits companies to transfer a portion of unappropriated retained earnings, available for dividends, to stated capital by resolution of the shareholders.

Dividends are approved by the 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 16, 2001, the Board of Directors approved interim dividends of ¥10 per share to the shareholders of record as of September 30, 2001.

Under the Code, the amount available for dividends is based on retained earnings as recorded on the Company's books. At September 30, 2001, retained earnings recorded on the Company's books were ¥7,034 million ($58,911 thousand) which is available for future dividends subject to the approval of the shareholders and legal reserve requirements.

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 rates of approximately 42% for the period ended September 30, 2001.

8. RESEARCH AND DEVELOPMENT COSTS

Research and development costs of the Company charged to income are ¥36 million ($302 thousand) for the period ended September 30, 2001.

9. 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, 2001 were ¥29 million ($243 thousand), including ¥24 million ($201 thousand) 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 period ended September 30, 2001, was as follows:

	Millions of Yen			
	Vehicle	Furniture and Fixtures	Software	Total
Acquisition cost	¥ 3	¥ 141	¥ 5	¥ 149
Accumulated depreciation	1	91	3	95
Net leased property	¥ 2	¥ 50	¥ 2	¥ 54

	Thousands of U.S. Dollars			
	Vehicle	Furniture and Fixtures	Software	Total
Acquisition cost	$ 25	$ 1,181	$ 42	$ 1,248
Accumulated depreciation	9	762	25	796
Net leased property	$ 16	$ 419	$ 17	$ 452

Acquisition costs and obligations include the imputed interest expense portion.

Obligations under finance leases:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥ 24	$ 201
Due after one year	30	251
Total	¥ 54	$ 452

Depreciation expense including imputed interest expense under finance leases were ¥15 million ($126 thousand) for the period ended September 30, 2001.

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

10. 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.

11. SUBSEQUENT EVENTS

a. Issuance of Bonds with Warrants

On October 12, 2001, the Company issued ¥1,000 million ($8,375 thousand) of unsecured 1.38% bonds with detachable warrants. The bonds are due October 12, 2005, and the warrants are exercisable from January 4, 2002 through October 11, 2005. The issue price of the bonds was 104.0% of the face value of the bonds and the initial exercise price of the warrants is ¥4,910 per share. This issue is for a stock appreciation rights plan as an incentive plan for certain directors, corporate auditors and employees.

b. Purchase of Treasury Stock for Retirement

On November 16, 2001, the Board of Directors of the Company approved the purchase of treasury stock for retirement. The Company is authorized to repurchase, at management's discretion, up to 115,000 shares of the Company's common stock (aggregate amount of ¥575 million). The Company purchased 115,000 shares of the Company's common stock on November 21, 2001 for an aggregate amount of ¥477 million ($3,995 thousand).

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