Data Communication System Co., Ltd. and Subsidiaries

Consolidated Financial Statements for the Years Ended March 31, 2003 and 2002, and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
Data Communication System Co., Ltd.:

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Data Communication System Co., Ltd. and subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

June 25, 2003

Data Communication System Co., Ltd. and Subsidiaries

Consolidated Balance Sheets
March 31, 2003 and 2002

ASSETS	Millions of Yen 2003	Millions of Yen 2002	Thousands of U.S. Dollars (Note 1) 2003
CURRENT ASSETS:			
Cash and cash equivalents	¥ 7,065	¥ 10,740	$ 58,777
Receivables:			
Trade accounts	7,526	7,396	62,612
Other	21	24	175
Allowance for doubtful receivables	(11)	(18)	(92)
Inventories (Note 3)	743	436	6,181
Deferred tax assets (Note 9)	825	613	6,864
Prepaid expenses and other current assets	92	81	766
Total current assets	16,261	19,272	135,283
PROPERTY, PLANT AND EQUIPMENT:			
Land	7,063	5,943	58,760
Buildings and structures	4,925	4,924	40,973
Furniture and fixtures	1,045	1,013	8,695
Other assets	57	38	474
Total	13,090	11,918	108,902
Accumulated depreciation	(2,797)	(2,521)	(23,270)
Net property, plant and equipment	10,293	9,397	85,632
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 4)	1,388	690	11,547
Goodwill	122	162	1,015
Guarantee deposit	387	387	3,220
Life insurance premiums	390	300	3,245
Deferred tax assets (Note 9)	570	621	4,742
Other assets	155	157	1,289
Total investments and other assets	3,012	2,317	25,058
TOTAL	¥ 29,566	¥ 30,986	$ 245,973

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2003	Millions of Yen 2002	Thousands of U.S. Dollars (Note 1) 2003
CURRENT LIABILITIES:			
Current portion of long-term debt (Note 5)	¥ 700	¥ 23	$ 5,824
Payables:			
Trade accounts	2,038	1,936	16,955
Other	976	1,438	8,120
Income taxes payable	1,097	1,491	9,126
Accrued expenses	1,703	1,499	14,168
Other current liabilities	549	820	4,567
Total current liabilities	7,063	7,207	58,760
LONG-TERM LIABILITIES:			
Long-term debt (Note 5)		2,000	
Liability for employees' retirement benefits (Note 6)	567	438	4,717
Retirement allowances for directors and corporate auditors	250	593	2,080
Total long-term liabilities	817	3,031	6,797
MINORITY INTERESTS	248	240	2,063
SHAREHOLDERS' EQUITY (Notes 7 and 14):			
Common stock—authorized, 18,000,000 shares; issued, 12,611,133 shares in 2003 and 12,609,633 shares in 2002	6,113	6,111	50,857
Capital surplus	6,191	6,189	51,506
Retained earnings	9,763	8,691	81,223
Net unrealized loss on available-for-sale securities	(1)	(3)	(8)
Treasury stock—at cost, 189,422 shares in 2003 and 115,426 shares in 2002	(628)	(480)	(5,225)
Total shareholders' equity	21,438	20,508	178,353
TOTAL	¥ 29,566	¥ 30,986	$ 245,973

See notes to consolidated financial statements.

Data Communication System Co., Ltd. and Subsidiaries

Consolidated Statements of Income
Years Ended March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
NET SALES	¥ 36,921	¥ 38,068	$ 307,163
COST OF SALES (Notes 6, 8 and 10)	30,327	30,633	252,304
Gross profit	6,594	7,435	54,859
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 6, 8 and 10)	3,032	2,819	25,225
Operating income	3,562	4,616	29,634
OTHER INCOME (EXPENSES):			
Interest and dividends income	17	8	141
Interest expense	(23)	(27)	(191)
Loss on write-down of investment securities	(79)	(246)	(657)
Other—net	38	14	316
Other expenses—net	(47)	(251)	(391)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	3,515	4,365	29,243
INCOME TAXES (Note 9):			
Current	1,733	1,990	14,418
Deferred	(160)	(97)	(1,331)
Total income taxes	1,573	1,893	13,087
MINORITY INTERESTS IN NET INCOME	16	55	133
NET INCOME	¥ 1,926	¥ 2,417	$ 16,023

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.n and 12):			
Net income	¥ 149.38	¥ 181.11	$ 1.24
Fully diluted net income	149.37	181.09	1.24
Cash dividends applicable to the year	47.00	55.00	0.39

See notes to consolidated financial statements.

Data Communication System Co., Ltd. and Subsidiaries

Consolidated Statements of Shareholders' Equity
Years Ended March 31, 2003 and 2002

	Issued Number of Shares of Common Stock	Millions of Yen				
		Common Stock	Capital Surplus	Retained Earnings	Unrealized Loss on Available-for-sale Securities	Treasury 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				1,926		
Cash dividends, ¥57 per share				(712)		
Bonuses to directors and corporate auditors				(142)		
Exercise of warrants	1,500	2	2			
Net decrease in unrealized loss on available-for-sale securities					2	
Increase in treasury stock (73,996 shares)						(148)
BALANCE, MARCH 31, 2003	12,611,133	¥ 6,113	¥ 6,191	¥ 9,763	¥ (1)	¥ (628)

	Thousands of U.S. Dollars (Note 1)				
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Loss on Available-for-sale Securities	Treasury Stock
BALANCE, MARCH 31, 2002	$ 50,840	$ 51,489	$ 72,304	$ (25)	$ (3,993)
Net income			16,023		
Cash dividends, $0.47 per share			(5,923)		
Bonuses to directors and corporate auditors			(1,181)		
Exercise of warrants	17	17			
Net decrease in unrealized loss on available-for-sale securities				17	
Increase in treasury stock (73,996 shares)					(1,232)
BALANCE, MARCH 31, 2003	$ 50,857	$ 51,506	$ 81,223	$ (8)	$ (5,225)

See notes to consolidated financial statements.

Data Communication System Co., Ltd. and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 3,515	¥ 4,365	$ 29,243
Adjustments for:			
Income taxes paid	(2,131)	(1,994)	(17,729)
Depreciation and amortization	394	426	3,278
Changes in assets and liabilities:			
Increase in receivables	(123)	(172)	(1,023)
(Increase) decrease in inventories	(307)	462	(2,554)
(Increase) decrease in prepaid expenses and other current assets	(12)	1	(100)
Decrease in payables	(306)	(513)	(2,546)
Increase in accrued expenses	213	93	1,772
(Decrease) increase in liability for retirement benefits	(214)	42	(1,780)
(Decrease) increase in other current liabilities	(185)	135	(1,539)
Other—net	(174)	141	(1,448)
Total adjustments	(2,845)	(1,379)	(23,669)
Net cash provided by operating activities	670	2,986	5,574
INVESTING ACTIVITIES:			
Payment for purchase of investment securities	(777)	(500)	(6,464)
Payment for purchase of property, plant and equipment	(1,316)	(161)	(10,948)
Payment for purchase of stock of DATALINKS CO., LTD., net of cash acquired		(109)	
Net increase in other assets	(14)		(117)
Net cash used in investing activities	(2,107)	(770)	(17,529)
FINANCING ACTIVITIES:			
Proceeds from issuance of bonds with warrants		1,027	
Redemption of bonds	(1,323)		(11,007)
Cash dividends paid	(708)	(627)	(5,890)
Payment for purchase of treasury stock	(148)	(480)	(1,231)
Other—net	(59)	1	(491)
Net cash used in financing activities	(2,238)	(79)	(18,619)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,675)	2,137	(30,574)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	10,740	8,577	89,351
CASH AND CASH EQUIVALENTS OF A NEWLY CONSOLIDATED SUBSIDIARY, BEGINNING OF YEAR		26	
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 7,065	¥ 10,740	$ 58,777

See notes to consolidated financial statements.

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. The 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 consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2002 financial statements to conform to the classifications used in 2003.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Data Communication System Co., Ltd. (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 ¥120.20 to $1, the rate of exchange at March 31, 2003. 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 consolidated financial statements include the accounts of the Company and all subsidiaries (together, the "Group").

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

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 most recent purchase cost method.

d. ***Property, Plant and Equipment—***Property, plant and equipment are stated at cost. Depreciation is computed by the declining-balance method for most assets at rates based on the estimated useful lives of the assets except for buildings acquired after April 1, 1998, to which the straight-line method is applied. The range of useful lives is principally from 3 to 50 years for buildings and structures and from 2 to 20 years for 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 capitalized and amortized at the greater of either the amount to be amortized in proportion to the actual sales volume and revenue of the software during the current year to the estimated total sales volume and revenue 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 of 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—***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 contributory or 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, starting from the following fiscal period.

The policy of the Company and a subsidiary for its contributory pension plan is to charge such costs to operations as incurred.

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 the number of 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 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—***The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. 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 consolidated financial statements for the following year upon shareholders' approval.

n. ***Per Share Information—***Effective April 1, 2002, the Company adopted a new accounting standard for earnings per share of common stock issued by the Accounting Standards Board of Japan. Under the new standard, basic net income per share is computed by dividing net income available to common shareholders, which is more precisely computed than under previous practices, by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if warrants or stock options were exercised. Diluted net income per share of common stock assumes full exercise of the outstanding warrants and stock options at the beginning of the year. Basic net income and diluted net income per share for the years ended March 31, 2003 and 2002 are computed in accordance with the new standard.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year, retroactively adjusted for stock splits.

3. INVENTORIES

Inventories at March 31, 2003 and 2002, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Merchandise	¥ 72	¥ 16	$ 599
Work in process	661	409	5,499
Supplies	10	11	83
Total	¥ 743	¥ 436	$ 6,181

4. INVESTMENT SECURITIES

Investment securities as of March 31, 2003 and 2002, consisted of non-current equity securities.

The carrying amounts and aggregate fair value of investment securities at March 31, 2003 and 2002, were as follows:

	Millions of Yen			
March 31, 2003	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale equity securities	¥ 184	¥ 9	¥ 16	¥ 177
March 31, 2002				
Securities classified as available-for-sale equity securities	163		6	157

	Thousands of U.S. Dollars			
March 31, 2003	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale equity securities	$ 1,531	$ 75	$ 133	$ 1,473

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2003 and 2002, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Investment securities, available-for-sale equity securities	¥ 1,211	¥ 533	$ 10,074

5. SHORT-TERM AND LONG-TERM DEBT

Short-term and long-term debt at March 31, 2003 and 2002, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Unsecured 2.0% bonds, due December 2002		¥ 23	
Unsecured 2.0% bonds, due June 2004	¥ 700	1,000	$ 5,824
Unsecured 1.38% bonds, due October 2005		1,000	
Total	700	2,023	5,824
Less current portion	(700)	(23)	(5,824)
Long-term debt, less current portion		¥ 2,000	

¥300 million of the unsecured 2.0% bonds, due June 2004 was redeemed because the corresponding warrants were repurchased and extinguished. On September 4, 2002, the Board of Directors of the Company approved the early redemption of the remaining unsecured 2.0% bonds, due June 2004 and the unsecured 1.38% bonds. The unsecured 1.38% bonds were redeemed on October 11, 2002, and the unsecured 2.0% bonds were redeemed on June 13, 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.

The Company repurchased all the warrants issued with those bonds on April 15 and September 17, 2002 and extinguished them on April 18 and September 17, 2002.

6. EMPLOYEES' RETIREMENT BENEFITS

The liability for employees' retirement benefits at March 31, 2003 and 2002, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Projected benefit obligation	¥ 3,050	¥ 2,725	$ 25,374
Fair value of plan assets	(2,042)	(1,938)	(16,988)
Unrecognized actuarial loss	(441)	(349)	(3,669)
Net liability	¥ 567	¥ 438	$ 4,717

The components of net periodic retirement benefit costs for the years ended March 31, 2003 and 2002, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Service cost	¥ 366	¥ 330	$ 3,045
Interest cost	65	67	541
Expected return on plan assets	(18)	(17)	(150)
Recognition of actuarial loss	76	31	632
Net periodic retirement benefit costs	¥ 489	¥ 411	$ 4,068

Assumptions used for the years ended March 31, 2003 and 2002, are set forth as follows:

	2003	2002
Discount rate	2.5%	2.5%
Expected rate of return on plan assets	1.0%	1.0%
Recognition period of actuarial gain/loss	5 years	5 years

The contributory funded employees' pension plan, with companies in the same line of business, was not included in the above tables as the fair value of plan assets corresponding to the Company's contribution cannot be reasonably computed. The contribution to the plan, except for employees' portion, which is charged to operations, amounted to ¥295 million ($2,454 thousand) for the year ended March 31, 2003. The amount of plan assets as of March 31, 2003, applicable to the Company based on its contribution to the fund, was ¥3,671 million ($30,541 thousand).

7. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Japanese Commercial Code (the "Code"), to which certain amendments became effective from October 1, 2001.

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The revised Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese 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 beginning April 1, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

The amount of retained earnings available for dividends under the Code was ¥8,600 million ($71,547 thousand) as of March 31, 2003, based on the amount recorded in the parent company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

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 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.

8. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥112 million ($932 thousand) and ¥69 million for the years ended March 31, 2003 and 2002, respectively.

9. INCOME TAXES

The Company and subsidiaries are 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 years ended March 31, 2003 and 2002.

On March 31, 2003, a new local tax law was enacted and became effective for fiscal years beginning on or after April 1, 2004. The new local tax law decreased the local tax rate and introduced a new tax levied based on paid-in capital. As a result, the normal effective statutory tax rate applied on the deferred income taxes and liabilities, which will be expired on or after April 1, 2004, has been decreased from 42% to 40.7%. This reduction of the normal effective statutory tax rate will result in a decrease in deferred tax assets of ¥13 million ($108 thousand), and a charge to income taxes of ¥13 million ($108 thousand), respectively, for the fiscal year ended March 31, 2003.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2003 and 2002, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Deferred tax assets:			
Accrued bonuses	¥ 603	¥ 469	$ 5,017
Enterprise tax payable	99	136	824
Accrued social insurance premium	85		706
Liability for employees' retirement benefits	229	181	1,905
Investment securities	128	96	1,065
Retirement allowances for directors and corporate auditors	102	249	849
Software	88	91	732
Membership right	62	53	516
Other	38	11	316
Total	1,434	1,286	11,930
Deferred tax liabilities:			
Special reserve for tax-purpose depreciation for personal computers	39	49	324
Other		3	
Total	39	52	324
Net deferred tax assets	¥ 1,395	¥ 1,234	$ 11,606

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of income for the year ended March 31, 2003, was as follows:

Normal effective statutory tax rate	42.0 %
Expenses not deductible for income tax purposes	1.1
Inhabitants taxes—per capita	0.7
Amortization of consolidation goodwill	0.5
Effect of tax rate reduction	0.4
Other—net	0.1
Actual effective tax rate	44.8 %

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate for the year ended March 31, 2002, was not disclosed as the difference between them was less than 5% of the normal effective statutory tax rate.

10. LEASES

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

Total rental expenses for the years ended March 31, 2003 and 2002 were ¥61 million ($507 thousand), including ¥46 million ($383 thousand) and ¥48 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 of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2003 and 2002, was as follows:

	Millions of Yen					
	2003			2002		
	Furniture and Fixtures	Software	Total	Furniture and Fixtures	Software	Total
Acquisition cost	¥ 119	¥ 22	¥ 141	¥ 133	¥ 9	¥ 142
Accumulated depreciation	87	9	96	94	5	99
Net leased property	¥ 32	¥ 13	¥ 45	¥ 39	¥ 4	¥ 43

	Thousands of U.S. Dollars		
	2003		
	Furniture and Fixtures	Software	Total
Acquisition cost	$ 990	$ 183	$ 1,173
Accumulated depreciation	724	75	799
Net leased property	$ 266	$ 108	$ 374

Acquisition costs and obligations include the imputed interest expense portion.

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Due within one year	¥ 20	¥ 20	$ 166
Due after one year	25	23	208
Total	¥ 45	¥ 43	$ 374

Depreciation expense including imputed interest expense under finance leases was ¥26 million ($216 thousand) for the year ended March 31, 2003 and ¥26 million for the year ended March 31, 2002.

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

11. SEGMENT INFORMATION

The Group is mainly engaged in the information service industry segment. The sales, operating income or assets of that segment accounted for more than 90% of the total consolidated sales, operating income or assets. Other sales, operating income or assets 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.

12. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2003 and 2002, is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended March 31, 2003	Net Income	Weighted-average Shares	EPS	
Basic EPS—Net income available to common shareholders	¥ 1,864	12,473	¥ 149.38	$ 1.24
Effect of dilutive securities—Warrants				
Diluted EPS—Net income for computation	¥ 1,864	12,473	¥ 149.37	$ 1.24
Year Ended March 31, 2002				
Basic EPS—Net income available to common shareholders	¥ 2,275	12,568	¥ 181.11	$ 1.51
Effect of dilutive securities—Warrants		1		
Diluted EPS—Net income for computation	¥ 2,275	12,569	¥ 181.09	$ 1.51

13. RELATED PARTY TRANSACTIONS

The Company repurchased almost all the warrants issued with bonds from the Company's nine directors, a corporate auditor and a main shareholder on April 15 and September 17, 2002 and extinguished them on April 18 and September 17, 2002. The total amount of the warrants which were repurchased and extinguished was ¥36 million ($300 thousand).

14. SUBSEQUENT EVENTS

a. Appropriations of Retained Earnings

The following appropriations of retained earnings at March 31, 2003, were approved at the Company's shareholders meeting held on June 25, 2003:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥35 ($0.29) per share	¥ 435	$ 3,619
Bonuses to directors and corporate auditors	62	516

b. Stock Option Plan and Purchase of Treasury Stock

At the general shareholders meeting held on June 25, 2003, the Company's shareholders approved the following stock option plan for the Company's directors, corporate auditors and key employees and the purchase of treasury stock for retirement and the related reduction of retained earnings or the issuance of the stock on exercise of the stock option:

(1) Stock option plan

The plan provides for granting options to directors, corporate auditors and key employees to purchase up to 110 thousand shares of the Company's common stock in the period from June 2003 to June 2013. The options will be granted at an exercise price of 105% of the average fair market value of the Company's common stock at the date from 45 days to 16 days before the date of option grant. The Company plans to primarily issue acquired treasury stock upon exercise of the stock options.

(2) Purchase of treasury stock

The Company is authorized to purchase up to 300 thousand shares of the Company's common stock (aggregate amount of ¥900 million) as treasury stock until the next general shareholders meeting.

c. Redemption of Bonds

On June 13, 2003, the Company redeemed ¥700 million ($5,824 thousand) of unsecured 2.0% bonds. The bonds were due June 15, 2004 and all the warrants issued with the bonds had been already repurchased and extinguished in April and September 2002.

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