

(Excerpt translation)

**BRIEF STATEMENT OF ACCOUNTS  
FOR THE YEAR ENDED MARCH 31, 2003  
(CONSOLIDATED)**

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May 15, 2003

Name of the Company:	MegaChips Corporation
Listing:	Tokyo Stock Exchange
Code number:	6875 (URL <a href="http://www.megachips.co.jp">http://www.megachips.co.jp</a> )
Name of prefecture where head office is located:	Osaka
Representative:	Shigeki Matsuoka President and Representative Director
Inquiries to be directed to:	Tetsuo Hikawa Director and Executive Officer, in charge of Corporate Planning  Tel. (06)-6399-2884
Date of meeting of the Board of Directors for settlement of accounts:	May 15, 2003
Parent company:	-
Rate of shareholdings of the parent company in the Company:	- %
Application of US GAAP:	No.

**1. Consolidated business results for the year ended March 31, 2003 (April 1, 2002 through March 31, 2003):**

(1) Consolidated operating results

	Year ended March 31,	
	2003	2002
Sales .....	¥29,055 million (- 21.3 %)	¥36,898 million (- 31.5 %)
Operating profit .....	¥1,741 million (- 38.8 %)	¥2,843 million (- 14.0 %)
Ordinary profit .....	¥1,721 million (- 39.2 %)	¥2,829 million (- 24.2 %)
Profit for the year.....	¥192 million (- 88.3 %)	¥1,647 million (- 11.7 %)
Per-share profit for the year.....	¥7.85	¥67.02
Fully diluted earnings per share.....	¥7.85	¥67.02
Ratio of profit to net worth (owned capital) for the year.....	1.2%	10.7%
Ratio of ordinary profit to total liabilities and net worth .....	8.5%	13.4%
Ratio of ordinary profit to sales.....	5.9%	7.7%

(Notes)

1. Investment gain (loss) on equity method:

Year ended March 31, 2003:	¥ -
Year ended March 31, 2002:	¥ -

2. Average number of shares outstanding during the business year (consolidated):

Year ended March 31, 2003:	24,462,415 shares
Year ended March 31, 2002:	24,577,952 shares

3. Changes in accounting methods: None.

4. The percentages in the items of sales, operating profit, ordinary profit and profit for the year indicate the rates of increase or decrease from the previous year.

(2) Consolidated financial condition

	Year ended March 31,	
	2003	2002
Total assets .....	¥19,996 million	¥20,712 million
Net worth (owned capital).....	¥15,430 million	¥16,053 million
Ratio of net worth to total liabilities and net worth....	77.2%	77.5%
Net worth (owned capital) per share.....	¥632.95	¥653.14
Note: Number of shares outstanding as of the end of the business year (consolidated):	24,378,177 shares	24,578,412 shares

(3) Consolidated cash flow condition

	Year ended March 31,	
	2003	2002
Cash flows from operating activities .....	¥2,054 million	¥6,021 million
Cash flows from investing activities .....	(¥828 million)	(¥961 million)
Cash flows from financing activities.....	(¥683 million)	(¥990 million)
Cash and cash equivalents at the end of the year.....	¥6,337 million	¥5,818 million

(4) Matters related to the scope of consolidation and the application of equity method

Number of consolidated subsidiaries:	2
Number of non-consolidated subsidiaries subject to the equity method:	0
Number of affiliated companies subject to the equity method:	0

(5) Situation of changes in the scope of consolidation and the application of equity method

Consolidated subsidiaries

Included:	0
Excluded:	0

Companies subject to the equity method

Included:	0
Excluded:	0

**2. Forecast of consolidated business results for the next year ending on March 31, 2004 (April 1, 2003 through March 31, 2004):**

	<u>First six months</u>	<u>Whole-year period</u>
Sales.....	¥10,000 million	¥23,000 million
Ordinary profit .....	¥150 million	¥900 million
Profit for the period.....	¥90 million	¥500 million

(Reference) Forecast of per-share profit for the period (whole-year period): ¥20.51

- (Notes)
1. Figures are stated by discarding fractions of one million yen.
  2. The above forecast is made based on the information available to management at the time of publication hereof. Actual results may differ from these projections for a variety of reasons in the future.

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## **STATE OF CORPORATE GROUP**

The Company's corporate group (the "Group"), which comprises the Company (MegaChips Corporation) and its two subsidiaries and three affiliated companies, principally engages in the development, manufacture and sale of system LSIs and system products.

The content of operations of the Group and the positioning of the Company and its related companies in such operations are described below.

The business categories described herein are the same as those in the segment information by business category described in the "Notes to consolidated financial statements (segment information)".

### (1) LSI business:

The principal lines of this business comprise customer-specific LSIs (ASIC) with optimal functions and performances for devices of specific customers and application-specific LSIs (ASSP) with optimal functions and performances for specific devices of unspecific customers. Additionally, as other LSIs, the Company markets standard LSLs manufactured by its consigned semiconductor manufacturers.

Customer-specific LSIs.....These products are developed by the Company, manufactured by its consigned semiconductor manufacturers and marketed by the Company.

Application-specific LSIs .....These products are developed by the Company, manufactured by its consigned semiconductor manufacturers and marketed by the Company.

Other LSIs.....These products are developed and manufactured by the Company's consigned semiconductor manufacturers and marketed by the Company.

### (2) System business:

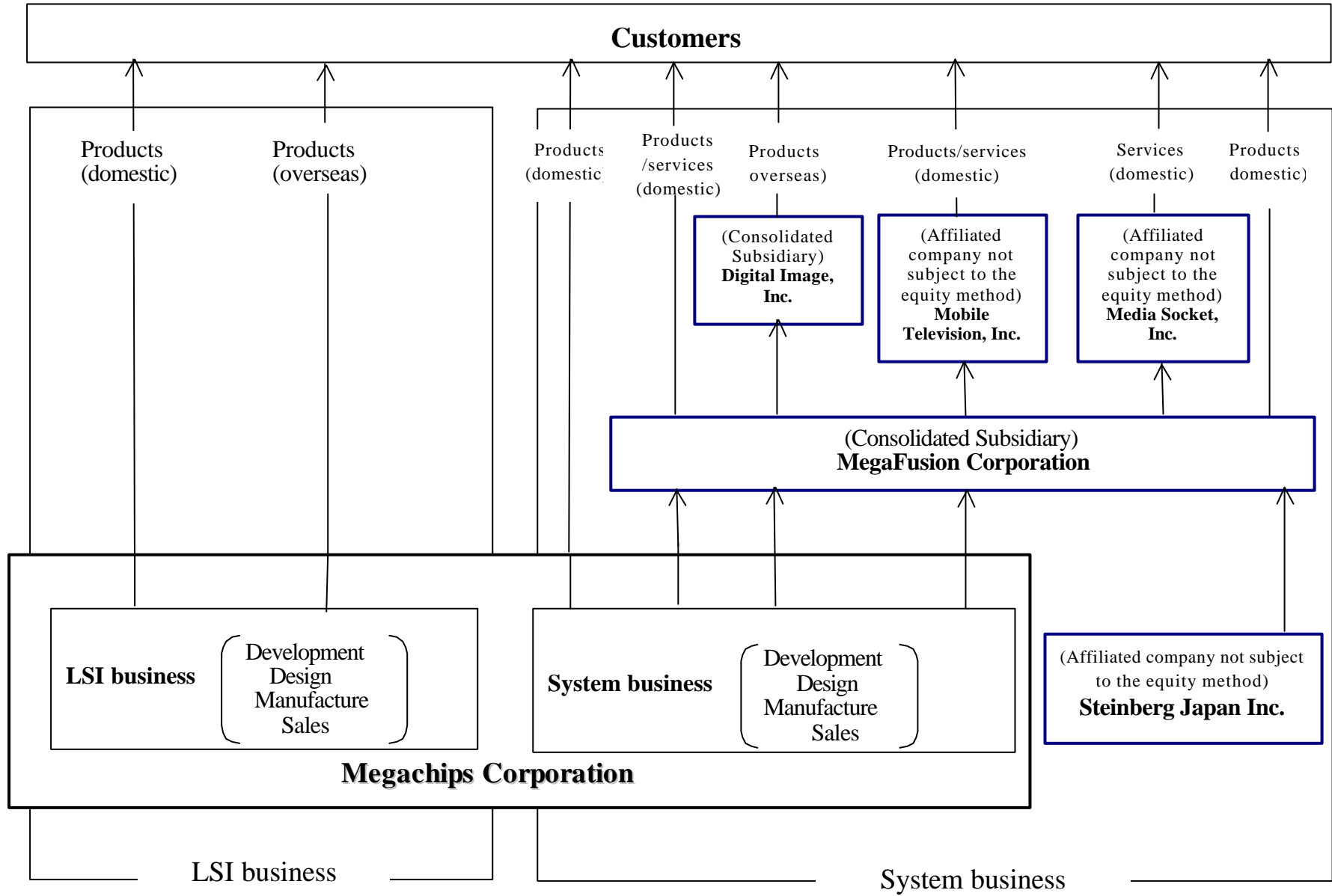
The principal lines of this business comprise industrial system products for use in the industrial and business sectors and consumer system products for use in offices and households and by individuals, as well as other system products, including "rich media" services and authoring system products.

Industrial system products .....These products are developed by the Company, manufactured by its consigned manufacturers and marketed by the Company. Additionally, these products are marketed by its subsidiary MegaFusion Corporation in Japan and by its subsidiary Digital Image Inc. overseas.

Consumer system products.....These products are developed by the Company, manufactured by its consigned manufacturers and marketed by the Company via its subsidiary

MegaFusion Corporation.

Other system products .....With regard to "rich media" services, its subsidiary MegaFusion Corporation engages in technological development, integration and services of the whole systems, including preparation and distribution of content. Authoring system products are developed and manufactured by system makers and marketed by MegaFusion Corporation.



State of related companies

Consolidated subsidiaries

Company	Location	Capital	Main business	Ratio of holding of voting rights	Relationship	Note
Digital Image, Inc.	CA, U.S.A.	US\$3,500 thousand	System business	87.1%	The subsidiary markets the Company's system products and related products and provides support services in North America.	
MegaFusion Corporation	Chiyoda-ku, Tokyo	¥646,200 thousand	System business	48.9%	The subsidiary markets the Company's system products and related products and provides support and system integration services in Japan. The concurrent holding of the offices of officers of the subsidiary and the Company is applicable.	*1

- (Notes)
1. In the column of main business, the segment names by business category are listed.
  2. \*1: The subsidiary is listed on JASDAC and files securities reports.

## **BUSINESS POLICY AND OPERATING RESULTS**

### **1. Business Policy**

#### **(1) Basic management policy**

Under the philosophy of expanding business by "Innovation", remaining coexistent with customers by "Credibility" and continuing to make contributions to society by "Creation", the Company has conducted business based on its technological development capabilities as an R&D-oriented, fables and high-tech enterprise, unique in Japan, since its incorporation in 1990. Its competitiveness derives from "Specialization" in products for specific customers and for specific applications in the growing image-, sound- and communication-related market, "Concentration" of its resources on research and development activities to provide most advanced technologies and products to its customers, the business development based not on a factory platform relying on production capacity but on a technology platform relying on its competitive advantage in technology related with, and capability to develop, images, sounds and communications, and the showing of its "Uniqueness" by developing business which provides optimal solutions to its customers through integrating its systems (system products) and LSI knowledge.

Under such philosophy, the Company has pursued a basic policy of distributing returns to its investors by exerting efforts to show consistent growth and increase its value by taking the lead in providing unique system LSIs and system products in the market.

#### **(2) Basic principles concerning the distribution of profits**

The Company gives a top priority to distributing profits to the shareholders as an important policy of management and intends to follow a fundamental policy of maintaining the constant payment of dividends. With regard to the allocation of profits, while keeping internal reserves necessary for research and development activities to develop new products, future business development and strengthening of its corporate base, the Company intends to consider stock splits (free issues of shares) and increase dividends, taking into account the future outlook of its performances and the dividend propensity. With regard to internal reserves, in preparation for any change in the business conditions expected to occur, the Company intends to make efficient investments to further improve research and development activities, expand its business base and build up its financial base.

#### **(3) Attitude and policy on decrease in investment unit**

To help develop the active equity market, the Company considers it important to enhance liquidity of stocks sufficiently and effective to allow more individual investors to participate in the equity market. The Company recognizes it as an effective measure to decrease investment units to allow individual investors to participate in the equity market. In August 2000, the Company decreased its investment unit from 1,000 shares to 100 shares. The Company intends to consider a decrease in its investment unit by taking into account its operating results and stock movements, as the necessity arises in the future.

#### **(4) Targeted management indexes**

As targeted management indexes, the Company intends to place importance on

consolidated return on equity (ROE), consolidated return on assets (ROA) and consolidated cash flows. The Company has defined per-head operating profit as an index of operating efficiency and intends to increase the per-head operating profit.

**(5) The Company's medium- to long-term management strategy**

As of March 31, 2003, the number of subscribers for high-speed wired communications networks, such as ADSL (asymmetrical digital subscriber line), cable Internet and optical fibres exceeded nine million and the number of subscribers for 3G cellular phones, wireless communications networks, exceeded seven million and has rapidly expanding. During the business year from April 1, 2003 to March 31, 2004, terrestrial digital broadcasting is expected to start. Through these broadband networks, distribution of rich media content, or multiple information comprising characters, sounds, music, still images, videos, etc., and interactive services and communications fully utilizing such rich media information are beginning to spread on a full scale.

The Company intends to exert its efforts to expand its traditional business based on the technologies it has long cultivated in the fields of images, sounds and communications, as well as focus on system LSIs and system products applicable to such new services and take the lead in launching unique products, whereby building a stronger business base and keeping growing.

Specifically, with regard to system LSIs, the Company intends to continue as a core business various LSI products in the field of entertainment, including game consoles, among other things, while the Company will focus on developing and marketing system LSIs in the fields of mobile information devices, including next-generation cellular phones, digital still cameras and digital AV (audio-visual) equipment applicable to terrestrial digital broadcasting, by making most of its advantageous technologies, such as compression and extension of images, digital image processing, voice and music technologies and communication technologies, to expand business. The functions of these products will be integrated in various manners in the future. Hence, the Company intends to organize its technologies nurtured in various areas and to further strengthen competitiveness of its system LSIs.

With regard to system products, in the security and monitoring area, the Company has taken the initiative in digitalisation by launching system products for digitally recording and transmitting images. In this area, in response to digitalisation that is expected to further develop, the Company intends to launch higher-performance and more versatile products, as well as image recording and transmitting system products for specific application by customers, and expand business by marketing and improving its marketing capabilities. Furthermore, the Company intends to provide system products for supporting business communications and personal communications by utilizing broadband networks to develop and further expand business in the rich media communication area with growth potential in the future.

Additionally, in the coming highly developed network society, the Company will provide not only specific functions of hardware and software of LSIs and devices but also total solutions to needs for various services provided through the networks. In so doing, the Company intends to contribute to materializing a real communication society and maximize the values of the Company and the Group.

## **(6) Future Challenges**

With regard to operating results for the business year under review, the Company recorded decreases in both sales and profit in two consecutive years. Under these circumstances, to promote its above medium- to long-term management strategy, expand business and contribute to materializing a real communication society, the Company considers it important to expand the steadily growing business of application-specific LSIs (ASSP) in its LSI business and accelerate the improvement of profitability of its system business.

In the LSI business, the Company intends to strengthen its capabilities to develop software and hardware by increasing development personnel and actively invest in development to swiftly launch system LSIs with competitive edges to the market. The Company also intends to strengthen its capabilities of marketing and supporting customers and accelerate the development of customers both in Japan and overseas to expand business.

In the system business, on reflection on the poor operating results, the Company will take the following steps:

First, the Company has determined to liquidate Digital Image, Inc., a U.S. subsidiary acting as a base for marketing its system products, as the subsidiary has not gained earnings enough to offset marketing and support expenses and it is difficult to improve profitability in a short term. Second, the Company will restructure the divisions related with the system business, which have been organized according to their application areas and functions, to a system business unit, which will have development and marketing sections with a defined system of operating responsibilities and functions, whereby improving profitability. The Company also intends to strengthen cooperation with MegaFusion Corporation to improve development and marketing efficiencies and simultaneously reduce cost by narrowing down themes and relocating personnel.

In addition to these steps, the Group will consolidate and restructure its businesses into three companies of LSI business, system business and audio business. On condition that the Group shift to a pure holding company, MegaFusion Corporation will become a wholly owned subsidiary of the Company. Through the restructuring of the Group, the efficient allocation of management resources will improve competitiveness of the core areas and the clarification of the functions and responsibilities of each business will materialize more swift business judgment and more efficient management, whereby improving profitability. Thus, the Group intends to accelerate the establishment of a basis for high profitability of its core LSI business in a medium- and long-term perspective and improve profitability of its system business to improve its corporate value.

## **(7) Basic attitude on corporate governance and the state of implementation of measures therefor**

### **Basic attitude on corporate governance**

The Company regards it as a great responsibility to its investors and interested parties to establish a sound and transparent management system and keep effective the rules of corporate governance.

Specifically, the Company has employed an executive officer system to secure adequate and quick decision-making by its Board of Directors upon full deliberations and clearly separate the duties of Directors to make managerial decisions and control the execution of business from the duties of Executive Officers to execute business. Additionally, the Company has appointed outside Directors and outside Statutory Auditors to activate its Board of Directors and strengthen its functions of supervising the execution of business, as well as strengthen the functions of its Board of Statutory Auditors.

The Company also reports its financial status to its investors and interested parties timely and properly through its active IR (investor relations) and other activities and discloses without delay the occurrence of any important event relating to business and management of the Group, to enhance transparency of management.

### **State of implementation of measures for corporate governance**

- (i) Status of the corporate governance system, including the organization of management concerning corporate managerial decision-making, execution and supervision

The Company has employed a statutory auditor system. The Board of Directors determines the basic policies on management and important matters for the Company and supervises the execution of business, while the Board of Statutory Auditors monitors compliance with its internal rules and legality of the execution of business. As a committee to discuss the execution of business, the Company has instituted an Execution Governing Committee, which reports and determines important matters concerning the execution of business within the scope of the powers delegated by the Board of Directors. The committee, which is attended by Directors, Executive Officers, General Managers of Divisions and Statutory Auditors, keeps track of and monitor the state of execution of business in detail. Of the five Directors and four Statutory Auditors currently in office, there are one outside Director and two outside Statutory Auditors.

With regard to operational auditing of each division, the Statutory Auditors and officers responsible for the quality assurance division conduct periodic audits to strictly maintain compliance with the internal rules of the execution of business and simultaneously, whenever legal judgment is required, the Company timely and properly seeks advice from its legal counsel to maintain legality of the execution of business.

With regard to account auditing, independent auditors conducts end-of-period audits semiannually and interim audits quarterly to assure fair and proper audits.

- (ii) Outline of personal relations, capital relations, trading relations and other relations of interest between the Company and its outside Director and outside Statutory Auditors

The Company has appointed one outside Director and two outside Statutory Auditors. The Company has entered into an advisory agreement with the law firm of one of the outside Statutory Auditors. However, the Company has no other relation of personnel, funds, technologies or transactions with any of the outside Director and outside Statutory Auditors or their relatives or any company for which they serve as directors. Additionally, none of the outside Statutory Auditors is related with the Group.

- (iii) Implementation of measures to incorporate more rules of corporate governance for the past year

Meetings of the Board of Directors were convened 18 times to determine the basic management policy and important matters of the Company and supervise the execution of business. Meetings of the Board of Statutory Auditors were convened 12 times to monitor legality and rationality of business, among other things.

At the General Meeting of Shareholders held in June 2002, one outside Director was appointed and one additional outside Statutory Auditor was appointed. Thus the Company has continued its efforts to monitor the execution of business more closely and incorporate more rules of corporate governance.

## **2. Operating Results and Financial Position**

### **Overview of the business year under review**

#### **(1) Overview of operating results as a whole**

The global economy during the business year under review became further uncertain due to the international political situations and a persistent slump in private spending and corporate capital investments delayed an economic recovery. The Japanese economy remained in a recession due to the uncertainty of the U.S. economy, a sluggish stock market, the bad debt problems of the financial institutions, reduced corporate capital investments, employment adjustment, etc.

In the electronic machinery and equipment industry in which the Group (the Company and its subsidiaries) belongs, in spite of some favourable signs, such as the spread of broadband networks represented by ADSL and optical fibres and favourable sales of consumer equipment, including digital AV equipment, among other things, the market for personal computers and portable information devices experienced hard times.

Under these circumstances, the Group focused its efforts on developing and marketing customer-specific LSIs (ASIC), the core of the Company's business, as well as application-specific LSIs (ASSP), which have competitive edges with the Company's unique technologies of image compression and extension and sound and music compression, extension and transmission, and original system products installed with the Company's system LSIs.

Specifically, with the prevalence of digitalisation of images, sounds, music and other media, broadband networks and 3G mobile phone networks, the Group has widened its appeal in the information communication area. For the growing area, the Group has exerted its active efforts to develop and market system LSIs for digital cameras, system LSIs for 3G mobile phones and system products, including communication equipment for utilizing rich media information (or multiple information comprising images, graphics, sounds, music and text data).

However, the business environment surrounding the Company was severer than forecasted. As a result, on a consolidated basis, sales and ordinary profit amounted to ¥29,055 million (a 21.3% decrease from the previous business year) and ¥1,721 million (a

39.2% decrease), respectively. Additionally, as measures to reconstruct its system business, the Company disposed of inventories of older models to launch new system products, wrote off part of the development expense account due to the suspension of some themes to narrow down development projects and amortized software assets and valuation loss of a U.S. subsidiary, resulting in a special loss of ¥1,404 million in total. Consequently, profit for the year accounted for ¥192 million (an 88.3% decrease).

## **(2) Overview of operating results by segment**

### **(i) LSI business**

Consolidated sales of customer-specific LSIs (ASIC) amounted to ¥19,350 million (a 32.7% decrease from the previous business year) as prices and demand for LSIs for storing game software (custom mask ROMs) decreased while demand for LSIs for use in game consoles and their peripherals increased. Consolidated sales of application-specific LSIs (ASSP) amounted to ¥6,047 million (a 62.8% increase from the previous business year) as one-chip LSIs for digital still cameras, LSIs for AV equipment and LSIs for processing images, sounds and communications for 3G mobile phones contributed to sales. Consequently, consolidated sales in the LSI business, including sales of other LSIs, totalled ¥25,437 million (a 21.6% decrease). Operating profit amounted to ¥3,961 million (an 11.0% decrease).

### **(ii) System business**

Consolidated sales in the industrial system business amounted to ¥1,593 million (a 32.2% decrease from the previous business year), due to a slow corporate investment in security and a delay in launching new products in the security and monitoring field. In the consumer system business, consolidated sales amounted to ¥447 million (a 537.6% increase) as new products, including network cameras and rich media communication terminals, were launched and shipments of products for some companies and OEM products were commenced. Consequently, consolidated sales in the system business as a whole, including sales in the business independently conducted by MegaFusion Corporation, which is classified as other systems, amounted to ¥3,618 million (an 18.4% decrease). Operating loss amounted to ¥1,237 million (an 85.0% increase).

## **(3) Prospect for operating results as a whole**

During the next business year, the Japanese economy is expected to remain in difficult conditions due to a sluggish stock market, the bad debt problems of the financial institutions and the continued uncertainty of the U.S. economy.

Under these circumstances, the Company intends to actively invest in research and development in the LSI business to accelerate the growth of its application-specific LSI (ASSP) business, and concentrate its efforts on reconstructing the system business.

In the LSI business, the Company will focus on developing and marketing products targeting game consols, cellular phones, digital still cameras and digital TVs, among other things. Specifically, the Company intends to aggressively promote sales of system LSIs for use in cellular phones and digital still cameras in Japan and overseas to increase operating results and improve profitability.

In the system business, by simplifying its organization and narrowing down themes, the Company will clearly define the responsibilities and functions of the business and materialize swifter business judgment and more efficient operations. Simultaneously, the Company intends to exert its efforts to vary lines of image displaying equipment in the security and monitoring area based on its image processing technology and develop and market rich media communication equipment applicable to broadband networks. Furthermore, the Group intends to actively provide total solutions required for rich media services.

Thus the Company will strive to strengthen its LSI business and reconstruct its system business. However, these efforts are expected to improve operating results in the second half of the next business year or thereafter. Lower selling prices of LSIs are expected to decrease sales and research and development expenses related with application-specific LSIs are expected to increase. Consequently, consolidated sales, operating profit, ordinary profit and profit for the year are expected to account for ¥23,000 million (a 20.8% decrease from the business year under review), ¥900 million (a 48.3% decrease), ¥900 million (a 47.7% decrease) and ¥500 million (a 160.3% increase), respectively.

The following is the forecast for consolidated sales by segment:

LSI business: ¥18,000 million (a 29.2% decrease from the business year under review)

System business: ¥5,000 million (a 38.2% increase)

#### **(4) Distribution of profits**

As a dividend for the business year under review, the Company intends to pay an annual dividend of ¥10 per share to the shareholders as of March 31, 2003.

#### **(5) Prospect for the distribution of profits**

As a dividend for the next business year, the Company, taking into consideration operating results for the next business year, future funding requirements and other factors, intends to continue to pay an annual dividend of ¥10 per share.

### **Financial position**

#### **State of cash flows**

Cash flows from operating activities resulted in an increase of ¥2,054 million (a decrease of ¥3,966 million from the previous business year), principally due to a decrease of ¥2,432 million of trade accounts receivable, though income before income taxes and others recorded ¥335 million (an 88.7% decrease).

Cash flows from investing activities resulted in a decrease of ¥828 million (a decrease of ¥133 million from the previous business year) as cash outflows due to payment of guarantees increased ¥130 million and cash outflows due to purchase of intangible fixed assets decreased ¥243 million. As a result, free cash flows, or the sum of cash flows from

operating activities and cash flows from investing activities, resulted in an increase of ¥1,226 million (a decrease of ¥3,833 million).

Cash flows from financing activities resulted in a decrease of ¥683 million (a decrease of ¥307 million from the previous business year) as the Company paid ¥429 million to acquire its own shares.

As a result, cash and cash equivalents increased ¥518 million to account for ¥6,337 million at the end of the year.

The trends of the indices of cash flows of the Group are as follows:

	Year ended March 31, 2000 (from April 1, 1999 to March 31, 2000)	Year ended March 31, 2001 (from April 1, 2000 to March 31, 2001)	Year ended March 31, 2002 (from April 1, 2001 to March 31, 2002)	Year ended March 31, 2003 (from April 1, 2002 to March 31, 2003)
Ratio of shareholders' equity (%):	63.4	67.6	77.5	77.2
Ratio of shareholders' equity on a market value basis (%):	803.8	512.8	434.6	103.2
Years for debt redemption (year):	1.8	1.1	0.0	0.0
Interest coverage ratio:	36.1	51.0	1,035.5	619.5

(Notes) 1. Each of the indices is calculated as follows:

Ratio of shareholders' equity: Shareholders' equity/Total assets

Ratio of shareholders' equity  
on a market value basis: Aggregate market value of listed stock/Total  
assets

Years for debt redemption: Interest-bearing debt/Cash provided by operating  
activities

Interest coverage ratio: Cash provided by operating activities/Interest  
payments

2. Each of the indices is calculated based on financial data on a consolidated basis.

3. The aggregate market value of listed stock is calculated based on the closing stock price at the end of each business year multiplied by the total number of shares issued as of the end of each business year.

4. As cash provided by operating activities, cash flows from operating activities in the statement of consolidated cash flows are used. Interest-bearing debt covers all debt with interest being paid which is stated in the balance sheet.

## CONSOLIDATED FINANCIAL STATEMENTS

### 1. Consolidated Balance Sheets

(thousands of yen)

	<u>Year ended March 31, 2003 (as at March 31, 2003)</u>	<u>Year ended March 31, 2002 (as at March 31, 2002)</u>	<u>Increase or decrease</u>
<b><u>ASSETS</u></b>			
<b>I. Current assets</b>			
1. Cash and deposits .....	6,337,127	5,818,869	518,257
2. Trade notes and trade accounts receivable .....	8,011,095	10,443,969	- 2,432,874
3. Inventories .....	2,704,781	1,671,706	1,033,074
4. Deferred tax assets.....	347,406	179,164	168,242
5. Others.....	386,821	67,444	319,376
6. Allowance for doubtful receivables ..	- 2,008	-2,851	842
Total current assets.....	<u>17,785,222</u>	<u>18,178,304</u>	<u>- 393,081</u>
<b>II. Fixed assets</b>			
1. Tangible fixed assets			
(1) Buildings .....	281,520	286,132	- 4,612
(2) Land .....	104,677	104,677	-
(3) Others.....	86,447	101,344	- 14,896
Total tangible fixed assets.....	<u>472,646</u>	<u>492,155</u>	<u>- 19,508</u>
2. Intangible fixed assets			
(1) Others.....	483,101	875,151	- 392,050
Total intangible fixed assets .....	<u>483,101</u>	<u>875,151</u>	<u>- 392,050</u>
3. Investments and other assets			
(1) Investment securities.....	238,877	362,405	- 123,528
(2) Prepaid pension cost .....	-	46,565	- 46,565
(3) Deferred tax assets.....	350,333	101,912	248,420
(4) Others.....	665,870	656,439	9,430
Total investments and other assets.....	<u>1,255,081</u>	<u>1,167,323</u>	<u>87,757</u>
Total fixed assets .....	<u>2,210,829</u>	<u>2,534,630</u>	<u>- 323,801</u>
<b>TOTAL ASSETS.....</b>	<u><u>19,996,052</u></u>	<u><u>20,712,935</u></u>	<u><u>- 716,882</u></u>

(thousands of yen)

	Year ended March 31, 2003 (as at March 31, 2003)	Year ended March 31, 2002 (as at March 31, 2002)	Increase or decrease
<b><u>LIABILITIES</u></b>			
<b>I. Current liabilities</b>			
1. Trade accounts payable .....	3,027,240	2,588,483	438,756
2. Short-term loans payable .....	50,000	50,000	-
3. Accrued corporate income taxes.....	345,079	460,082	- 115,003
4. Allowance for bonuses.....	150,682	164,403	- 13,721
5. Others.....	350,317	440,271	- 89,953
Total current liabilities.....	3,923,319	3,703,241	220,077
<b>II. Fixed liabilities</b>			
1. Reserve for employee severance allowances .....	-	14,840	- 14,840
2. Reserve for officers' retirement allowances .....	-	167,595	- 167,595
3. Others .....	47,702	1,430	46,272
Total fixed liabilities.....	47,702	183,866	- 136,163
<b>TOTAL LIABILITIES.....</b>	<b>3,971,021</b>	<b>3,887,107</b>	<b>83,914</b>
<b><u>MINORITY INTEREST</u></b>			
Minority interest.....	594,750	772,531	- 177,781
<b><u>SHAREHOLDERS' EQUITY</u></b>			
<b>I. Capital .....</b>	-	4,840,313	-
<b>II. Capital reserve .....</b>	-	5,936,081	-
<b>III. Consolidated surplus .....</b>	-	5,655,426	-
<b>IV. Revaluation difference of other securities .....</b>	-	70,428	-
<b>V. Translation adjustment .....</b>	-	9,102	-
.....	-	16,511,352	-
<b>VI. Treasury stock .....</b>	-	- 458,057	-
TOTAL SHAREHOLDERS' EQUITY..	-	16,053,295	-
<b><u>SHAREHOLDERS' EQUITY</u></b>			
<b>I. Capital .....</b>	4,840,313	-	-
<b>II. Additional paid-in capital .....</b>	5,936,081	-	-
<b>III. Retained earnings .....</b>	5,549,740	-	-
<b>IV. Valuation difference of other securities.....</b>	- 2	-	-
<b>V. Exchange translation adjustment .....</b>	- 8,513	-	-
.....	16,317,618	-	-
<b>VI. Treasury stock .....</b>	- 887,338	-	-
TOTAL SHAREHOLDERS' EQUITY	15,430,280	-	-
<b>TOTAL LIABILITIES, MINORITY INTEREST AND SHAREHOLDERS' EQUITY</b>	<b>19,996,052</b>	<b>20,712,935</b>	<b>- 716,882</b>

## 2. Consolidated Profit and Loss Statements

(thousands of yen)

	Year ended March 31, 2003 (from April 1, 2002 to March 31, 2003)	Year ended March 31, 2002 (from April 1, 2001 to March 31, 2002)	Increase or decrease
<b>I. Sales</b> .....	29,055,939	36,898,519	- 7,842,579
<b>II. Cost of sales</b> .....	<u>23,311,371</u>	<u>30,164,316</u>	<u>- 6,852,945</u>
Gross profit on sales .....	5,744,568	6,734,202	- 989,634
<b>III. Selling, general and administrative expenses</b> .....	<u>4,003,314</u>	<u>3,890,210</u>	<u>113,104</u>
Operating profit .....	1,741,253	2,843,992	- 1,102,738
<b>IV. Non-operating profit</b> .....	48,055	46,274	1,780
1. Interest received .....	5,890	6,937	
2. Income from investments in partnership ....	-	14,560	
3. Refund premiums .....	29,308	6,044	
4. Transfer back from allowance for doubtful receivables .....	87	5,243	
5. Exchange gain .....	-	9,477	
6. Miscellaneous income.....	12,768	4,010	
<b>V. Non-operating expenses</b> .....	67,408	60,500	6,908
1. Interest paid .....	3,317	4,191	
2. Interest on commercial paper .....	-	1,623	
3. Loss from sale of trade notes .....	1,705	2,032	
4. Stock issue costs.....	528	15,936	
5. Expense of IPO .....	-	25,075	
6. Exchange loss .....	19,474		
7. Loss from investments in partnership.....	37,906		
8. Miscellaneous losses .....	4,476	11,640	
Ordinary profit .....	1,721,900	2,829,766	- 1,107,866
<b>VI. Special income</b> .....	18,869	423,466	- 404,596
1. Gain from sale of investment securities .....	18,869		
2. Gain from fluctuations of interest .....	-	423,466	
<b>VII. Special loss</b> .....	1,404,822	270,747	1,134 075
1. Loss from disposition of LSI products .....	-	12,763	
2. Loss from disposition of system products .	1,240,805	54,959	
3. Loss from disposition of projects .....	-	110,000	
4. Loss from sale of investment securities .....	-	36,000	
5. Valuation loss of investment securities .....	33,903	39,609	
6. Loss from liquidation of related companies.....	58,282	-	
7. Difference due to change of pension plan ..	61,945	-	
8. One-time write-off of consolidation adjustment .....	-	17,414	
9. Loss from fluctuations of interest.....	9,887	-	
Income before income taxes and others.....	335,947	2,982,485	- 2,646,537
Corporate income taxes, inhabitant taxes and enterprise taxes.....	676,466	1,174,985	- 498,519
Interperiod tax allocation.....	- 365,661	124,293	- 489,954
Minority interest in net profit/loss .....	- 166,921	35,821	- 202,742
Profit for the year .....	<u>192,064</u>	<u>1,647,384</u>	<u>- 1,455,320</u>

### 3. Consolidated Surplus Statements

(thousands of yen)

	Year ended March 31, 2003 (from April 1, 2002 to March 31, 2003)		Year ended March 31, 2002 (from April 1, 2001 to March 31, 2002)		Increase or decrease
<b>I. Beginning balance of consolidated surplus</b>		-		4,336,825	
<b>II. Decrease in consolidated surplus</b>					
1. Cash dividends .....	-	-	245,772		
2. Bonuses for officers .....	-	-	83,011	328,783	
<b>III. Profit for the year .....</b>		-		1,647,384	
<b>IV. Ending balance of consolidated surplus .....</b>		-		5,655,426	
(Additional paid-in capital)					
<b>I. Beginning balance of additional paid-in capital</b>					
Beginning balance of capital reserve	5,936,081	5,936,081	-	-	-
<b>II. Ending balance of additional paid-in capital</b>		5,936,081		-	-
(Retained earnings)					
<b>I. Beginning balance of retained earnings</b>					
Beginning balance of consolidated surplus	5,655,426	5,655,426	-	-	-
<b>II. Increase in retained earnings</b>					
1. Profit for the year	192,064	192,064	-	-	-
<b>III. Decrease in retained earnings</b>					
1. Cash dividends	245,784		-	-	-
2. Bonuses for officers	51,966	297,750	-	-	-
<b>IV. Ending balance of retained earnings</b>		5,549,740		-	-

#### 4. Consolidated Statements of Cash Flows

	Year ended March 31, 2003 (from April 1, 2002 to March 31, 2003)	Year ended March 31, 2002 (from April 1, 2001 to March 31, 2002)	(thousands of yen)  Increase or Decrease
<b>I. Cash flows from operating activities</b>			
Income before income taxes and others .....	335,947	2,982,485	(2,646,537)
Depreciation .....	301,950	107,371	194,579
Amortization of long-term prepaid expenses .....	79,254	90,479	(11,224)
One-time write-off of consolidation adjustment .....	-	17,414	(17,414)
Loss on disposition of fixed assets .....	651	1,674	(1,023)
(Gain) loss on fluctuations of interest.....	9,887	(423,466)	433,353
Decrease in allowance for doubtful receivables ...	(842)	(3,310)	2,467
Decrease in allowance for bonuses .....	(13,721)	(9,998)	(3,723)
Increase (decrease) in reserve for employee severance allowances .....	(14,840)	4,293	(19,134)
Increase (decrease) in prepaid pension cost.....	46,565	(18,652)	65,217
Increase (decrease) in reserve for officers' retirement allowances .....	(167,595)	19,239	(186,835)
Interest and dividend income .....	(5,904)	(6,969)	1,065
Income from funded insurance.....	(4,450)	-	(4,450)
(Income) loss from investments in partnership ...	37,906	(14,560)	52,466
Exchange (gain) loss .....	17,937	(9,670)	27,608
Interest expense.....	3,317	4,191	(874)
Interest on commercial paper	-	1,623	(1,623)
Stock issue expenses .....	528	15,936	(15,408)
Expense of IPO.....	-	25,075	(25,075)
Loss from disposition of system products.....	685,455	7,987	677,467
Income (loss) from sale of investment securities .....	(18,869)	36,000	(54,870)
Valuation loss of investment securities .....	33,903	39,609	(5,706)
Decrease in trade accounts receivable.....	2,432,874	6,565,728	(4,132,853)
Increase in inventories .....	(1,033,074)	(813,638)	(219,435)
Increase (decrease) in trade accounts payable.....	438,756	(831,098)	1,269,855
Officers' bonuses paid .....	(62,000)	(89,150)	27,150
(Increase) decrease in other current assets .....	(319,376)	35,445	(354,822)
Increase (decrease) in other current liabilities .....	40,811	(92,817)	133,629
Increase in other fixed liabilities	46,272		46,272
Others	(27,573)	12,933	(40,507)
Subtotal	2,843,771	7,654,158	(4,810,386)
Interest and dividend income .....	5,890	6,951	(1,060)
Interest paid .....	(3,318)	(5,202)	1,883
Corporate income taxes paid .....	(791,469)	(1,634,424)	842,955
Net cash provided by operating activities .....	2,054,874	6,021,482	(3,966,607)
<b>II. Cash flows from investing activities</b>			
Purchase of tangible fixed assets .....	(70,815)	(128,256)	57,440
Sale of tangible fixed assets .....	38	-	38
Purchase of intangible fixed assets .....	(534,320)	(777,595)	243,275
Sale of intangible fixed assets .....	-	12,000	(12,000)
Purchase of investment securities .....	(70,840)	(56,000)	(14,840)
Sale of investment securities .....	67,344	9,390	57,953
Distribution of capital investment .....	11,825	54,593	(42,767)
Payment for long-term prepaid expenses.....	(149,978)	(77,213)	(72,764)
Guarantee.....	(136,426)	(5,774)	(130,651)

	Year ended March 31, 2003 (from April 1, 2002 to March 31, 2003)	Year ended March 31, 2002 (from April 1, 2001 to March 31, 2002)	Increase or Decrease
Refund of guarantee .....	24,757	4,350	20,406
Refund premiums .....	30,231	2,868	27,362
Others	-	155	(155)
Net cash provided by investing activities .....	<u>(828,183)</u>	<u>(961,482)</u>	<u>133,298</u>
<b>III. Cash flows from financing activities</b>			
Net decrease in short-term debt .....	-	(1,650,000)	1,650,000
Issuance of shares to minority shareholders .....	6,371	907,587	(901,216)
Net (increase) decrease in treasury stock .....	(429,280)	3,130	(432,411)
Cash dividends by parent company .....	(245,484)	(245,396)	(87)
Cash dividends to minority shareholders .....	(14,848)	(6,281)	(8,566)
Net cash provided by financing activities .....	<u>(683,242)</u>	<u>(990,959)</u>	<u>307,717</u>
<b>IV. Translation gain (loss) related to cash and cash equivalents</b>	<u>(25,190)</u>	<u>36,589</u>	<u>(61,780)</u>
<b>V. Net increase (decrease) in cash and cash equivalents</b>	518,257	4,105,629	(3,587,371)
<b>VI. Cash and cash equivalents at beginning of year</b>	5,818,869	1,713,239	4,105,629
<b>VII. Cash and cash equivalents at end of year</b>	<u><u>6,337,127</u></u>	<u><u>5,818,869</u></u>	<u><u>518,257</u></u>