

Summary of Consolidated Financial Statements

Fiscal year ended December 31, 2002

(UNAUDITED)

1. Consolidated results for Fiscal 2002 (from January 1, 2002 to December 31, 2002)

(1) Consolidated Operating Results (rounded down to millions of yen except per share data)

	Net sales		Operating income		Ordinary income	
	¥ millions	%	¥ millions	%	¥ millions	%
Fiscal 2002	15,614	(10.5)	660	78.1	762	218.2
Fiscal 2001	17,443	(6.6)	370	(82.4)	239	(88.7)

	Net income		Net income per share	Net income per share – fully diluted	Return on equity	Ordinary income/Shareholders' equity	Ordinary income/Net sales
	¥ millions	%	¥	¥	%	%	%
Fiscal 2002	21	-	1.83	-	0.3	6.5	4.9
Fiscal 2001	(459)	-	(38.82)	-	(5.5)	1.8	1.4

- Notes:
- Equity in earnings or (losses) of associated companies:
Year ended December 31, 2002: (¥7 million)
Year ended December 31, 2001: ¥3 million
 - Average number of shares outstanding during the period (consolidated basis):
Year ended December 31, 2002: 11,837,280 shares
Year ended December 31, 2001: 11,839,037 shares
 - Changes in accounting policy during the period: None
 - The percentage figures shown in the net sales, operating income, ordinary income and net income columns represent changes from the previous corresponding period.

(2) Consolidated Financial Position

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	¥ millions	¥ millions	%	¥
Fiscal 2002	11,723	7,901	67.4	667.57
Fiscal 2001	11,734	8,067	68.7	681.46

Notes: Number of shares issued and outstanding at the end of the period (consolidated basis):

- Year ended December 31, 2002: 11,836,272 shares
Year ended December 31, 2001: 11,838,466 shares

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	¥ millions	¥ millions	¥ millions	¥ millions
Fiscal 2002	(343)	94	(211)	1,141
Fiscal 2001	2,736	(423)	(2,259)	1,652

(4) Scope of consolidation and application of equity method

- Number of consolidated subsidiaries : 3
Number of non-consolidated subsidiaries accounted for by the equity method : -
Number of associated companies accounted for by the equity method : 1

(5) Change in the scope of consolidation or application of the equity method

Consolidated subsidiaries :
Newly included : -
Newly excluded : 1

Associated companies accounted for by the equity method:

Newly included : -
Newly excluded : -

2. Projected consolidated results for Fiscal 2003 (January 1, 2003 to December 31, 2003)

	Sales	Operating income	Ordinary income	Net income
	¥ millions	¥ millions	¥ millions	¥ millions
Interim 2003	7,976	390	365	201
Fiscal 2003	16,436	884	834	467

Note: Projected net income per share for fiscal 2003: ¥39.45

* The above projections represent our estimate based on available information as of the date of publication of this materials, so the actual results might be different from figures due to the various factors afterwards. Please refer to page 10 of the attachment for assumptions and other matters related to the projections.

1. Corporate Group

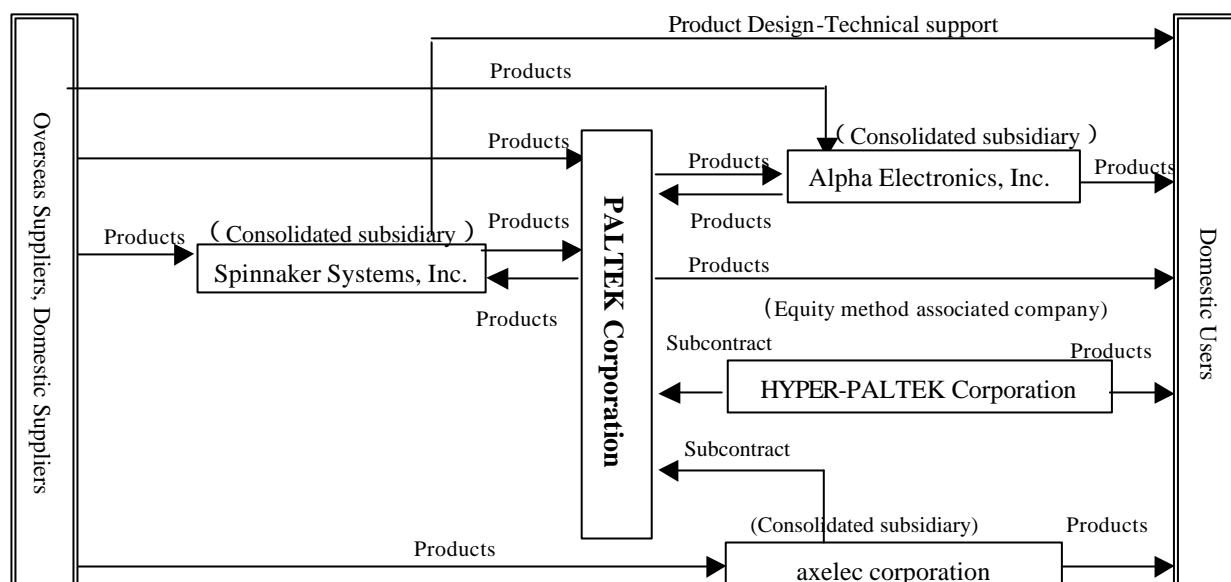
The PALTEK group provides mainly distribution of semiconductors and design software used in electronic equipment as well as design support service. The structure of the group and the business relationships among the group companies are illustrated in the diagram below.

In March 2002, PALTEK entered into a cooperative agreement with MARUBUN Corporation (MARUBUN) for the purpose of creating a new semiconductor distribution business model through PALTEK's wholly-owned subsidiary axelec corporation (axelec), which the two companies agreed to operate jointly. In accordance with the agreement, PALTEK and MARUBUN injected capital into for axelec. However, in the light of the prolonged recession in the field of telecommunications, PALTEK and MARUBUN came to a conclusion through joint consultation, that the joint operation should be discontinued.

Another change has been the dissolution of our alliance with U.S.-based Hyper Corp., and the liquidation of HYPER-PALTEK Corporation, an equity method associated company, which was jointly operated with Hyper Corp. In addition, Cygnet Technologies, Inc. has been eliminated from our consolidated results starting with the second half (July 1st to December 31st) results as liquidation procedures have been commenced for the company and it no longer has a significant impact on our consolidated results.

Business segments	Business description	Main companies
Semiconductors and related businesses	Design, development and sales of semiconductor-related products; design-technology support	PALTEK Corporation (PALTEK) Alpha Electronics, Inc. (Alpha Electronics) Spinnaker Systems, Inc. (Spinnaker Systems) axelec corporation (axelec)
Other	Bluetooth certification	HYPER-PALTEK Corporation (HYPER-PALTEK)

Note: In our consolidated results through fiscal 2001, we listed "communications business" among the business segments in which we are active. With the liquidation of Cygnet Technologies Inc, communications business has been eliminated from the list of business segments beginning with our interim results for fiscal year 2002.



2. Management Policy and Operating Performance

Management Policy

(1) Basic management policies

The philosophy of the PALTEK Group is based on the idea of cooperative growth. We hope to create both value and social responsibility together with our customers, suppliers, employees and all those who have an interest in our company.

To achieve this, we believe it is the social mission of the PALTEK Group to provide highly value-added solutions in the development of electronic devices. We are confident of our own ability to provide the kind of support that can result in the production of electronic devices that are truly competitive in the global marketplace, through the use of our own unique marketing methods. To advance this strategy, we have positioned our company as a “strategic partner in the development of electronic devices,” aiming to become a major player in the network market place, to develop our business, and to make a broader contribution to the society.

(2) Profit distribution

The PALTEK Group recognizes that the concept of profit distribution to shareholders and investors is an important management consideration. Our basic aim is to ensure sustainable, optimum distribution of profit through constant enhancement of operating performance and profitability, while, at the same time, taking future business expansion and the call for a solid management base into consideration.

(3) Medium-to-long-term strategy

The PALTEK Group’s aim is to go beyond the traditional semiconductor distributor, to be a solutions supplier with sophisticated technology, its own development resources and a full range of applications functions. We have been introducing various technologies and products that do not exist in Japan to Japanese electronics manufacturers, to tap new markets for new technologies, and to act on behalf of technology development firms and semiconductor makers to raise awareness in the Japanese market and unearth new customers. As a result of these aims, we have developed an entirely new business model: the technology development trading company. Our posture has been consistent since our founding, and has been reflected in a term we have been advocating, “solutions supplier.” We are getting high marks, not just from our customers, but also from our suppliers. Looking ahead, consumer needs are becoming more complex, and the role of the PALTEK Group may grow more important for both consumers and suppliers.

In a rapidly changing market environment, we face a constant need to update our business model. In addition to our existing partners, we must actively seek out new partners with promising new technologies. We must act in advance of changes in consumer needs, to discover new demand together with our partners. To do so, technological know-how is indispensable, and we will continually invest to secure the needed personnel.

As the locus of more and more manufacturing and development shifts elsewhere in Asia, many people are concerned about an accelerating deterioration in Japan’s technological prowess. Our group’s major clients are also being drawn into this tumultuous vortex, and we believe this situation will grow more severe in the future.

Despite the severe market environment, our clients continue to pursue further business expansion through the development of high-value-added electronics devices. The PALTEK Group continues to provide a range of solutions to these clients, and aims to develop customers in new areas and growth fields, not just in data/communications, but also in broadcasting, consumer electronics, and industrial equipment. We are constantly on the lookout for opportunities to work together with high-tech start-up companies, and to develop new business models in the field of semiconductor business. We aim to provide total solutions, evolving away from the conventional sales-centered model of semiconductor planning support services, and toward a more creative, higher-value-added model of development support services.

(4) Corporate governance policies

The PALTEK Group is proud of its basic policy of perennially responding quickly to changes in the market environment, and constantly improving management transparency. In accordance with this basic policy, each month we hold a management meeting that takes a bird's-eye view of all the issues in each division of each company in our group. Monthly meetings are held to reach speedy solutions and set the direction of our business. A policy deployment method has been introduced as well to ensure that the decisions reached at this monthly meeting are carried out in every corner of our organization. In addition, the board of directors meets on the same day as the monthly meeting to reach speedy conclusions to the most critical issues so that we are able to respond flexibly to the rapidly changing market environment.

Since March 2001 we have invited an independent director on our board to improve transparency and strengthen management performance. In January 2003, Hiroyuki Takasaki, Director, was elected to be Vice President and Representative Director, to further promote our ability to respond swiftly to future changes in the management environment, and to strengthen our crisis management systems. From the perspective of establishing accountability and providing incentives for results-oriented management, and to strengthen the sense that management is responsible to shareholders, we plan to establish a "Directors Stock Purchase Plan" in 2003 for directors.

(5) Issues and challenges

Technological innovations are daily fare in the field of electronic devices, and competition in product development continues among the manufacturers who hold that it is their mission to constantly introduce attractive new products to the market. In this market environment, the PALTEK Group is focusing on growing markets such as data/communications devices, broadcasting, consumer electronics, and industrial equipment. We will be actively involved in our customers' product development process, offering planning support services that allow them to bring attractive products to market much more quickly. We are aiming to evolve away from the conventional sales-centered model of semiconductor planning support services, and toward a more creative, higher-value-added model of development support services. To realize our goal of offering total solutions, the PALTEK Group is focusing on the following specific issues:

1. Obtaining innovative technology and expanding our product line

We thoroughly examine our customers' needs, from the broadest possible perspective, to obtain innovative technologies that will create new markets, and expand the line of our own product offerings. To accomplish this, we believe it is indispensable to hire and train accomplished engineers. We will seek out personnel not only in Japan but also from all over the world.

By taking measures as mentioned above, we will be able to offer total solutions for our new clients in growing markets.

2. Pursuing creative, highly value-added services and creating new business models

The PALTEK Group aims to be more than a traditional trading company, and to devise new business models that break out of the old framework. We believe creative, highly value-added solutions are indispensable to accomplish this, and we actively seek new partners and ideas worldwide. By doing so we will be able to evolve away from the traditional, sales-centered planning support services, and to develop more creative, highly value-added development support services.

3. Strengthening our management base and improving management quality

The PALTEK Group aims to improve our management base so that we can generate profit consistently, no matter how severe the changes in the market environment, or how unclear the business outlook. The group companies will strive to enhance their management quality through efficiency improvements and other measures. By so doing, we will be able to discover new customers in growing markets, and to continue to create new business models. We intend to continue doing what needs to be done to make ourselves a major player in the network market economy place.

(6) Goals and objectives

The PALTEK Group has long embraced a vision of becoming a major player in the network market economy. As one key indicator of our progress toward this goal, we have placed great emphasis on our operating profit margin. We believe that our ability to steadily maintain a high operating profit margin is clear evidence of our continuing capability to provide highly value-added solutions. Our management goal in the medium-term is to achieve annual consolidated sales of ¥50 billion and an operating profit margin of 10%.

(7) Other important issues

< Business partnership with Trinity Security Systems Inc. (Trinity) >

In January 2003, PALTEK agreed to a far-reaching partnership with Trinity Security Systems in the security field, including technology development, product development, systems integration and sales.

Trinity is an outstanding player in the security field, with a wealth of experience in encryption technology and protection of confidential data. Our customers place particular trust in Trinity's network security technology.

PALTEK has developed a large number of broadband technologies together with its customers, and enjoys close relationships with those customers. We are confident that, by integrating these assets with Trinity's network security technology, we will be able to secure a position as a leading company providing total solutions in the security market. We anticipate there will be further major developments in our cooperation with Trinity.

Operating Performance

(1) Overview of the Year Ended December 31, 2002

1. Operating results

In the current fiscal year, the Japanese economy showed a healthy recovery in the first half, led by expanding exports of electronic products and automobiles to the U.S. and Asian countries. In the second half and after, however, the Japanese economy has shifted again as stock price declines kicked off by suspicions of window dressing by U.S. companies, and uncertainties about the global political situation. As a result, exports have languished, and the future outlook has grown cloudy. In manufacturing industries, both production and capital investment remain sluggish, and the overall situation remains unfavorable. Still, manufacturers' inventory levels are extremely low, and the U.S. economy is likely to be able to fend off a renewed contraction. Based on expectations of a rebound in Japan's domestic demand, we believe the chance of a renewed contraction is limited.

At the same time, it is too soon to blow away the clouds of uncertainty as we continue to experience contraction in capital spending in information and communications-related industries triggered by the slowdown in other industries. In semiconductors, global demand is being led by other Asian countries outside Japan. Demand in Japan and Europe remains low. Feeble demand for IT equipment is causing severe conditions for semiconductor manufacturers. The impact has been particularly strong in Japan, sparking accelerated moves by semiconductor manufacturers and developers to other countries and causing a glaring decline in technological prowess. Still, some U.S. IT companies are showing signs of recovery, and hopes of a market rebound are beginning to re-emerge.

In this market environment, some capital investment and production may be restarted after a long period of restraint, but few people expect the trend to continue over the long-term, and IT equipment makers' earnings have been greatly affected. For the PALTEK Group, the global slump in the IT sector, and the absence of any outstanding IT products to fuel growth in the semiconductor market has meant an extremely harsh business environment. But the company has focused its efforts on selling semiconductors in relatively healthy fields such as broadcasting equipment, consumer electronics and industrial equipment. It has also focused on achieving growth in other ways, by developing new customers, launching new products, and responding to customer needs.

As a result, net sales for the consolidated accounting period under review totaled ¥15,614 million (down 10.5% year-on-year). Ordinary income amounted to ¥762 million (up 218.2% year-on-year) due mainly to the reduction in R&D and other expenditures, as a result of the liquidation of an overseas subsidiary, Cygnet Technologies Inc. Reflecting the lump-sum write-off of consolidation goodwill in relation to the purchase of the shares of Spinnaker Systems Inc, liquidation expense incurred in relation to the liquidation of Cygnet Technologies Inc, and recognition of a tax effect in an amount equal to the loss incurred by Cygnet Technologies Inc, net income for fiscal 2002 is ¥21 million (vs. ¥459 million net loss for the previous year).

Broken down by business segment, our results were as follows:

< Semiconductors and related businesses >

PALTEK, Alpha Electronics, Spinnaker Systems and axelec are active in semiconductor related businesses.

For PALTEK, the global IT slump has meant the absence of attractive IT equipment products that could drive the semiconductor market, creating an extremely harsh business environment in the fiscal year just ended. In this environment, PALTEK has been making efforts to maintain earnings and achieve growth by increasing semiconductor sales in relatively healthy sectors such as broadcasting equipment and industrial equipment, and by discovering new customers,

launching new products, and responding to customer needs. In the market for PLDs (Programmable Logic Devices), applications have been growing day by day, and PALTEK has been actively pursuing sales growth to new customers. As a result, sales totaled ¥15,613 million (down 10.0% year-on-year). A domestic sales agent agreement with Infineon Technologies Japan was terminated in January 2003.

Alpha Electronics founded a new subsidiary in China, in response to customers' shifts of production operations to that country. The company achieved ISO9001 certification, which should strengthen its relationship with key clients. In this environment, the company managed to maintain business with key clients in line with projected levels, and made a positive contribution to group earnings. In order to facilitate the change in the closing date of its books from September 30 to December 31, the company had a special accounting period extending over a period of 15 months.

Spinnaker Systems' main clients are communications equipment makers and electronics equipment makers. It is active in EDA software sales and intellectual property licensing. In view of the deteriorated performance during the fiscal year 2002, we have conducted an overall review of its future business plans. As a result of the review, it was determined that consolidation goodwill with respect to Spinnaker Systems was impaired. In accordance with this assessment, we expensed the entire amount of the goodwill and recognized ¥508 million as an extraordinary loss. A domestic sales agent agreement between Spinnaker Systems and Menter Graphics Japan Co., Ltd. was terminated during fiscal year 2002.

axelec provides PALTEK Group customers with semiconductors and software that makes high-speed, high-volume network environments possible. In March 2002, PALTEK entered a partnership agreement with MARUBUN, and both companies made a capital increase to axelec for joint business. Both companies have been working together to create a joint venture enabling total solutions for customers, and an ability to discover new products, expand functionality, and offer sophisticated logistics functionality. However, in order to stay closer to our original idea of building a new business model in semiconductor distribution, and to further expand business opportunities, we decided to dissolve the joint venture. However, we will continue to operate this business as before. The business did not make a positive contribution to the group earnings due to its start-up phase starts during fiscal year 2002.

< Other >

HYPER-PALTEK has been offering services related to Bluetooth certifications. It is a joint venture with Hyper Corporation, a U.S.-based company active in the business of granting certifications in the Bluetooth wireless communications standard. However, in view of revised prospects that synergies are not likely to be realized between the businesses of HYPER-PALTEK and its shareholders, PALTEK and Hyper Corporation, a decision was reached through consultation with Hyper Corporation to liquidate HYPER-PALTEK and to dissolve the relationship with Hyper Corporation.

2. Cash Flows

On a consolidated basis, cash and cash equivalents decreased ¥510 million yen during fiscal 2002 to ¥1,141 million as of the end of the fiscal year. Major changes in cash flows and brief explanations are provided below.

(Cash flows from operating activities)

Cash flows from operating activities amounted to net outflow of ¥343 million (vs. positive ¥2,736 million for fiscal 2001) reflecting a pretax net loss of ¥190 million (vs. ¥51 million pretax income for fiscal 2001) and increases in accounts receivable and inventories.

(Cash flows from investing activities)

Reflecting the sale of investment securities and cancellation of insurance policies, cash flows from investing activities amounted to positive ¥94 million (vs. outflow of ¥423 million for fiscal 2001).

(Cash flows from financing activities)

Cash flows from financing activities was negative ¥211 million (90.6% less than the previous fiscal year) due mainly to the repayment of bank loans and dividend payments.

(2) Outlook for fiscal year 2003

Regarding the future outlook for the business environment, the Japanese economy remains in a deflationary spiral, with future prospects clouded with uncertainty. However, in view of the fact that manufacturers' inventories are at extremely low levels, the U.S. economy seems to be able to fend off a renewed contraction, and given the expectations of a rebound in Japan's domestic demand, we believe the chance of renewed contraction is limited. On the other hand, in the area of information technology, it is too soon to blow away the clouds of uncertainty, as the outlook for fresh capital investment remains weak due to weakness in other industries. The major structural transition from the conventional telephone network to an IP-based network has already begun, and major PALTEK customers continue to restructure. The transfer of production and development of electronic devices to overseas countries is accelerating, and the destruction of Japan's future technological strength is becoming a major concern for everyone.

We believe, however, that demand may recover in 2003, due to the prospective emergence of attractive new IT devices and consumer electronics products, new business opportunities stemming from the unification of broadcasting and communications through the start of terrestrial digital broadcasting, and expanded product development as electronic equipment makers have completed a round of inventory reduction. In these circumstances, the PALTEK Group will focus not just on IT equipment, but on growing areas such as broadcasting, consumer electronics, and industrial equipment, aiming for growth through expansion of its customer base. We aim to provide total solutions, evolving away from the conventional sales-centered model of semiconductor planning support services, and toward a more creative, highly-value-added model of development support services. With restructuring of the group companies already behind us, we anticipate a reduction in SG&A expenses including amortization of goodwill.

In fiscal year 2003, we aim to achieve, on a consolidated basis, total group sales of ¥16,436 million, operating income of ¥884 million, ordinary income of ¥834 million and net income of ¥467 million. On a non-consolidated basis, our projections call for net sales of ¥13,500 million, operating income of ¥888 million, ordinary income of ¥838 million and net income of ¥486 million.

3. Consolidated Financial Statements

(1) Consolidated Financial Statements

1. Consolidated Balance Sheets

	Notes #	As of December 31, 2001		As of December 31, 2002		Increase (Decrease)
		Amount (Yen in thousands)	Ratio (%)	Amount (Yen in thousands)	Ratio (%)	
(Assets)						
I Current assets						
1. Cash and bank deposits			1,675,477		1,187,549	(487,927)
2. Notes and accounts receivable	*1		3,870,829		4,670,434	799,604
3. Inventories			2,881,429		3,411,841	530,411
4. Deferred tax assets			106,568		368,490	261,921
5. Other current assets			817,637		584,477	(233,160)
6. Allowance for doubtful accounts			(4,467)		(7,382)	(2,914)
Total current assets			9,347,474	79.7	10,215,410	867,936
II Fixed assets						
1. Tangible fixed assets						
(1) Buildings		172,113		161,714		
Accumulated depreciation		67,800	104,312	77,169	84,545	(19,767)
(2) Vehicle equipment		1,884		1,884		
Accumulated depreciation		1,603	280	1,719	165	(115)
(3) Furniture and fixtures		513,403		377,949		
Accumulated depreciation		276,118	237,284	258,860	119,089	(118,195)
(4) Land			57,466		37,228	(20,238)
Total tangible fixed assets			399,344	3.4	241,028	(158,316)
2. Intangible fixed assets						
(1) Goodwill			790,145		39,509	(750,635)
(2) Other intangible assets			301,458		212,987	(88,471)
Total intangible fixed assets			1,091,603	9.3	252,496	(839,106)
3. Investments and other assets						
(1) Investment securities	*2		285,181		142,266	(142,914)
(2) Long-term loans receivable			59,211		53,365	(5,845)
(3) Deferred tax assets			116,760		524,845	408,084
(4) Other			449,877		359,749	(90,128)
(5) Allowance for doubtful accounts			(14,605)		(65,868)	(51,263)
Total investments and other assets			896,425	7.6	1,014,357	117,932
Total fixed assets			2,387,373	20.3	1,507,883	(879,490)
Total Assets			11,734,848	100.0	11,723,294	(11,554)

	Notes #	As of December 31, 2001		As of December 31, 2002		Increase (Decrease)
		Amount (Yen in thousands)	Ratio (%)	Amount (Yen in thousands)	Ratio (%)	
(Liabilities)						
I Current liabilities						
1. Notes and accounts payable		1,096,911		1,292,742		195,830
2. Short term bank loans		1,604,924		1,524,572		(80,352)
3. Income taxes payable		58,915		201,017		142,101
4. Accrued bonuses		43,635		43,226		(408)
5. Other current liabilities		411,101		405,663		(5,438)
Total current liabilities		3,215,488	27.4	3,467,221	29.6	251,732
II Long-term liabilities						
1. Long-term bank loans		96,992		16,670		(80,322)
2. Liability for employees' retirement benefits		13,533		10,603		(2,930)
3. Liability for directors' and corporate auditors' retirement benefits		229,893		248,492		18,598
4. Other long-term liabilities		58,684		47,475		(11,209)
Total long-term liabilities		399,104	3.4	323,240	2.7	(75,863)
Total liabilities		3,614,592	30.8	3,790,461	32.3	175,869
(Minority interests)						
Minority interests		52,823	0.4	31,239	0.3	(21,584)
(Shareholders' equity)						
I Capital stock		1,335,487	11.4	1,335,487	11.4	
II Capital surplus		2,694,389	23.0	2,694,389	23.0	
III Retained earnings		3,990,100	34.0	3,891,354	33.2	(98,745)
IV Net- unrealized loss on securities		(5,550)	(0.0)	(17,570)	(0.2)	(12,019)
V Foreign currency translation adjustments		53,740	0.4			(53,740)
VI Treasury stock		(734)	(0.0)	(2,067)	(0.0)	(1,332)
Total shareholders' equity		8,067,432	68.8	7,901,593	67.4	(165,839)
Total liabilities, minority interests and shareholders' equity		11,734,848	100.0	11,723,294	100.0	(11,554)

2. Consolidated Statements of Income

	Notes #	January 1, 2001-December 31, 2001		January 1, 2002-December 31, 2002		Increase (Decrease)		
		Amount (Yen in thousands)		Ratio (%)	Amount (Yen in thousands)		Ratio (%)	
I Net Sales			17,443,098	100.0		15,614,300	100.0	(1,828,798)
II Cost of sales			12,779,491	73.3		11,530,872	73.8	(1,248,619)
Gross profit			4,663,607	26.7		4,083,427	26.2	(580,179)
III Selling, general and administrative expenses								
1. Provision for doubtful accounts					9,595			
2. Salary		1,386,597			979,239			
3. Provision for bonuses		51,851			59,631			
4. Provision for directors' and corporate auditors' retirement benefits		21,254			18,598			
5. Rent expense		495,096			460,886			
6. Amortization of goodwill		274,237			235,612			
7. Other	*1	2,063,696	4,292,732	24.6	1,659,468	3,423,031	21.9	(869,701)
Operating income			370,874	2.1		660,395	4.3	289,521
IV Non-operating income								
1. Interest income		3,813			1,121			
2. Dividend income		224			261			
3. Foreign exchange gain					179,795			
4. Gain on sale of investment securities		13,999			4,289			
5. Equity in earnings of associated companies		3,047						
6. Amortization of negative goodwill					79			
7. Other		30,781	51,866	0.3	43,977	229,526	1.4	177,659
V Non-operating expenses								
1. Interest expense		69,629			22,176			
2. Provision for doubtful accounts					57,522			
3. Foreign exchange loss		58,082						
4. Equity in losses of associated companies					7,947			
5. Loss on surrender of insurance policy		8,867			14,094			
6. Commissions paid		3,742			14,000			
7. Other		42,723	183,045	1.0	11,512	127,253	0.8	(55,791)
Ordinary income			239,695	1.4		762,667	4.9	522,972

	Notes #	January 1, 2001-December 31, 2001			January 1, 2002-December 31, 2002			Increase (Decrease)
		Amount (Yen in thousands)		Ratio (%)	Amount (Yen in thousands)		Ratio (%)	
VI Extraordinary income								
1. Gain on reversal of foreign currency translation adjustments due to decrease in consolidated subsidiaries		7,762						
2. Gain on sales of fixed assets	*2				4			
3. Reversal of allowance for doubtful accounts		22,492	30,255	0.2	4	0.0	(30,250)	
VII Extraordinary losses								
1. Loss on devaluation of fixed assets	*3				22,585			
2. Loss on disposal of fixed assets	*4	1,313			10,632			
3. Loss on sales of investment securities		39,920						
4. Loss on devaluation of investment securities		14,844			24,753			
5. Amortization of goodwill		156,521			508,674			
6. Loss on liquidation of subsidiaries	*5				386,307			
7. Charge for full amount of transitional obligation for employees retirement benefits		6,300	218,900	1.3	952,953	6.1	734,053	
Income (loss) before income taxes and minority interests			51,049	0.3	(190,281)	(1.2)	(241,331)	
Income taxes-current		551,136			474,436			
Income taxes-deferred		36	551,172	3.1	(661,451)	(187,015)	(1.2)	
Minority interests in net loss of consolidated subsidiaries			40,539	0.2	24,947	0.2	(15,591)	
Net (loss) income			(459,583)	(2.6)	21,681	0.2	481,265	

3. Consolidated Statements of Retained Earnings

	Notes #	Year ended December 31, 2001		Year ended December 31, 2002		Increase (Decrease)
		Amount (Yen in thousands)		Amount (Yen in thousands)		
(Capital surplus)						
I Balance, beginning of period			2,694,389		2,694,389	
II Balance, end of period			2,694,389		2,694,389	
(Retained earnings)						
I Balance, beginning of period			4,567,519		3,990,100	(577,419)
II Increase						
1. Net income				21,681	21,681	21,681
III Decrease						
1. Cash dividends		98,660		118,384		
2. Directors' bonuses		19,175		2,042		
3. Net loss		459,583	577,419		120,427	(456,992)
IV Balance, end of period			3,990,100		3,891,354	(98,745)

4. Consolidated Statements of Cash Flows

		Year ended December 31, 2001	Year ended December 31, 2002	Increase (Decrease)
	Notes #	Amount (Yen in thousands)	Amount (Yen in thousands)	
I Cash flows from operating activities:				
Income (loss) before taxes and minority interests		51,049	(190,281)	(241,331)
Depreciation		195,282	155,365	(39,917)
Amortization of goodwill		430,758	744,207	313,448
Equity in net (gains) losses of associated companies		(3,047)	7,947	10,995
Gain on reversal of foreign currency translation adjustments due to decrease in consolidated subsidiaries		(7,762)		7,762
Increase (decrease) in allowance for doubtful accounts		(24,844)	54,177	79,022
Decrease in accrued bonuses		(8,337)	(408)	7,929
Loss on devaluation of investment securities		14,844	24,753	9,909
Loss on devaluation of fixed assets			22,585	22,585
Decrease in liability for employee's retirement benefits		(12,635)		12,635
Increase (decrease) in liability for employees' retirement benefits		13,533	(2,930)	(16,463)
Increase in liability for directors' and corporate auditors' retirement benefits		4,947	18,598	13,651
Interest and dividends income		(4,038)	(1,382)	2,655
Interest expense		69,629	22,176	(47,452)
Foreign exchange gain		(12,724)	(476)	12,247
Gain on sales of investment securities		(13,999)	(4,289)	9,709
Loss on sales of investment securities		39,920	83	(39,836)
Gain on sales of tangible fixed assets			(4)	(4)
Loss on disposal of tangible fixed assets		1,313	8,309	6,995
Loss on disposal of intangible fixed assets			2,322	2,322
Loss on liquidation of subsidiaries			322,614	322,614
Decrease (increase) in accounts receivable-trade		2,159,876	(802,605)	(2,962,482)
Decrease (increase) in inventories		1,160,316	(542,784)	(1,703,100)
Increase in accounts payable-trade		306,312	212,253	(94,059)
Increase in consumption tax receivable			(80,085)	(80,085)
(Increase) decrease in advance payments		(207,972)	176,519	384,491
Bonus paid to directors and corporate auditors		(20,150)	(2,400)	17,750
Other		(212,349)	107,307	319,657
Sub total		3,919,923	251,572	(3,668,350)
Interest and dividends received		2,567	70	(2,496)
Interest paid		(70,122)	(22,369)	47,752
Payments on liquidation of subsidiaries			(273,755)	(273,755)
Income taxes paid		(1,089,172)	(298,743)	790,428
Other		(26,553)		26,553
Net cash provided by (used in) operating activities		2,736,642	(343,225)	(3,079,867)

		Year ended December 31, 2001	Year ended December 31, 2002	Increase (Decrease)
	Notes #	Amount (Yen in thousands)	Amount (Yen in thousands)	
II Cash flows from investing activities:				
Increase in time deposits		(24,820)	(43,033)	(18,212)
Decrease in time deposits		49,185	20,000	(29,185)
Purchases of investment securities		(4,990)	(98)	4,892
Proceeds from sales of investment securities		18,873	99,916	81,042
Payments for acquisition of affiliate's equity			(11,246)	(11,246)
Purchases of tangible fixed assets		(178,083)	(43,534)	134,548
Proceeds from sales of tangible fixed assets			9,282	9,282
Purchases of intangible assets		(205,732)	(30,717)	175,015
Proceeds from sales of intangible fixed assets		50		(50)
Increase in investment in partnership			(10,749)	(10,749)
Proceeds from sales of investment to partnership			8,054	8,054
Proceeds from collections of loans		4,697	5,845	1,148
Increase in loans		(63,400)		63,400
Proceeds from surrender of insurance policy		32,392	120,435	88,043
Increase in other investments		(52,563)	(46,319)	6,244
Decrease in other investments		1,212	16,604	15,392
Net cash (used in) provided by investing activities		(423,179)	94,442	517,621
III Cash flows from financing activities:				
Net (decrease) increase in short term bank loans		(2,188,606)	(90,402)	2,098,203
Proceeds from long term bank loans		141,200	4,140	(137,059)
Repayment of long term bank loans		(112,784)	(25,490)	87,293
Purchases of treasury stock		(7,061)	(1,332)	5,729
Proceeds from sales of treasury stock		7,111		(7,111)
Proceeds from issuance of common stock			20,000	20,000
Cash dividends paid to minority shareholders		(935)	(665)	270
Cash dividends paid		(98,139)	(117,610)	(19,470)
Other		23		(23)
Net cash used in financing activities		(2,259,191)	(211,359)	2,047,831
IV Effect of exchange rate changes on cash and cash equivalents				
		66,967	(7,138)	(74,105)
V Net increase (decrease) in cash and cash equivalents				
		121,238	(467,281)	(588,520)
VI Cash and cash equivalents at beginning of period				
		1,531,436	1,652,477	121,040
VII Decrease in cash and cash equivalents due to decrease in consolidated subsidiaries				
		(197)	(43,679)	(43,481)
VIII Cash and cash equivalents at end of period				
		1,652,477	1,141,516	(510,960)

Material information regarding preparation of consolidated financial statements

	January 1, 2001-December 31, 2001	January 1, 2002-December 31, 2002
1. Scope of consolidation	<p>(1) Number of consolidated subsidiaries: 4 Names of consolidated subsidiaries: Alpha Electronics, Inc. Spinnaker Systems, Inc. Cygnet Technologies, Inc. axelec corporation axelec corp. was established during this consolidated accounting period.</p> <p>(2) Names of unconsolidated subsidiaries: AlphaMetric, Inc.</p> <p>AlphaMetric, Inc. has been excluded from consolidation at the end of this consolidated accounting period as its liquidation procedure has progressed and its total assets, net income (loss) and deficit no longer have a significant impact on the Company's consolidated statements.</p>	<p>(1) Number of consolidated subsidiaries: 3 Names of consolidated subsidiaries: Alpha Electronics, Inc. Spinnaker Systems, Inc. axelec Corporation</p> <p>Cygnet Technologies, Inc., treated as a consolidated subsidiary in the previous year, was excluded from consolidation results starting with the second half of this year as liquidation procedures have progressed and the company became insignificant for the purpose of consolidation.</p> <p>(2) Names of unconsolidated subsidiaries: Cygnet Technologies, Inc. AlphaMetric, Inc. Alpha Electron (HK) Co. Ltd.</p> <p>(Reasons for exclusion from consolidation) Scale of operations of these unconsolidated subsidiaries are small and their total assets, revenues, net income (as calculated by the equity method) and retained earnings (as calculated by the equity method) have no significant impact on the consolidated financial statements. Alpha Electron (HK) Co. Ltd. was established during this consolidated accounting period.</p>
2. Application of the equity method	<p>(1) Number of associated companies to which the equity method is applicable: 1 Name of the associated company to which the equity method is applicable: HYPER-PALTEK Corporation HYPER-PALTEK Corporation was established during this consolidated accounting period.</p>	<p>(1) Number of associated companies to which the equity method is applicable: 1 Name of the associated company to which the equity method is applicable: HYPER-PALTEK Corporation</p>

	January 1, 2001-December 31, 2001	January 1, 2002-December 31, 2002
	<p>(2) Name of non-consolidated subsidiary to which the equity method is not applicable: AlphaMetric Inc. AlphaMetric Inc. is not included in consolidation as the Company's impact on the consolidated net income and consolidated retained earnings is insignificant.</p>	<p>(2)Name of non-consolidated subsidiary to which the equity method is not applicable: Alpha Electron (HK) Co. Ltd. (Reasons for exclusion from consolidation) Non-consolidated subsidiaries to which the equity method is not applicable have no significant impact on the consolidated net income and consolidated retained earnings. In addition, non-consolidated subsidiaries all combined do not have a significant impact on the consolidated results.</p>
3. Accounting period of consolidated subsidiaries	Alpha Electronics, Inc., one of the Company's consolidated subsidiaries, has its annual accounting period ending on September 30. For the purpose of consolidation of Alpha Electronics, Inc., the Company's financial statements as of September 30 was used by making necessary adjustments to account for significant transactions that took place between September 30 and the date of consolidation.	Until the previous accounting period, Alpha Electronics, Inc., one of the Company's consolidated subsidiaries, had its annual accounting period ending on September 30. Effective this consolidated accounting period, Alpha Electronics, Inc. changed its accounting period to end on December 31. The balance sheet as of December 31, 2002, income statement and cash flow statement for the 15-month period between October 1, 2001 and December 31, 2002 were used for consolidation.
4. Significant accounting policies (1)Valuation of material assets	<p>(A) Securities: Available-for-sale securities: Available-for-sale securities with market values: Stated at fair market value as of the balance sheet date. (Unrealized gains and losses are reported in the shareholders' equity section of the consolidated balance sheet. Sales cost is calculated using the moving average method)</p> <p>Available-for sale securities without market values: Stated at moving average cost.</p>	<p>(A) Securities: Available-for-sale securities: Available-for-sale securities with market values: Same as previous year</p> <p>Available-for-sale securities without market values: Same as previous year</p>

	January 1, 2001-December 31, 2001	January 1, 2002-December 31, 2002
(2) Depreciation of fixed assets	<p>(B) Derivatives: As a principle, derivatives are stated at fair market value.</p> <p>(C) Inventories: (a) Merchandise: Stated by moving average cost (last purchased price method used by some of the consolidated subsidiaries) (b) Supplies: Stated by last purchased price method</p> <p>(A) Tangible fixed assets: The Company and its domestic consolidated subsidiaries use the declining balance method (Note: Buildings, excluding ancillary facilities, acquired on or after April 1, 1998 are depreciated based on the straight line method). Overseas consolidated subsidiaries primarily use the straight line method.</p> <p>Useful lives are as follows: Buildings 10 – 45 years Vehicle equipment 6 years Furniture and fixtures 5 – 15 years</p> <p>(B) Intangible fixed assets The Company and its domestic consolidated subsidiaries use the straight line method. Useful life of the software for internal use is 5 years. Overseas subsidiaries use the straight line method based on the accounting regulations of respective host countries.</p>	<p>(B) Derivatives: Same as previous year</p> <p>(C) Inventories: (a) Merchandise: Same as previous year (b) Supplies: Same as previous year</p> <p>(A) Tangible fixed assets: Declining balance method (Note: Buildings, excluding ancillary facilities, acquired on or after April 1, 1998 are depreciated based on the straight line method)</p> <p>Useful lives are as follows: Buildings 10 – 45 years Vehicle equipment 6 years Furniture and fixtures 5 – 15 years</p> <p>(B) Intangible fixed assets The straight line method. Useful life of the software for internal use is 5 years.</p>
(3) Allowances	<p>(A) Allowance for doubtful accounts: An allowance for doubtful accounts is provided to cover possible losses from bad debts by the Company and its domestic consolidated subsidiaries. The allowance with respect to non-classified loans/receivables is calculated based on historical default rates. For classified loans/receivables, the Company and its domestic consolidated subsidiaries states an amount deemed to be unrecoverable based on the prospect of recovery of individual loans/receivables.</p>	<p>(A) Allowance for doubtful accounts: An allowance for doubtful accounts is provided to cover possible losses from bad debts. The allowance with respect to non-classified loans/receivables is calculated based on historical default rates. For classified loans/receivables, the Company and its domestic consolidated subsidiaries states an amount deemed to be unrecoverable based on the prospect of recovery of individual loans/receivables.</p>

	January 1, 2001-December 31, 2001	January 1, 2002-December 31, 2002
(4) Translation of foreign currency denominated assets and liabilities into Japanese yen	<p>(B) Accrued bonuses: Reserves are provided by the Company and its consolidated subsidiaries to cover the estimated amount of bonuses payable to employees.</p> <p>(C) Liability for employees' retirement benefits: The amount estimated to represent the potential liability, as of the end of this consolidated accounting period, is calculated by taking retirement benefit liabilities and the estimated value of pension assets into consideration. A differential resulting from the change in accounting standard (¥6,300 thousand) is expensed as extraordinary expense during this accounting period.</p> <p>(D) Liability for directors' and corporate auditors' retirement benefits: An allowance is provided by the Company and a domestic subsidiary to cover the estimated amount of retirement benefits payable to directors and corporate auditors.</p> <p>Foreign currency denominated monetary rights and obligations are translated into Japanese yen using the prevailing spot exchange rate as of the consolidated balance sheet date. Translation differences are recognized as foreign exchange gains or losses. Foreign currency denominated monetary obligations that are subject to hedging by forward foreign exchange contracts are translated into Japanese yen using the actual contracted exchange rate. Assets, liabilities, income and expenses of overseas subsidiaries are translated into Japanese yen using the spot exchange rate as of the consolidated balance sheet date. Translation differentials are recognized and included in the cumulative translation adjustment account in shareholders' equity.</p>	<p>(B) Accrued bonuses: Reserves are provided to cover the estimated amount of bonuses payable to employees.</p> <p>(C) Liability for employees' retirement benefits: The amount estimated to represent the potential liability, as of the end of this consolidated accounting period, is calculated by taking retirement benefit liabilities and the estimated value of pension assets into consideration.</p> <p>(D) Liability for directors' and corporate auditors' retirement benefits: Same as previous year</p> <p>Foreign currency denominated monetary rights and obligations are translated into Japanese yen using the prevailing spot exchange rate as of the consolidated balance sheet date. Translation differences are recognized as foreign exchange gains or losses. Foreign currency denominated monetary obligations that are subject to hedging by forward foreign exchange contracts are translated into Japanese yen using the actual contracted exchange rate.</p>

	January 1, 2001-December 31, 2001	January 1, 2002-December 31, 2002
(5) Lease transactions	For the Company and its domestic subsidiaries, finance leases for which ownership does not transfer to the lessees are not capitalized, and are accounted for in the same manner as operating leases. For the Company's overseas subsidiaries, lease transactions are treated in the same manner as ordinary sale/purchase transactions.	Finance leases for which ownership does not transfer to the lessees are not capitalized, and are accounted for in the same manner as operating leases.
(6) Hedge accounting	<p>(A) Hedge accounting method: The Company adopts deferred hedge accounting. Derivatives that meet the criteria for hedging accounting are accounted for using deferral hedge accounting, which requires unrealized gains or losses to be deferred as liabilities or assets. Forward foreign exchange contracts that are effective hedges are accounted for using the allocation method, which requires recognized foreign currency receivables or payables to be translated using the corresponding foreign exchange contract rates.</p> <p>(B) Hedging instruments and targets: Hedging instruments: Forward foreign exchange contract Hedging targets: Foreign currency denominated monetary liabilities and transactions scheduled to be denominated in a foreign currency.</p> <p>(C) Hedging policies: Derivative transactions are used only by the Company. Eligible hedging instruments are approved at the Board of Directors Meeting at the time of the preparation of the import plan.</p>	<p>(A) Hedge accounting method: Same as previous year</p> <p>(B) Hedging instruments and targets: Hedging instruments: Same as previous year Hedging targets: Same as previous year</p> <p>(C) Hedging policies: Same as previous year</p>

	January 1, 2001-December 31, 2001	January 1, 2002-December 31, 2002
(7) Other	<p>(D) Method for assessing effectiveness of hedges: Accumulated changes in the cash flow of hedged items are compared to the accumulated changes in the cash flow of hedging instruments on a semi-annual basis. The effectiveness of hedging is evaluated by taking the degree of changes in cash flows of the hedged item and hedging transaction into consideration.</p> <p>Treatment of consumption tax: Transactions subject to consumption tax are recorded at amounts exclusive of consumption taxes.</p>	<p>(D) Method for assessing effectiveness of hedges: Same as previous year</p> <p>Treatment of consumption tax: Same as previous year</p>
5. Valuation of assets and liabilities of consolidated subsidiaries	The assets and liabilities of the subsidiaries are evaluated using the fair value at the time the respective subsidiaries were initially consolidated.	Same as previous year
6. Amortization of goodwill	<p>Goodwill is amortized in equal amounts over a five year period. In the event that the amount is minimal, the amount is expensed in the year in which the adjustment is made.</p> <p>With regard to the goodwill recognized at the time of the acquisition of Cygnit Technologies' shares by the Company, the entire amount of unamortized balance as of the close of this accounting period was fully expensed and recognized as an extraordinary loss.</p>	<p>Goodwill is amortized in equal amounts over a five year period. In the event that the amount is minimal, the amount is expensed in the year in which the adjustment is made.</p> <p>With regard to the goodwill recognized at the time of the acquisition of Spinnaker Systems, Inc. shares by the Company, the entire amount of unamortized balance as of the close of this accounting period was fully expensed and recognized as an extraordinary loss.</p>
7. Consolidated statement of retained earnings	The Consolidated statement of retained earnings is based on the officially confirmed appropriation schedules of the consolidated subsidiaries for the year.	Same as previous year
8. Cash and cash equivalents	Included in "cash and cash equivalents" in the statements of cash flows are cash in hand, demand deposits, and short-term investments with maturities arriving in three months from the date of acquisition that are readily convertible to cash and are subject to minimum risk of price fluctuations.	Same as previous year

Additional information

January 1, 2001-December 31, 2001	January 1, 2002-December 31, 2002
<p>(Accounting for retirement benefits)</p> <p>Effective this consolidated accounting period, the Company adopted the Accounting Standard for Retirement Benefits (“Opinions concerning Establishment of Accounting Standard for Retirement Benefits” by the Business Accounting Deliberation Council on June 16, 1998).</p> <p>As a result, retirement benefit expense decreased by ¥4,152 thousand, ordinary income increased by ¥10,453 thousand, and income before income taxes and minority interests increased by ¥4,152 thousand as compared to the amounts calculated under the previous accounting method.</p> <p>(Accounting for financial instruments)</p> <p>Effective this consolidated accounting period, the Company adopted the Accounting Standard for Financial Instruments (“Opinion concerning Establishment of Accounting Standard for Financial Instruments” by the Business Accounting Deliberation Council on January 22, 1999). As a result, ordinary income increased by ¥4,053 thousand, and income before income taxes and minority interests increased by ¥15,575 thousand as compared to the amounts calculated under the previous accounting method.</p> <p>The standard requires applicable securities to be classified and accounted for, depending on management’s intent. Available-for-sale securities are classified as investment securities.</p> <p>As a result, securities classified as current assets decreased by ¥172,969 thousand and investment securities increased by the same amount.</p> <p>(Accounting standard for foreign currency transactions)</p> <p>Effective this consolidated accounting period, the Company adopted revised accounting standards for foreign currency (“Opinion concerning Revision of Accounting Standard for Foreign Currency Transactions” by the Business Accounting Deliberation on October 22, 1999). This change had no effect on the reported amounts in the income statement.</p> <p>As a result of the revision of the Rules for the Preparation of Consolidated Financial Statements, foreign currency translation adjustments that were included in “liabilities” in Fiscal 2000 are now included in “shareholders’ equity” as well as in “minority interest”</p>	<p>_____</p> <p>_____</p> <p>_____</p>

January 1, 2001-December 31, 2001	January 1, 2002-December 31, 2002
<p style="text-align: center;">_____</p> <p style="text-align: center;">_____</p>	<p>(Presentation of consolidated balance sheets and consolidated statements of retained earnings) The shareholders' equity section of the consolidated balance sheets and consolidated statements of retained earnings are presented in a manner consistent with the Regulations Concerning Consolidated Financial Statements as revised in accordance with the provisions of the second paragraph of the Supplementary Provision to the "The Cabinet Office Ordinance Regarding Partial Revision of the Regulations Concerning Terminology, Forms and Preparation of Consolidated Financial Statements (The Cabinet Office Ordinance No. 11 on March 26, 2002.)"</p> <p>(Treasury stock and reversal of legal reserves) Effective this consolidated accounting period, the Company has adopted the "Accounting Standard for Treasury Stock and Reduction of Legal Reserves" (Financial Accounting Standards No. 1.) The change on the consolidated operating results for the consolidated accounting period under review has no effect.</p>

Notes

(Consolidated balance sheets)

(Yen in thousands)

As of December 31, 2001	As of December 31, 2002
1. Amount of notes receivable discounted: ¥94,887	1. Amount of notes receivable discounted: ¥126,842
Amount of accounts receivable-trade offered as collateral: ¥236,155	Amount of accounts receivable-trade offered as collateral: ¥797,649
*2. Investment in subsidiaries and associated companies: ¥7,947	*2. Investment in non-consolidated subsidiaries: ¥1,794

(Consolidated statements of income)

(Yen in thousands)

Year ended 2001	Year ended 2002
*1. Research and development expenditures included in selling, general and administrative expenses: ¥310,963	*1. _____
*2. _____	*2. Breakdown of gains on sale of fixed assets: Furniture and fixtures ¥4
*3. _____	*3. Breakdown of loss on devaluation of planned sales of fixed assets whose book values have substantially declined: Buildings ¥2,347 Land ¥20,238
*4. Breakdown of loss on disposal of fixed assets: Buildings ¥247 Vehicle equipment ¥305 Furniture and fixtures ¥760	*4. Breakdown of loss on disposal of fixed assets: Buildings ¥4,141 Furniture and fixtures ¥4,168 Software ¥2,322
*5. _____	*5. Breakdown of loss on liquidation of subsidiaries: Loss on sale of fixed assets ¥2,589 Loss on devaluation of fixed assets ¥112,300 Loss on devaluation of inventories ¥71,322 Other liquidation expenses ¥223,663 Reversal of foreign exchange translation adjustment (¥23,569)

(Consolidated statements of cash flows)

(Yen in thousands)

January 1, 2001-December 31, 2001	January 1, 2002-December 31, 2002
“Cash and bank deposits” on the consolidated balance sheet and “cash and cash equivalents” on the consolidated statement of cash flows are reconciled as follows: As of December 31, 2001	“Cash and bank deposits” on the consolidated balance sheet and “cash and cash equivalents” on the consolidated statement of cash flows are reconciled as follows: As of December 31, 2002
Cash and deposits ¥1,675,477	Cash and deposits ¥1,187,549
Time deposits with maturities longer than 3 months (23,000)	Time deposits with maturities longer than 3 months (46,033)
Cash and cash equivalents ¥1,652,477	Cash and cash equivalents ¥1,141,516

January 1, 2001-December 31, 2001				January 1, 2002-December 31, 2002			
Finance leases where ownership does not transfer to the lessee:				Finance leases where ownership does not transfer to the lessee:			
(1) Acquisition cost equivalent, accumulated depreciation equivalent and book value equivalent of leased properties as of the end of this consolidated accounting period.				(1) Acquisition cost equivalent, accumulated depreciation equivalent and book value equivalent of leased properties as of the end of this consolidated accounting period.			
	Acquisition cost equivalent	Accumulated depreciation equivalent	Book value equivalent		Acquisition cost equivalent	Accumulated depreciation equivalent	Book value equivalent
Furniture and fixtures	28,000	3,733	24,266	Furniture and fixtures	28,000	9,333	18,666
Software	541,791	154,064	387,726	Software	560,391	266,143	294,248
Total	569,791	157,798	411,993	Total	588,391	275,476	312,915
(2) Future minimum lease payments:				(2) Future minimum lease payments:			
Within one year			¥112,660	Within one year			¥118,350
Over one year			¥304,378	Over one year			¥201,066
Total			¥417,039	Total			¥319,416
(3) Lease expenses and pro forma data as to depreciation expenses and interest expenses are summarized as follows:				(3) Lease expenses and pro forma data as to depreciation expenses and interest expenses are summarized as follows:			
Lease payments			¥120,160	Lease payments			¥123,190
Depreciation equivalent			¥114,583	Depreciation equivalent			¥117,678
Interest expense equivalent			¥8,371	Interest expense equivalent			¥6,967
(4) Calculation of depreciation equivalent: Depreciation is based on the straight line method over the lease term of the leased assets with no residual value.				(4) Calculation of depreciation equivalent: Same as previous year			
(5) Calculation of interest expense equivalent: The interest expense equivalent is calculated by taking the difference between the total amount of lease payment and acquisition cost equivalent of the leased property, and amortizing it over the lease period based on the interest method.				(5) Calculation of interest expense equivalent: Same as previous year			

(Securities)

Securities as of the term ended December 31, 2001

1. Available-for-sale securities with market values

(Yen in thousands)

	Type of securities	Acquisition cost	Book value	Difference
Fair market value exceeds acquisition cost	(1) Stocks	13,593	21,372	7,778
	(2) Bonds			
	JGB, Local government bonds			
	Corporate bonds			
	Other			
	(3) Other	18,175	18,893	717
	Sub-total	31,769	40,265	8,496
Fair market value does not exceed acquisition cost	(1) Stocks	1,569	7,516	(4,053)
	(2) Bonds			
	JGB, Local government bonds			
	Corporate bonds			
	Other			
	(3) Other	191,933	168,910	(23,022)
	Sub-total	203,503	176,426	(27,076)
	Total	235,272	216,692	(18,579)

2. Available-for-sale securities sold during the period

(Yen in thousands)

Amount sold	Total gain on sales	Total loss on sales
17,873	13,999	39,920

3. Major components of debt and equity securities without market values

(Yen in thousands)

	Amount stated in consolidated B/S
(1) Held-to-maturity bonds	
Non-listed foreign bonds	
(2) Available-for sale securities	
Unlisted securities (excluding OTC-traded stocks)	68,488
Total	68,488

(Securities)

Securities as of the term ended December 31, 2002

1. Available-for-sale securities with market values

(Yen in thousands)

	Type of securities	Acquisition cost	Book value	Difference
Fair market value exceeds acquisition cost	(1) Stocks	13,370	16,909	3,538
	(2) Bonds			
	JGB, Local government bonds			
	Corporate bonds			
	Other			
	(3) Other	27,785	28,759	974
	Sub-total	41,156	45,669	4,512
Fair market value does not exceed acquisition cost	(1) Stocks	9,977	8,209	(1,767)
	(2) Bonds			
	JGB, Local government bonds			
	Corporate bonds			
	Other			
	(3) Other	82,429	47,142	(35,286)
	Sub-total	92,406	55,352	(37,053)
	Total	133,563	101,022	(32,541)

Note: During the term ended December 31, 2002, an impairment loss in the amount of ¥3,665 thousand was recognized for available-for-sale securities with market values.

2. Available-for-sale securities sold during the period

(Yen in thousands)

Amount sold	Total gain on sales	Total loss on sales
109,720	4,289	83

3. Major components of debt and equity securities without market values

(Yen in thousands)

	Amount stated in consolidated B/S
Available-for sale securities	
Unlisted securities (excluding OTC-traded stocks)	39,450
Total	39,450

(Derivative transactions)

1. Matters related to condition of transactions

January 1, 2001-December 31, 2001	January 1, 2002-December 31, 2002
<p>(1) Types of derivatives used by the Group: Forward foreign exchange contracts are the only derivative instruments used by the Group. Among the Group companies, the Company is the only user of derivative instruments. The following information therefore relates to transactions engaged by the Company.</p> <p>(2) Transaction policy and purpose of use: Derivative instruments are used by the Company in the normal course of its business in order to effectively manage the risk arising from fluctuations in foreign exchange rates. Forward foreign exchange contracts are used to hedge the risk of foreign exchange fluctuations with respect to future scheduled transactions denominated in foreign currencies as well as foreign currency denominated obligations. Forward foreign exchange contracts are not used for speculative purposes or for the purpose of realizing short-term trading gains. Derivative transactions are accounted for using hedge accounting. Details with respect to the method of hedge accounting is provided in “Material information regarding preparation of consolidated financial statements” (Section 4. “Significant accounting policies”, Paragraph (6) “Hedge accounting”)</p> <p>(3) Risks associated with derivative transactions: Derivative instruments used by the Company involve credit risk and market risk. Credit risk refers to the risk of default by the counter party of the derivative transaction concerned. Market risk refers to potential loss that may be realized by the fluctuations in foreign exchange rates. The Company believes that credit risk associated with the transactions entered into by the Company is minimal as counter parties are all highly rated domestic financial institutions. The forward foreign exchange contracts entered into by the Company are exposed to future fluctuations in foreign exchange rates. However, it should be noted that these forward exchange contracts are engaged for the purpose of hedging the foreign currency denominated obligations on the Company’s balance sheets, and that changes in the value of derivatives offset the changes in the value of hedged obligations.</p> <p>(4) Risk management: Hedging policies are determined at the Board of Directors’ Meeting at the time of the formulation of the import schedule. Transactions are executed by the Finance & Accounting Team of the Operational Service Division based on the policies determined by the Board with specific transactional approval by the director in charge of the Division. The Finance & Accounting Team prepares a position report in order to monitor and analyze outstanding transactions and to report to the director in charge.</p>	<p>(1) Types of derivatives used by the Group: Same as previous year</p> <p>(2) Transaction policy and purpose of use: Same as previous year</p> <p>(3) Risks associated with derivative transactions: Same as previous year</p> <p>(4) Risk management: Hedging policies are determined at the Board of Directors’ Meeting at the time of the formulation of the import schedule. Transactions are executed by the Finance Team, Finance/Legal Group, Operational Service Division based on the policies determined by the Board with specific transactional approval by the director in charge of the Division. The Finance Team prepares a position report in order to monitor and analyze outstanding transactions and to report to the director in charge.</p>

2. Matters related to estimated fair value of transactions

Year under review (January 1, 2002-December 31, 2002)

No details are provided herein as these transactions are for hedging purpose only.

Previous consolidated accounting period (January 1, 2001 – December 31, 2001)

No details are provided herein as these transactions are for hedging purpose only.

(Retirement benefits)

1. The retirement benefit program adopted

The Company has an employees' pension fund and a tax-qualified pension plan, both of which are defined benefit plans. Our domestic consolidated subsidiaries have lump-sum retirement payment plans and mutual funds for retirement allowances for medium and small companies.

The company has joined the welfare pension fund for the computer industry association, a jointly established contributory plan, which is prescribed in the article 33 of the Accounting Standards for Retirement Benefits.

Total amount of the plan assets for the Company as of the December 31, 2001 was ¥180,016 thousand and ¥179,995 thousand as of December 31, 2002.

2. Retirement benefit obligations

(Yen in thousands)

	As of December 31, 2001	As of December 31, 2002
(1) Projected benefit obligations	(78,365)	(89,695)
(2) Fair value of plan assets	<u>68,984</u>	<u>86,674</u>
(3) Net amount stated in the consolidated B/S ((1) + (2))	(9,380)	(3,021)
(4) Prepaid pension cost	<u>4,152</u>	<u>7,581</u>
Liability for employees' retirement benefits ((3) – (4))	(13,533)	(10,603)

3. Pension and severance costs

(Yen in thousands)

	January 1, 2001- December 31, 2001	January 1, 2002- December 31, 2002
Retirement benefit costs		
(1) Service cost	9,568	14,915
(2) Amortization of net transition obligation	<u>6,300</u>	<u>14,915</u>
Subtotal	15,869	14,915
(3) Contribution to the jointly established welfare pension fund	20,097	20,756
(4) Contribution to the mutual funds for retirement allowances for medium and small companies	1,833	2,463
(5) Special retirement benefit	<u> </u>	<u>8,878</u>
Retirement benefit costs	<u>37,799</u>	<u>47,014</u>

4. Assumptions used in the accounting for retirement benefit obligations

	As of December 31, 2001	As of December 31, 2002
(1) Method of computation of projected benefit obligation	The Company and its domestic consolidated subsidiaries use the simplified method in calculating the projected benefit obligation.	The simplified method is used in calculating the projected benefit obligation.
(2) Period of amortization of net transition amount	Fully expensed in a lump-sum as an extraordinary loss during this accounting period.	<u> </u>

(Tax effect accounting)

(Yen in thousands)

January 1, 2001-December 31, 2001	January 1, 2002-December 31, 2002
1. A breakdown of deferred tax assets and liabilities are noted below:	1. A breakdown of deferred tax assets and liabilities are noted below:
Deferred tax assets:	Deferred tax assets:
Loss on valuation of inventories	Loss on valuation of inventories
100,536	27,893
Liability for retirement benefits to directors' and corporate auditors'	Allowance for bad debts in excess of tax limit
96,278	27,091
Revaluation loss on investment securities	Liability for retirement benefits to directors' and corporate auditors'
11,347	104,068
Loss carry forward	Loss on devaluation of investment securities
430,603	15,586
Other	Revaluation loss on investment securities
52,965	15,563
Subtotal	Subtotal
691,731	949,152
Valuation allowance	Valuation allowance
(430,521)	(38,927)
Total deferred tax assets	Total deferred tax assets
261,210	910,224
Deferred tax liabilities:	Deferred tax liabilities:
Reserve for the development of domestic market for imported goods	Revaluation gain on investment securities
(13,440)	(2,764)
Revaluation gain on investment securities	Other
(7,103)	(14,124)
Other	Total deferred tax liabilities
(17,337)	(16,888)
Total deferred tax liabilities	Net deferred tax assets
(37,880)	893,335
Net deferred tax assets	
223,329	
2. Reconciliation between the statutory tax rate and the effective tax rate:	2. Reconciliation between the statutory tax rate and the effective tax rate:
(%)	(%)
Statutory tax rate	Statutory tax rate
42.00	42.00
Increase (decrease) in taxes resulting from:	(Decrease) increase in taxes resulting from:
Entertainment expenses, etc. non deductible portion	Entertainment expenses, etc. non deductible portion
16.69	(5.62)
Amortization of goodwill	Amortization of goodwill
354.40	(164.27)
Inhabitants tax	Inhabitants tax
12.33	(3.33)
Effect of applying equity method	Effect of applying equity method
(2.51)	(1.75)
Reversal of foreign exchange adjustment gains resulting from the exclusion of a subsidiary from consolidation	Loss on liquidation of subsidiaries
(6.39)	23.74
Effect of the increase in valuation allowances	Effect of the increase in valuation allowances
660.67	205.80
Other	Other
2.48	1.71
Effective income tax rate	Effective income tax rate
1,079.67	98.28

(Segment information)

1. Business segment information

Previous consolidated accounting period (January 1, 2001-December 31, 2001) and the accounting period under review (January 1, 2002-December 31, 2002)

Information by business segment is omitted as the semi-conductor-related business accounts for more than 90% of the total consolidated sales, operating income and total assets.

2. Geographic segment information

Previous consolidated accounting period (January 1, 2001-December 31, 2001) and the accounting period under review (January 1, 2002-December 31, 2002)

Information by geographic segment is omitted as the domestic business accounts for more than 90% of the total consolidated sales and total assets.

3. Overseas sales

Previous consolidated accounting period (January 1, 2001-December 31, 2001) and the accounting period under review (January 1, 2002-December 31, 2002)

Overseas sales information is omitted as it accounts for less than 10% of the total consolidated sales.

(Related party transactions)

Previous accounting period (January 1, 2001-December 31, 2001)

N/A

The year under review (January 1, 2001 – December 31, 2002)

N/A

(Significant subsequent events)

Year ended 2001	Year ended 2002										
<p>The Company approved a resolution to withdraw from the management of its overseas subsidiary, Cygnet Technologies, Inc., at its Board of Directors Meeting held on February 8, 2002. Subsequent to the board resolution, the Company has been negotiating the sale of the shares of Cygnet Technologies, Inc. held by the Company to Cygnet Technologies, Inc.. In the event the negotiation turns out to be unsuccessful, Cygnet Technologies, Inc. will commence liquidation procedures on or around March 29, 2002.</p> <p>(1) Outline of Cygnet Technologies, Inc. (as of December 31, 2001):</p> <table border="0"><tr><td>Location:</td><td>Texas, USA</td></tr><tr><td>Capital:</td><td>USD 7,755 thousand</td></tr><tr><td>Total liabilities:</td><td>USD 2,636 thousand</td></tr><tr><td>Equity ownership by the Company:</td><td>93.5%</td></tr><tr><td>Line of business:</td><td>Design and development of network equipment and software</td></tr></table> <p>(2) Reasons for withdrawal:</p> <p>Cygnet Technologies, Inc. has been engaged in the development and design of network equipment and software. The company ran into a negative net worth position during this consolidated accounting period due to the burden of substantial Research and Development expenditures and poor sales performance. While efforts have been made by Cygnet Technologies, Inc. to reorganize its business under the support provided by the Company, prospects for recovery remain unclear, and the Company and Cygnet Technologies, Inc. have been unable to reach an agreement as to Cygnet Technologies, Inc.'s future direction. Against such background, the Company decided to withdraw from the management of Cygnet Technologies, Inc.</p> <p>(3) Expected amount of losses in case of liquidation:</p> <p>In the event of liquidation, a disposal of assets may occur. However, it is currently difficult to make a reasonable assessment of expected losses.</p>	Location:	Texas, USA	Capital:	USD 7,755 thousand	Total liabilities:	USD 2,636 thousand	Equity ownership by the Company:	93.5%	Line of business:	Design and development of network equipment and software	
Location:	Texas, USA										
Capital:	USD 7,755 thousand										
Total liabilities:	USD 2,636 thousand										
Equity ownership by the Company:	93.5%										
Line of business:	Design and development of network equipment and software										

4. Purchases, Orders Received and Sales

(1) Purchases

Purchases made during the term ended December 31, 2002 are as follows: (Yen in thousands)

Business Segment	January 1, 2001- December 31, 2001		January 1, 2002- December 31, 2002		Change from the previous year (%)	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Change (%)
Semiconductor business	11,394,258	99.6	12,046,785	100.0	652,527	5.7
Communications equipment business	48,781	0.4	416	0.0	(48,365)	(99.2)
Total	11,443,039	100.0	12,047,201	100.0	604,162	5.3

Note: Consumption tax is not included in the above figures.

(2) Orders received

Orders received during the term ended December 31, 2002 as follows: (Yen in thousands)

Business Segment	January 1, 2001- December 31, 2001		January 1, 2002- December 31, 2002		Change from the previous year (%)	
	Orders received	Backlog	Orders received	Backlog	Orders received	Backlog
Semiconductor business	15,317,609	805,728	16,446,698	1,730,974	1,129,088	925,245
Communications equipment business	187,447	92,366	480	-	(186,967)	(92,366)
Total	15,505,057	898,095	16,447,178	1,730,974	974,121	832,878

Note: Consumption tax is not included in the above figures.

(3) Sales

Sales during the term ended December 31, 2002 as follows: (Yen in thousands)

Business Segment	January 1, 2001- December 31, 2001		January 1, 2002- December 31, 2002		Change from the previous year (%)	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Change (%)
Semiconductor business	17,348,017	99.5	15,613,820	100.0	(1,734,197)	(10.0)
Communications equipment business	95,080	0.5	480	0.0	(94,600)	(99.5)
Total	17,443,098	100.0	15,614,300	100.0	(1,828,798)	(10.5)

Note: 1. Consumption tax is not included in the above figures.

2. Sales by major customers and the ratio to total sales for the last two accounting periods are as follows:

Clients	January 1, 2001-December 31, 2001		January 1, 2002-December 31, 2002	
	Amount	Ratio (%)	Amount	Ratio (%)
NEC Corporation	3,951,547	22.7	2,406,727	15.4

Note: Consumption tax is not included in the above figures.