

annual report  
2 0 0 1

**NAKAYO**

## **Contents**

President's Message	1
Non-Consolidated Balance Sheets	2
Non-Consolidated Statements of Operations	4
Non-Consolidated Statements of Shareholders' Equity	5
Notes to Non-Consolidated Financial Statements	6
A Brief History	7
Corporate Outline	8
Overseas Customers	9

# President's Message



Chairman Rikio Hoshino



President Hisayoshi Takeuchi

More than half a century has passed since the establishment of Nakayo as a telecommunications equipment manufacturer in 1944, and it has entered upon the 21st century.

Thanks to your support and encouragement, we have been able to remain stable in the face of the economic upheavals and occasional encounters with social unrest. Your loyalty and support have helped to make Nakayo the success that it is today.

We now have a bright future before us, thanks to such factors as; the expansion of computer networks, globalization of the telecommunications industry, plus further development in the telecommunications technology. We are constantly aware of our environment, and, take great pride in doing all that we can to ensure the preservation of it. At Nakayo, we believe that our social responsibilities are as important as our corporate responsibilities.

Over the generations, our guiding principles have remained unchanged. They are: 1. To be a public corporation; 2. To be receptive to global trends; 3. To be responsive to public demands.

With these goals in mind, we will adjust to the rapidly changing world and continue to work in the best interests of society.

But, for us to do our job, we depend upon your continued support and cooperation. We thank you for your past support and look forward to serving you for the future.

# Non-Consolidated Balance Sheets

At March 31, 2001 and 2000

	Yen (Millions)		U.S. dollars (Thousands)	
	2001	2000	2001	2000 (restated)
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	¥ 5,014	¥3,859	\$ 40,438	\$ 31,118
Short-term investments	-	3,521	-	28,392
Trade receivables:				
Notes	78	57	634	463
Accounts	4,445	5,115	35,846	41,252
Less allowance for doubtful accounts	(11)	(32)	(92)	(265)
Net receivables	4,512	5,140	36,388	41,450
Inventories:				
Finished goods	463	478	3,731	3,855
Raw materials and work in process	1,501	1,226	12,109	9,890
	1,964	1,704	15,840	13,745
Deferred taxes	195	188	1,575	1,521
Other assets	44	37	352	300
Total current assets	11,729	14,449	94,593	116,526
Property, plant and equipment:				
Land	1,034	1,034	8,339	8,339
Buildings and structures	3,306	3,286	26,662	26,496
Machinery and equipment	2,135	2,057	17,221	16,589
Automobiles and vehicles	25	24	198	196
Tools, furniture and fixtures	3,123	3,231	25,185	26,060
Construction in progress	27	13	221	103
	9,650	9,645	77,826	77,783
Less accumulated depreciation	(6,882)	(6,883)	(55,506)	(55,512)
Net property, plant and equipment	2,768	2,762	22,320	22,271
Investments and other assets:				
Investment securities	3,433	1,609	27,688	12,979
Guaranty deposit	39	35	318	279
Other assets	606	484	4,885	3,906
Total investment and other assets	4,078	2,128	32,891	17,164
Total	¥18,575	¥19,339	\$ 149,804	\$ 155,961

	Yen (Millions)		U.S. dollars (Thousands)	
	2001	2000	2001	2000 (restated)
<b>Liabilities and Shareholders' Equity</b>				
Current liabilities:				
Short-term bank loans	¥ 390	¥ 419	\$ 3,145	\$ 3,375
Trade payable:				
Notes	1,292	1,635	10,419	13,184
Accounts	1,878	1,887	15,144	15,221
Account payables other	771	754	6,219	6,084
Income taxes payable	14	13	113	101
Accrued expenses and other current liabilities	473	613	3,813	4,945
Total current liabilities	4,818	5,321	38,853	42,910
Long-term debts	-	-	-	-
Deferred taxes	37	11	301	93
Liabilities for severance payment	237	233	1,915	1,874
Shareholder's equity:				
Common stock:				
Authorized shares: 57,346,000 in 2001				
Shares issued: 23,974,816 in 2001	4,909	4,909	39,589	39,589
Capital surplus	4,521	4,521	36,458	36,458
Legal reserve	305	291	2,462	2,349
Retained earnings	3,536	4,053	28,514	32,688
Net unrealized gains on available-for-sale securities	212	-	1,712	-
Total shareholder's equity	13,483	13,774	108,753	111,084



# Non-Consolidated Statements of Shareholder's Equity

At March 31, 2001 and 2000

	Yen (Millions)		U.S. dollars (Thousands)	
	2001	2000	2001	2000 (restated)
<b>Common stock</b>				
Balance at beginning of the year	¥4,909	¥4,909	\$ 39,589	\$ 39,589
Common stock issued on conversion of bonds				
Balance at end of the year	<u>¥4,909</u>	<u>¥4,909</u>	<u>\$ 39,589</u>	<u>\$ 39,589</u>
<b>Capital surplus</b>				
Balance at beginning of the year	¥4,521	¥4,521	\$ 36,458	\$ 36,458
Common stock issued on conversion of bonds				
Balance at end of the year	<u>¥4,521</u>	<u>¥4,521</u>	<u>\$ 36,458</u>	<u>\$ 36,458</u>
<b>Legal reserve</b>				
Balance at beginning of the year	¥291	¥283	\$ 2,349	\$ 2,284
Transfer from retained earnings	14	8	113	65
Balance at end of the year	<u>¥305</u>	<u>¥291</u>	<u>\$ 2,462</u>	<u>\$ 2,349</u>
<b>Retained earnings</b>				
Balance at beginning of the year	¥4,053	¥3,567	\$ 32,688	\$ 28,769
Net income for the year	(363)	203	(2,933)	1,636
Cash dividends	(120)	(72)	(967)	(580)
Director's bonuses	(20)		(161)	
Cumulative effect of adopting deferred tax accounting		363		2,928
Transfer to legal reserve	(14)	(8)	(113)	(65)
Balance at end of the year	<u>¥3,536</u>	<u>¥4,053</u>	<u>\$ 28,514</u>	<u>\$ 32,688</u>
<b>Net unrealized gains on available-for-sale securities</b>				
Balance at beginning of the year	¥	¥	\$	\$
Net change during the year	212		1,712	
Balance at end of the year	<u>¥ 212</u>	<u>¥</u>	<u>\$ 1,712</u>	<u>\$</u>

# Notes to Non-Consolidated Financial Statements

At March 31, 2001 and 2000

## 1. Basis of Presenting Financial Statements

The accompanying financial statements of Nakayo Telecommunications Inc. have been prepared in accordance with accounting principles and practice generally accepted in Japan.

In preparing these statements, certain reclassification and rearrangement have been made to the financial statements prepared domestically in Japan in order to present these statements in a form which is more familiar to readers outside Japan. In addition, the accompanying notes include additional information which is not required under accounting principles and practices generally accepted in Japan.

The U.S. dollar amounts included herein are solely for the convenience of the readers outside Japan and have been translated from the Japanese yen amounts at the rate of ¥124=U.S.\$1, the approximate exchange rate on March 31, 2001.

## 2. Summary of Significant Accounting Policies

### (a) Inventory Valuation

Finished goods and work in process are stated at cost determined by the specific cost method. Raw materials are stated at cost determined by the average cost method.

### (b) Marketable Securities and Investment Securities

Securities designated as available-for-sale, whose fair values are readily determinable, are carried at fair value with unrealized gains or losses included as a component of shareholder's equity, net of applicable taxes. Costs are determined by the moving average method.

Securities whose fair values aren't readily determinable are carried at cost. Costs are determined by the moving average method.

### (c) Depreciation

Depreciation of property, plant and equipment is computed by the declining balance method over the estimated useful lives of the assets.

### (d) Provision for Doubtful Accounts

The provision for doubtful accounts is provided based on the rate of actual results of the past or the estimated amount of probable bad debts.

### (e) Income Taxes

Income taxes are provided on the basis of the amount payable as indicated in the tax return.

Tax effect for timing differences between tax and financial statements is not recorded.

### (f) Net Income per Share

Net Income per share is based on the weighted average number of shares of common stock outstanding during the respective years.

### (g) Liability for Severance payment

The company adopts a qualified retirement pension plan to replace the retirement payments previously provided under the employee retirement benefit plan.

The liability at March 31, 2001 comprises a reserve under Article 287-2 of the Commercial Code of ¥237 millions (\$1,915 thousands)

representing provisions for retirement payments for directors based on pertinent rules of the Company.

## 3. Assets pledged to secure bank loans

Pledged assets are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2001	2000	2001	2000
Marketable securities and investment in securities	¥46	¥147	\$368	\$1,193
Land	104	104	836	836
Property, plant and equipment	165	177	1,332	1,429
	¥315	¥428	\$2,536	\$3,458

## 4. Depreciation

Depreciation charges are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2001	2000	2001	2000
Manufacturing cost	¥387	¥389	\$3,123	\$3,136
Selling, general and administrative expenses	13	12	105	98
	¥400	¥401	\$3,228	\$3,234

## 5. Contingent Liabilities

Contingent liabilities are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2001	2000	2001	2000
Guarantees	¥775	¥810	\$6,250	\$6,532

## 6. Legal Reserve

The Commercial Code of Japan provides that an amount at least equal to 10% of the amount of cash dividends and directors' bonuses paid shall be appropriated as a legal reserve until such reserve equals 25% of capital stock. This reserve may be used to reduce a deficit or may be transferred to capital stock, but is not available for distribution as dividends.

## 7. Retained Earnings and Dividends

Dividends are approved by the shareholders at the meeting held subsequent to the fiscal year to which the dividend is applicable. In addition, a semi-annual interim dividend payment may be made by a resolution of the Board of Directors, subject to limitations imposed by the Commercial Code.

# A Brief History

- 1944** Established by Yoichiro Nakamura in Tokyo as a manufacturer of telephone components.
- 1948** Designated by the Ministry of Posts and Telecommunications as an official supplier of telephone components.
- 1956** Under technical guidance provided by Hitachi, Ltd., began production of wire broadcasting systems for use in rural areas.
- 1958** Deming Prize awarded.  
Production of T-4 transmitters and R-4 receivers for No.4 telephone sets began.
- 1963** Maebashi Plant, Gumma Prefecture, began operation with production of manual switchboards for Nippon Telegraph & Telephone Public Corporation.
- 1964** Type JN-4 decorative telephones exported to the U.S.A.
- 1965** R-3A receivers exported to the U.S.A.
- 1968** Under contract with Nippon Telegraph & Telephone Public Corporation, production of AR3 Rural Community Dial Exchange began.
- 1970** Mass production of Type 600 telephone sets began. Under contract with Nippon Telegraph & Telephone Public Corporation, production of CP-21 crossbar PABX began. Export to the U.S.A. of Type MB miniature relays began.
- 1972** NA-CP21 crossbar PABXs exported to the U.S.A.
- 1974** Three branch offices opened in Osaka, Hiroshima and Kumamoto.
- 1975** Two branch offices opened in Sendai and Sapporo.  
PABX NYC-3 and NYC-12 developed.
- 1976** Trunk package for Type D10 electronic exchange delivered to Nippon Telegraph & Telephone Public Corporation.
- 1977** NYC-3 and NYC-12 crossbar PABX systems exported to Lebanon.
- 1978** NAM-N301 MODEM delivered to Tokyo University. 80 units of NYC-5 crossbar PABX delivered to Kuwait PTT.
- 1980** Nakayo Singapore Office opened.
- 1981** Electronic key telephone systems marketed.
- 1982** ET-308 system launched in the U.S.A.
- 1984** Gumma Plant began operation with production of electronic key telephone systems.  
Capital increased to ¥4,909.07 million.
- 1985** Head Office moved to Shibuya, Tokyo.
- 1991** R & D AKITA LAB. opened.
- 1995** Listed as ISO9001 registered factory.
- 1998** Approved ISO14001 by Japan Audit And Certification Organization For Environment And Quality (JACO).
- 2000** Established HONG KONG NAKAYO CO., LTD. in HONG KONG.

# Corporate Outline

## NAKAYO TELECOMMUNICATIONS, INC.

President: Hisayoshi Takeuchi  
Capital: 4,909 million YEN  
Established: 1944  
Employees: 649

### Directors:

Rikio Hoshino	Chairman
Hisayoshi Takeuchi	President
Susumu Akiyama	Executive Director
Yoshifumi Uruga	Executive Director
Atsushi Yamamoto	Managing Director
Hazime Nakazawa	Managing Director
Syunsuke Nakagawa	Director
Kaoru Ishimaru	Director
Isao Hamada	Director
Tatsuro Matsumae	Director
Takao Kato	Director
Makoto Yamasaki	Auditor
Yasushi Kudoh	Auditor
Yutaka Kimura	Auditor
Hidemitsu Mukai	Auditor

**Head Office:** Tobu Fuji Bldg., 24-4, Sakuragaoka-cho, Shibuya-ku,  
Tokyo 150-0031, Japan  
Tel: (03) 3496-1151  
Facsimile: (03) 3496-2089

**Operation Headquarters:** Maebashi City, Gumma Prefecture  
(Maebashi Factory)

**Gumma Operation Center:** Maebashi City, Gumma Prefecture  
(Gumma Factory)

**Information Technology Laboratory:** Setagaya-ku, Tokyo

**Kitanihon Operation Center:** Noshiro City, Akita Prefecture

**West Japan Regional Headquarters:** Osaka City, Osaka Prefecture

## SUBSIDIARIES

**Nakayo Electronics Co., Ltd.,** Tokyo

Sales, installation and maintenance service

**Nakayo Engineering, Inc.,** Maebashi City, Gumma Prefecture

Packaging and Dispatching

**Heartech Co., Ltd.,** Tokyo

Sales, installation and maintenance service

**HONG KONG NAKAYO CO., LTD.**

Purchase

## PARTIAL LIST OF CLIENTS

Nippon Telegraph & Telephone

Nippon Telegraph & Telephone East Co., Ltd.

Nippon Telegraph & Telephone West Co., Ltd.

Hitachi, Ltd.

Japan Telecom Co., Ltd.

NTT FANET System Corporation

The Defense Agency

Ministry of Public Management, Home Affairs,

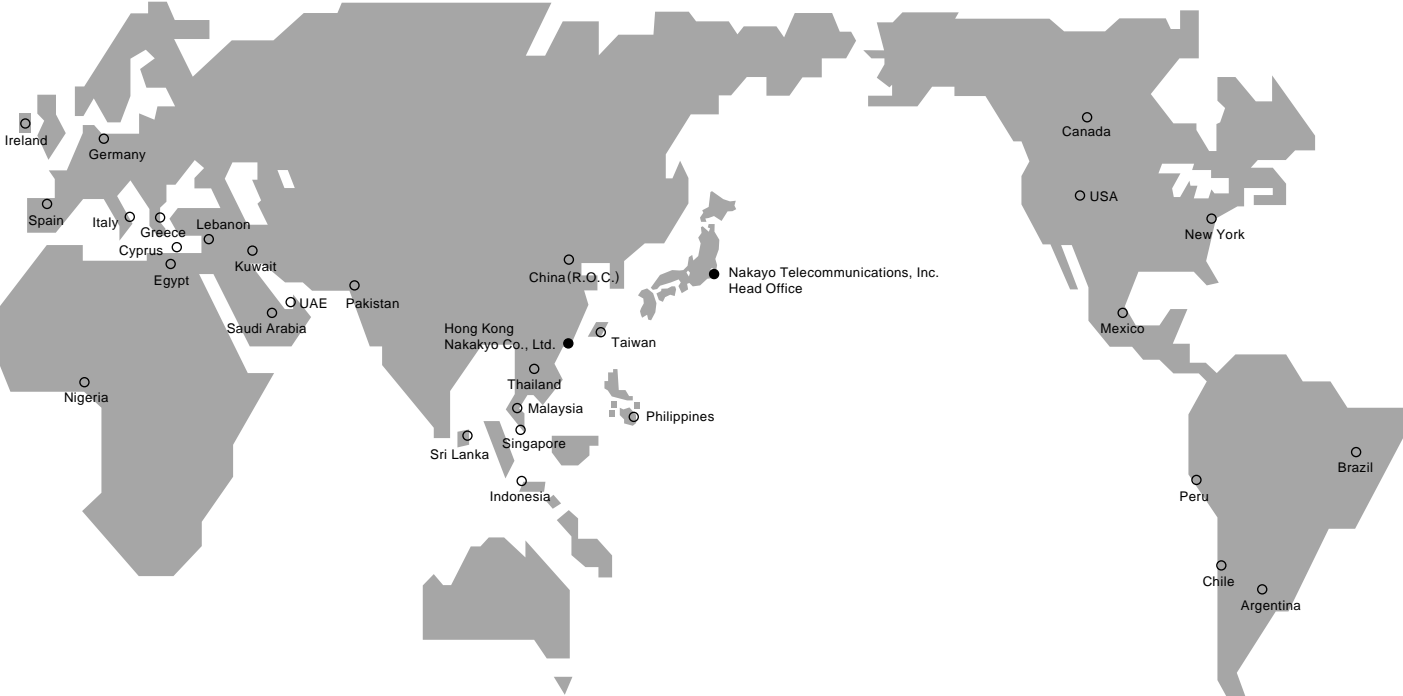
Posts and Telecommunications

Keiko Corp.

NEXTEL

Telefonica de España

# Overseas Customers



# **NAKAYO**

NAKAYO TELECOMMUNICATIONS, INC.

Head Office:

Tobu Fuji Bldg.

24-4, Sakuragaoka-cho, Shibuya-ku, Tokyo 150-0031, Japan

Tel: (03) 3496-1151

Facsimile: (03) 3496-2089

URL; <http://www.nyc.co.jp/>