

annual report
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NAKAYO

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President's Message



President
Susumu Akiyama

Chairman
Hisayoshi Takeuchi

The dream was of a time when information would be available to people anytime and anywhere. And people would be able to obtain any kind of information they wanted, anytime they wanted. They could then process the information and send it on to somewhere or someone else. The 21st century will turn this dream into reality. It will be a time when anyone will have the ability to organically utilize an extensive range of knowledge and information. Together with new developments in digitalization, broadband, and other telecommunication technologies, information networks have been advancing and globalization has been progressing at phenomenal speed, causing business styles to undergo a great many changes.

And now, we face matters of a global scale, such as the issues of natural resources and the environment, that must be addressed immediately. The social responsibilities of companies are becoming a much more important matter. But although we are in the midst of great changes, we at Nakayo have continuously maintained throughout our history an unwavering business philosophy. Our philosophy can be summarized as: (1) to be a part of the society, (2) to be receptive to global trends, and (3) to be responsive to public demands.

These guiding principles form the foundation of how we at Nakayo conduct our business activities as well as how we should fulfil our social responsibilities and earn the genuine satisfaction of our customers. And by providing a variety of attractive services together with our *nexus solutions*, a comprehensive integration of a wide range of highly creative and innovative cutting-edge technologies that only Nakayo is capable of creating, we are able to quickly and precisely meet the diverse needs of our customers.

Non-Consolidated Balance Sheets

At March 31, 2002 and 2001

	Yen (Millions)		U.S. dollars (Thousands)	
	2002	2001	2002	2001 (restated)
Assets				
Current assets:				
Cash and cash equivalents	¥ 5,316	¥5,014	\$ 40,277	\$ 37,987
Trade receivables:				
Notes	27	78	202	596
Accounts	3,569	4,445	27,035	33,673
Less allowance for doubtful accounts	(7)	(11)	(58)	(86)
Net receivables	3,589	4,512	27,179	34,183
Inventories:				
Finished goods	319	463	2,415	3,505
Raw materials and work in process	962	1,501	7,301	11,375
	1,281	1,964	9,716	14,880
Deferred taxes	73	195	549	1,479
Other assets	82	44	620	331
Total current assets	10,341	11,729	78,341	88,860
Property, plant and equipment:				
Land	1,034	1,034	7,834	7,834
Buildings and structures	3,114	3,306	23,592	25,046
Machinery and equipment	1,703	2,135	12,903	16,177
Automobiles and vehicles	25	25	188	188
Tools, furniture and fixtures	2,849	3,123	21,585	23,658
Construction in progress	48	27	362	207
	8,773	9,650	66,464	73,110
Less accumulated depreciation	(6,295)	(6,882)	(47,693)	(52,142)
Net property, plant and equipment	2,478	2,768	18,771	20,968
Investments and other assets:				
Investment securities	1,937	3,433	14,678	26,010
Guaranty deposit	28	39	219	299
Other assets	973	606	7,363	4,588
Total investment and other assets	2,938	4,078	22,260	30,897
Total	¥15,757	¥18,575	\$ 119,372	\$ 140,725

	Yen (Millions)		U.S. dollars (Thousands)	
	2002	2001	2002	2001 (restated)
Liabilities and Shareholders' Equity				
Current liabilities:				
Short-term bank loans	¥ 380	¥ 390	\$ 2,879	\$ 2,955
Trade payable:				
Notes	1,221	1,292	9,248	9,788
Accounts	1,102	1,878	8,352	14,226
Account payables other	421	771	3,190	5,842
Income taxes payable	14	14	106	106
Accrued expenses and other current liabilities	385	473	2,913	3,581
Total current liabilities	3,523	4,818	26,688	36,498
Long-term debts	-	-	-	-
Deferred taxes	17	37	131	283
Liabilities for severance payment	246	237	1,864	1,799
Shareholder's equity:				
Common stock:				
Authorized shares: 57,346,000 in 2002				
Shares issued: 23,974,816 in 2002	4,909	4,909	37,190	37,190
Capital surplus	4,521	4,521	34,249	34,249
Legal reserve	305	305	2,312	2,312
Retained earnings	2,108	3,536	15,967	26,786
Net unrealized gains on available-for-sale securities	129	212	984	1,608
Treasury stock	(1)		(13)	
Total shareholder's equity	11,971	13,483	90,689	102,145

Non-Consolidated Statements of Shareholder's Equity

At March 31, 2002 and 2001

	Yen (Millions)		U.S. dollars (Thousands)	
	2002	2001	2002	2001 (restated)
Common stock				
Balance at beginning of the year	¥4,909	¥4,909	\$ 37,190	\$ 37,190
Common stock issued on conversion of bonds				
Balance at end of the year	<u>¥4,909</u>	<u>¥4,909</u>	<u>\$ 37,190</u>	<u>\$ 37,190</u>
Capital surplus				
Balance at beginning of the year	¥4,521	¥4,521	\$ 34,249	\$ 34,249
Common stock issued on conversion of bonds				
Balance at end of the year	<u>¥4,521</u>	<u>¥4,521</u>	<u>\$ 34,249</u>	<u>\$ 34,249</u>
Legal reserve				
Balance at beginning of the year	¥305	¥291	\$ 2,312	\$ 2,206
Transfer from retained earnings		14		106
Balance at end of the year	<u>¥305</u>	<u>¥305</u>	<u>\$ 2,312</u>	<u>\$ 2,312</u>
Retained earnings				
Balance at beginning of the year	¥3,536	¥4,053	\$ 26,786	\$ 30,708
Net income for the year	(1,428)	(363)	(10,819)	(2,755)
Cash dividends		(120)		(909)
Director's bonuses		(20)		(152)
Transfer to legal reserve		(14)		(106)
Balance at end of the year	<u>¥2,108</u>	<u>¥3,536</u>	<u>\$ 15,967</u>	<u>\$ 26,786</u>
Net unrealized gains on available-for-sale securities				
Balance at beginning of the year	¥ 212	¥	\$ 1,608	\$
Net change during the year	(83)	212	(624)	1,608
Balance at end of the year	<u>¥ 129</u>	<u>¥ 212</u>	<u>\$ 984</u>	<u>\$ 1,608</u>

Notes to Non-Consolidated Financial Statements

At March 31, 2002 and 2001

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 ¥132=U.S.\$1, the approximate exchange rate on March 31, 2002.

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, 2002 comprises a reserve under Article 287-2 of the Commercial Code of ¥246 millions (\$1,864 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	
	2002	2001	2002	2001
Marketable securities and investment in securities	¥27	¥46	\$205	\$348
Land	24	104	182	788
Property, plant and equipment	32	165	242	1,250
	¥83	¥315	\$629	\$2,386

4. Depreciation

Depreciation charges are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2002	2001	2002	2001
Manufacturing cost	¥392	¥387	\$2,971	\$2,932
Selling, general and administrative expenses	12	13	88	98
	¥404	¥400	\$3,059	\$3,030

5. Contingent Liabilities

Contingent liabilities are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2002	2001	2002	2001
Guarantees	¥665	¥775	\$5,038	\$5,871

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 capital surplus and 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: Susumu Akiyama
Capital: 4,909 million YEN
Established: 1944
Employees: 487

Director / Auditor

Chairman	Hisayoshi Takeuchi
President (CEO)	Susumu Akiyama
Executive Director	Yoshihumi Uruga
General Adviser	Rikio Hoshino
Director	Tatsuro Matsumae
Director	Kazuo Furukawa
Standing Auditor	Makoto Yamasaki
Auditor	Yutaka Kimura
Auditor	Yasushi Kudo
Auditor	Hidemitsu Mukai

Corporate officer

Executive managing director	Syunsuke Nakagawa
Executive managing director	Sadao Iijima
Executive managing director	Kaoru Ishimaru
Corporate officer	Yoshikazu Mayuzumi
Corporate officer	Kouichi Ueno

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.

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