

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 21<sup>st</sup> 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, 2003 and 2002

	Yen (Millions)		U.S. dollars (Thousands)	
	2003	2002	2003	2002 (restated)
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	¥ 7,014	¥5,316	\$ 58,352	\$ 44,231
Trade receivables:				
Notes	10	27	83	222
Accounts	3,871	3,569	32,203	29,689
Less allowance for doubtful accounts	(109)	(7)	(907)	(63)
Net receivables	3,772	3,589	31,379	29,848
Inventories:				
Finished goods	266	319	2,213	2,652
Raw materials and work in process	793	962	6,601	8,017
	1,059	1,281	8,814	10,669
Deferred taxes	180	73	1,501	603
Other assets	112	82	931	681
Total current assets	12,137	10,341	100,977	86,032
Property, plant and equipment: ( Note 3 )				
Land ( Note 3 )	1,211	1,034	10,077	8,603
Buildings and structures	3,154	3,114	26,242	25,909
Machinery and equipment	1,595	1,703	13,271	14,170
Automobiles and vehicles	24	25	199	206
Tools, furniture and fixtures	2,714	2,849	22,575	23,704
Construction in progress	10	48	85	397
	8,708	8,773	72,449	72,989
Less accumulated depreciation	(6,211)	(6,295)	(51,677)	(52,375)
Net property, plant and equipment	2,497	2,478	20,772	20,614
Investments and other assets:				
Investment securities ( Note 3 )	972	1,937	8,083	16,118
Guaranty deposit	18	28	153	241
Other assets	439	973	3,649	8,085
Total investment and other assets	1,429	2,938	11,885	24,444
Total	¥16,063	¥15,757	\$ 133,634	\$ 131,090

	Yen (Millions)		U.S. dollars (Thousands)	
	2003	2002	2003	2002 (restated)
<b>Liabilities and Shareholders' Equity</b>				
Current liabilities:				
Short-term bank loans	¥ 370	¥ 380	\$ 3,078	\$ 3,161
Trade payable:				
Notes	1,062	1,221	8,839	10,156
Accounts	1,164	1,102	9,687	9,171
Account payables other	758	421	6,304	3,495
Income taxes payable	14	14	114	116
Accrued expenses and other current liabilities	378	385	3,144	3,209
Total current liabilities	<u>3,746</u>	<u>3,523</u>	<u>31,166</u>	<u>29,308</u>
Long-term liabilities				
Deferred taxes	77	17	642	144
Liabilities for severance payment	176	246	1,463	2,047
Deposits received for guarantees	1	-	3	-
Total long-term liabilities	<u>254</u>	<u>263</u>	<u>2,108</u>	<u>2,191</u>
Shareholder's equity:				
Common stock:				
Authorized shares: 57,346,000 in 2003				
Shares issued: 23,974,816 in 2003	4,909	4,909	40,841	40,841
Capital surplus	1,021	4,521	8,493	37,611
Other capital	3,500	-	29,118	-
Legal reserve (Note 6)	305	305	2,539	2,539
Retained earnings (Note 7)	2,396	2,108	19,935	17,534
Net unrealized gains on available-for-sale securities	128	129	1,064	1,080
Treasury stock	(196)	(1)	(1,630)	(14)
Total shareholder's equity	<u>12,063</u>	<u>11,971</u>	<u>100,360</u>	<u>99,591</u>
Total	¥ <u>16,063</u>	¥ <u>15,757</u>	\$ <u>133,634</u>	\$ <u>131,090</u>



# Non-Consolidated Statements of Shareholder's Equity

At March 31, 2003 and 2002

	Yen (Millions)		U.S. dollars (Thousands)	
	2003	2002	2003	2002 (restated)
<b>Common stock</b>				
Balance at beginning of the year	¥4,909	¥4,909	\$ 40,841	\$ 40,841
Common stock issued on conversion of bonds				
Balance at end of the year	¥4,909	¥4,909	\$ 40,841	\$ 40,841
<b>Capital surplus</b>				
Balance at beginning of the year	¥4,521	¥4,521	\$ 37,611	\$ 37,611
Transfer to other capital	(3,500)		(29,118)	
Balance at end of the year	¥1,021	¥4,521	\$ 8,493	\$ 37,611
<b>Other capital</b>				
Balance at beginning of the year	¥	¥	\$	\$
Transfer Brow capital surplus	3,500		29,118	
Balance at end of the year	¥3,500	¥	\$ 29,118	\$
<b>Legal reserve</b>				
Balance at beginning of the year	¥305	¥305	\$ 2,539	\$ 2,539
Transfer from retained earnings				
Balance at end of the year	¥305	¥305	\$ 2,539	\$ 2,539
<b>Retained earnings</b>				
Balance at beginning of the year	¥2,108	¥3,536	\$ 17,534	\$ 29,415
Net income for the year	360	(1,428)	2,999	(11,881)
Cash dividends	(72)		(598)	
Director's bonuses				
Transfer to legal reserve				
Balance at end of the year	¥2,396	¥2,108	\$ 19,935	\$ 17,534
<b>Net unrealized gains on available-for-sale securities</b>				
Balance at beginning of the year	¥ 129	¥ 212	\$ 1,080	\$ 1,766
Net change during the year	(1)	(83)	(16)	(686)
Balance at end of the year	¥ 128	¥ 129	\$ 1,064	\$ 1,080

# Notes to Non-Consolidated Financial Statements

At March 31, 2003 and 2002

## 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 ¥120=U.S.\$1, the approximate exchange rate on March 31, 2003.

## 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

The Company provides for income taxes applicable to all items included in the financial statements of operations regardless of when such taxes are payable. Income taxes arising from temporary differences in the recognition of assets and liabilities for tax and financial reporting purposes are reflected as deferred income taxes in the financial statements by the asset and liability method.

Deferred tax assets and liabilities were measured using the enacted tax rates which will be in effect when the temporary differences are expected to reverse.

### (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, 2003 comprises a reserve under Article 287-2 of the Commercial Code of ¥175 millions (\$1,463 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	
	2003	2002	2003	2002
Marketable securities and investment in securities	¥	¥27	\$	\$226
Land	24	24	202	203
Property, plant and equipment	31	32	254	270
	¥55	¥83	\$456	\$699

## 4. Depreciation

Depreciation charges are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Manufacturing cost	¥322	¥392	\$2,682	\$3,263
Selling, general and administrative expenses	10	12	83	96
	¥332	¥404	\$2,765	\$3,359

## 5. Contingent Liabilities

Contingent liabilities are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Guarantees	¥294	¥665	\$2,445	\$5,532

## 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 legal reserve until the total of legal reserve and capital surplus account equals 25% of the common stock account. This reserve may be used to reduce a deficit or may be transferred to capital stock, but if the total amount of capital surplus and legal reserve exceeds 25% of the amount of common stock, the excess may be distributed to the shareholders either as a return of capital or as dividends subject to the approval of the shareholders.

## 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.

# 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: 449

### Director / Auditor

Chairman	Hisayoshi Takeuchi
President (CEO)	Susumu Akiyama
Executive Director	Yoshihumi Uruga
General Adviser	Rikio Hoshino
Director	Tatsuro Matsumae
Director	Tetsuo Takemura
Standing Auditor	Makoto Yamasaki
Standing Auditor	Hazime Nakazawa
Auditor	Yutaka Kimura
Auditor	Yasushi Kudo

### 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.

Hitachi Communication Technologies, Ltd.

NTT Communications Corporation

NTT FANET System Corporation

NTT CHUO TELECONNET CO., LTD

The Defense Agency

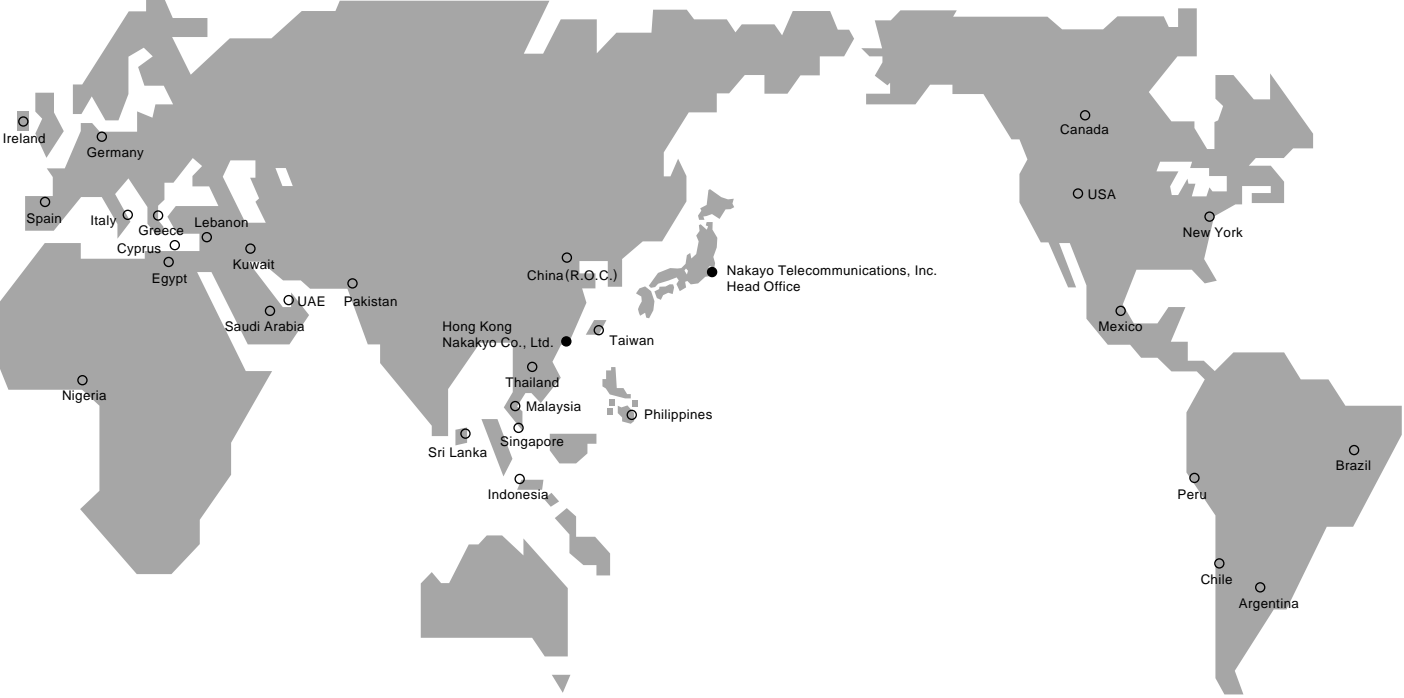
Japan Telecom Co., Ltd.

Keiko Corporation

NEXTEL

Telefonica de España

# Overseas Customers



# **NAKAYO**

NAKAYO TELECOMMUNICATIONS, INC.

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