

C  B I R D

***The Best partner
for mobile Internet***

Annual Report 2001

**How much do you
know about Japan's mobile
Internet market ?**

**A mobile phone is just a convenient,
portable telephone.**

Untrue

The birth of Internet-enabled mobile phones was a revolutionary turning point for Japan's mobile phone market. Internet accessibility enabled users to view Web contents and use banking services on the Web via mobile phones. In the roughly two years since the launch, the sales volume of such mobile phones has surpassed 40 million units, and is still increasing at a pace of two million per month. No other form of media can outstrip Internet-enabled mobile phones in convenience and versatility. These qualities make it the user-friendly network infrastructure device for individuals.

**Does the mobile phone
work for business?**

Yes

Internet-enabled mobile phones are ideal for personally customized marketing. In addition to the supply of information via the Internet, mobile phones are being increasingly used for business transactions via the Web with the successive entry of major players in the wholesaling, retailing, mail-order and other service industries. When next-generation models are equipped with terminal authentication and electronic money functions, the range of mobile Internet business will experience explosive expansion.

Unlike computers, mobile phones may be able to offer only a limited number of features.

Untrue

Would you believe a mobile phone could serve as a remote controller and an “electronic wallet” in the future? Next-generation (3-G) models will feature sophisticated functions comparable to those of current personal computers, including full-motion video. What’s more, the mobile phone makes it easier to introduce fee-based content, (see p.8-9). This is an important advantage for increasing market penetration. The mobile phone is evolving into the ultimate tool for private and business use.

Is Japan’s mobile Internet service available overseas?

Yes

The mobile Internet is the most promising area to become accepted internationally. Mobile Internet services outside Japan have just begun, but Japan, with its leading technologies and expertise, is well positioned to lead the mobile business worldwide. Via alliances with foreign companies, various methods to tap into promising markets — China, South Korea, and other countries in Asia, Europe and North America — are being carefully examined for both risk and profit potential.

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President & CEO

Kazutomo Robert Hori

Cybird is “one of the prime movers in the mobile Internet industry.”

Beyond providing content, we intend to offer the best mobile business solutions for clients in various industries.

We hope this annual report will be useful in introducing you to Cybird’s highly promising range of future-oriented businesses.

A white handwritten signature on a dark grey background, appearing to be a stylized name.

Your most reliable partner for mobile Internet business

Mobile phones are already an essential part of our personal and business lives



corporate intranets and the mobile Internet are interfaced, will also expand rapidly. Many corporations view the emerging mobile Internet as a huge business infrastructure. This trend offers enormous opportunities for Cybird, which supplies contents and mobile business solutions, helping corporations with planning, developing, and operating their information and e-commerce sites (mobile commerce) ahead of their competitors. With the onset of full-motion video and electronic banking services and the integration of personal authentication functions into high-speed and high-capacity portable handsets, Internet-enabled mobile phones will evolve into the ultimate tool for private and business use. I believe you can now see the great growth potential of our mobile Internet business.

*1Source: Allied Business Intelligence

*2Market=Electronic commerce via the mobile Internet

Q1:

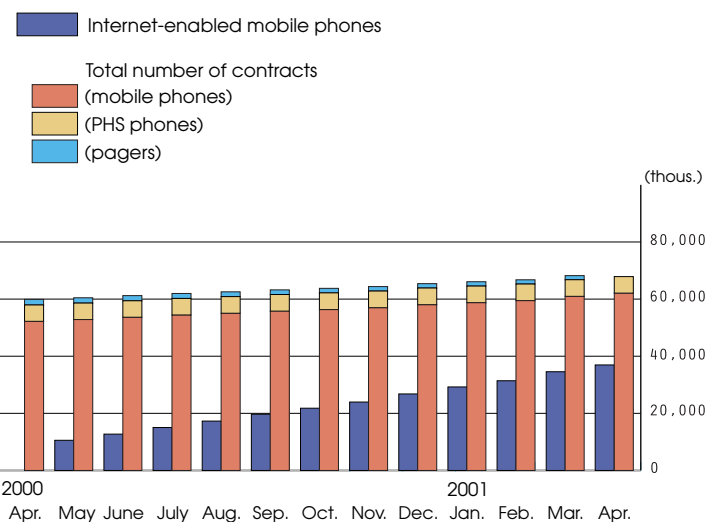
First, please outline the current status and potential of the mobile Internet business, Cybird's core operational base.

Please look at the graph on this page. The use of Internet-enabled mobile phones has spread throughout the country at an explosive pace. Globally, Internet-enabled mobile phones are forecast to become phenomenally popular, accounting for about 80% of total mobile phone shipments by 2006.*1

According to a survey by the Ministry of Economy, Trade and Industry (formerly MITI), the market for the consumer-oriented mobile commerce business*2 in Japan, including the supply of fee-based content, is estimated to reach ¥59 billion in 2000 and to expand to ¥2,450 billion in 2005. In the near future, the scale of the business-to-business (BtoB) and business-to-business-to-consumer (BtoBtoC) markets, through which

Monthly Breakdown of Domestic Subscribers in Fiscal 2000

(aggregate number of contracts at month-end)



Source: Telecommunications Carriers Association survey

Cybird's strengths

Q2:

Could you describe your strengths in the mobile Internet market?

Cybird's greatest strength is its advantageous position in advanced technologies and expertise in optimized site creation accumulated from the tailoring of mobile Internet businesses, including the supply of contents and mobile business solutions. As we were an early-stage player in the mobile Internet business and outpaced our competitors even before Internet-enabled mobile phones became available in 1999, our foresight and performance are highly appreciated in Japan and overseas. For example, domestic wireless network operators such as NTT DoCoMo, J-Phone and KDDI have adopted Cybird-supplied contents for their Official Menus.*³

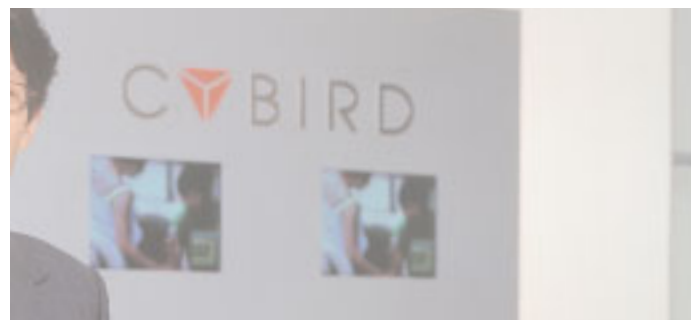
In the field of mobile business solutions, we plan, consult, develop and operate client corporations' mobile commerce, in cooperation with Hitachi Software Engineering and other partners. Our solid performance in this area is attributable to the swift supply of optimal business solutions for our respective clients.

K Laboratory Co., Ltd., our consolidated subsidiary, focuses on the research, development and licensing of software for mobile Internet uses and mobile phone software platforms. The Company has established core competence as a prime mover in the supply of expertise and advantageous technologies such as Java™ applications*⁴ for mobile phones.

The Company's sophisticated technical position and excellent performance have served to solidify our credibility among clients, becoming a foundation for building close partnerships with leading foreign and domestic contents holders and major companies in diverse industries.

*³As of June 30, 2001, Cybird's contents had been adopted by 62 official sites operated by wireless network operators.

*⁴An innovative programming language for networks developed by Sun Microsystems, Inc., it enables the running of software via the Internet, regardless of computer type or operating system.



Cybird Group Business Areas

Mobile Contents

We provide community, information, utility, and entertainment contents, accessible via Internet-enabled mobile phones.

Mobile Business Solutions

We undertake, for clients, or in partnership with clients, consulting, planning, development and operation of client mobile commerce.

International Business

We provide business solutions, consultancy, and contents to wireless network operators and leading companies.

Technology-related business

- We develop mobile applications for companies and provide them with licensing
- Consulting
- Platform development business
- Sales of packaged products like load-testing tools for Web servers

Moving into the black on the path to growth

Q3:

Please comment on the financial performance for fiscal 2000, ended March 31, 2001, and the prospects of moving into the black.

Cybird achieved a remarkable performance during the term, and we foresee the full-fledged expansion of our business in the future. Consolidated net sales rose to around ¥2.9 billion (US\$23 million), approximately seven times higher than the previous year figure of ¥421 million. A net loss of ¥1,379 million (US\$11 million) was recorded, reflecting overzealous investment to upgrade the business foundation in the first half of the term as well as expenses related to the public listing of the Company's stock in December 2000. In the second half, however, profitability improved considerably due to reduced expenses resulting from improved operational efficiency.

By business segment, net sales of the mainstay contents business skyrocketed from ¥388 million in the previous term to ¥2,322 million (US\$19 million). The number of subscribers ballooned to 2,280,000*5 by March 31, 2001, compared with 120,000 a year before. Sales of mobile business solutions for corporations, including mobile Internet-based teleshopping, jumped from only ¥32 million the

previous year to ¥553 million (US\$4.5 million) for the term under review, accounting for 19.1% of consolidated net sales. We received orders for mobile content development and system operations from leading companies in such industries as retailing, mail-order, and travel. Net sales of the subsidiary K Laboratory totaled ¥78 million, and net sales from Cybird were ¥54 million.

Operating results almost met the targets. Net sales relative to total expenses approached break-even in the fourth quarter (January-March 2001). We will now focus on upgrading our earnings capability and expanding and reinforcing each area of business.

*This figure includes free subscriptions. These subscriptions provide valuable data for potential fee-based subscribers and the Company's future business development.

Immediate target of ¥10 billion in net sales

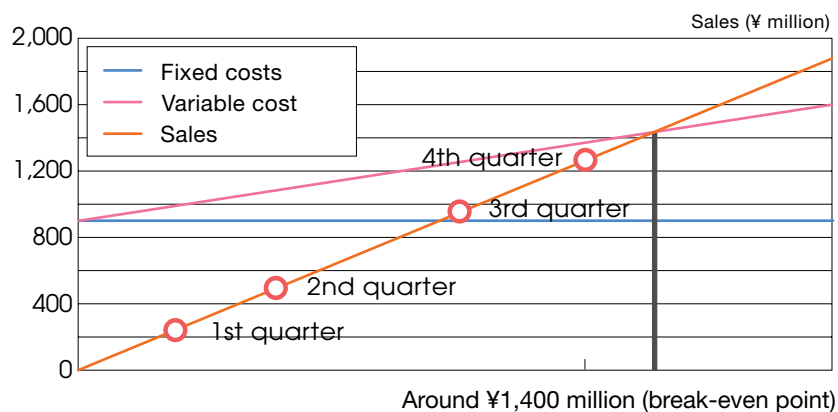
Q4:

What is your projection for the future of mobile business, and what is your medium-term vision?

Cybird's business strategy is to have four core business segments — mobile contents, mobile business solutions, international business and technology-related business — to create an

Break-Even Point Analysis (based on Q4 financial data)

The break-even point for the fourth quarter was roughly ¥1,400 million. Net sales for the quarter were ¥1,255 million.



innovative business scheme with competitive advantages.

In the mobile contents business, we aim to increase the quantity of good contents and strengthen our earnings power through cost reductions in development and operations. We will enhance our competitiveness by forming alliances with influential contents holders.

In the area of mobile business solutions, we intend to improve profitability by providing modified package software to new clients and marketing support services and version upgrades to existing clients. We will also implement revenue sharing with existing clients' mobile commerce businesses and offer consulting to leading companies concerned with mobile business.

In the area of international business, we established the International Business Division in February 2001 to study and ensure the correct market entry timing. We are surveying ways to make the best use of our domestic experience and expertise in the overseas market.

During the current term, in addition to reinforcing our local affiliate, CYBIRD KOREA Co., Ltd., which was founded in August 2000, we will work to establish the basis for scalable business deployment in Asia and Europe, in particular, as well as take advantage of synergies with domestic businesses. In our fourth area of focus, technology-related business, K Laboratory conducts research, development, licensing and consulting concerning software modification for mobile Internet use and software platforms customization for mobile phones. Moreover, Cybird intends to secure a firm technological advantage and improve profitability by merchandising operational expertise and other services.

Cybird aims to put these four pillars of its business on a firm footing at an early stage to transform itself from a mere contents supplier into a pioneer in providing broader mobile Internet services. To that end, we have set a medium-term net sales target of ¥10 billion.

Maximizing shareholder profit

Q5:

Finally, please describe your management priorities and give a message to the shareholders.

In our fast-moving and volatile operating environment, we need quick, precise judgments and decision-making to promote profitability-focused management. We will use ROE as a key business indicator of shareholder interests. Furthermore, we will consider the introduction of long-term economic value-added (EVA®)*6 growth, and by improving these indicators, promote shareholder profits.

Our vision is to become the best partner for mobile phone subscribers and corporations in the mobile Internet business.

Cybird is positioned at the forefront of the mobile Internet market, having contributed to the opening of the market in its earliest days. We will soon move ahead in creating diverse business models to further corporate growth based on the Company's core business areas: the increasingly profitable contents business, the rapidly expanding mobile business solutions field, the promising technology-related business, with anticipated market expansion, and the emerging international business. We look forward to your continued favor and support in the future growth of Cybird.

*Economic Value Added: A business indicator, devised by the U.S. corporation Stern Stewart indicating operating profit after income taxes minus capital costs. Many corporations have adopted this new indicator as it focuses on shareholder value. EVA® is Stern Stewart's registered trademark.

Business Model

We are pursuing higher-value-added businesses through a reliable fee collection system and by expanding business solutions for client corporations.

Look at the chart that shows the business model for our Group. The mobile contents business employs an established fee collection system handled for the Company by wireless network operators. In the mobile business solutions and technology-related businesses, we aim to avert risk and increase profit through transactions with leading companies in the respective industries.

Mobile contents business

Stable and profitable income, ensured by a subscription fee collection system handled by wireless network operators.

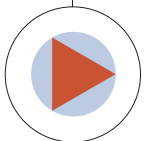
Contents providers do not collect fees directly from users. Wireless network operators handle this service. Fee collection for pay-per-use systems is something that, until now, has been difficult on the PC Internet. All Cybird-supplied contents are the “official contents” of the respective wireless network operators.

- 1 Because the wireless network operators can handle small fee payment with the pay-per-use system, sales will expand in line with an increase in subscribers, even if the per capita fee is small.
- 2 We intend to upgrade user-oriented contents, especially through close alliances with leading contents holders.

Genesis of a New Business

Kazutomo Robert Hori and Yosuke Iwai, the founders of Cybird, set out to supply Internet PC users with information on matters such as Web events. Although their numbers soared daily, users accessed only free information due to the lack of an effective billing and fee collection system. In addition, the huge system investment brought strong pressure on management.

One day, they asked themselves: “Isn’t it possible to do something more with mobile phones? How would it be if we could use them to access the Internet?” They were heavy users of mobile phones, and they began to consider the combination of mobile phones and the Internet. “Although mobile phones have small screens, they have greater market penetration than PCs. If wireless network operators could ensure the collection of fees from subscribers, the new business should work well!” They were confident enough to propose their idea to wireless network operators. NTT DoCoMo was very impressed by their persistent marketing efforts and foresight and adopted Cybird’s contents for its “Official Menu” when it inaugurated the i-mode services in February 1999. Cybird was reborn as a company that specializes in the mobile Internet business.



Mobile business solutions

Stable profits ensured through mobile content development and operations

We supply services available via Internet-enabled mobile phones to enhance the corporate value of client corporations. To cater to client needs, we handle consulting, planning, development and operation of client sites. This business model is attractive because it ensures stable profits, and scalability is derived from the application of existing services to other companies.

- 1 We receive contractual fees for consulting, planning and developing client sites and monthly fees for operational expenses after the fact.
- 2 We receive consignment fees for mobile content development and/or operations, as well as a portion of the revenue at mobile commerce sites, in some cases.
- 3 We focus on high-value-added business that ensures high profitability, such as upgrading clients' existing systems and developing package products widely applicable to other clients.

Technology-related business

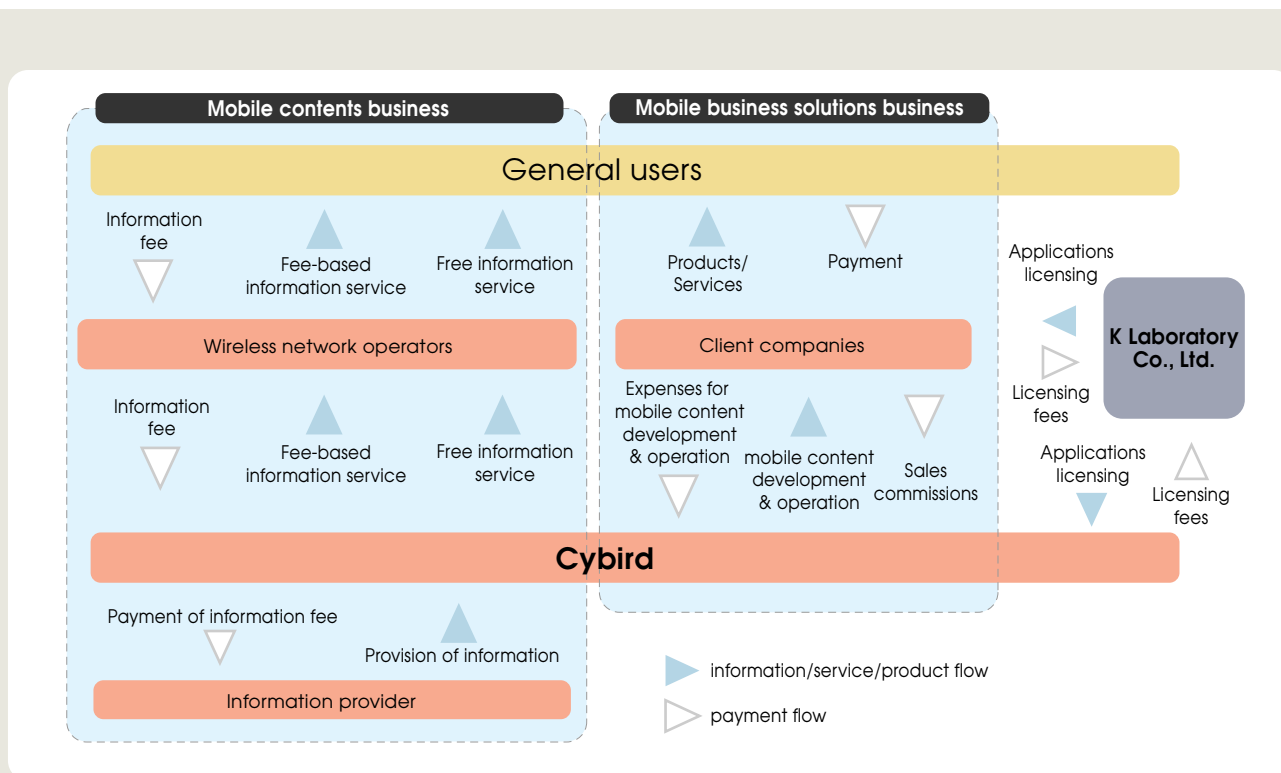
Software development and licensing exclusively for Internet-enabled mobile phones

Cybird engages mainly in the server-side of technology development. We offer sales of products like load-testing tools for Web servers.

Our subsidiary, K Laboratory, specializes in the research, development and licensing of client-side software for Internet-enabled mobile phones. Its major clients are wireless network operators, mobile phone manufactures, and other application-based service or information providers.

K Laboratory specializes in:

- receiving development fees and technical licensing fees for mobile phone applications. For example, we supply wireless network operators with Java™ applications for mobile phones.
- focusing on the platform business to offer software development and consulting for mobile Internet-related companies, including wireless network operators and handset manufacturers.



Technology

The Company focus is on research and development optimization technologies for state-of-the-art mobile phones in anticipation of new communications technologies.

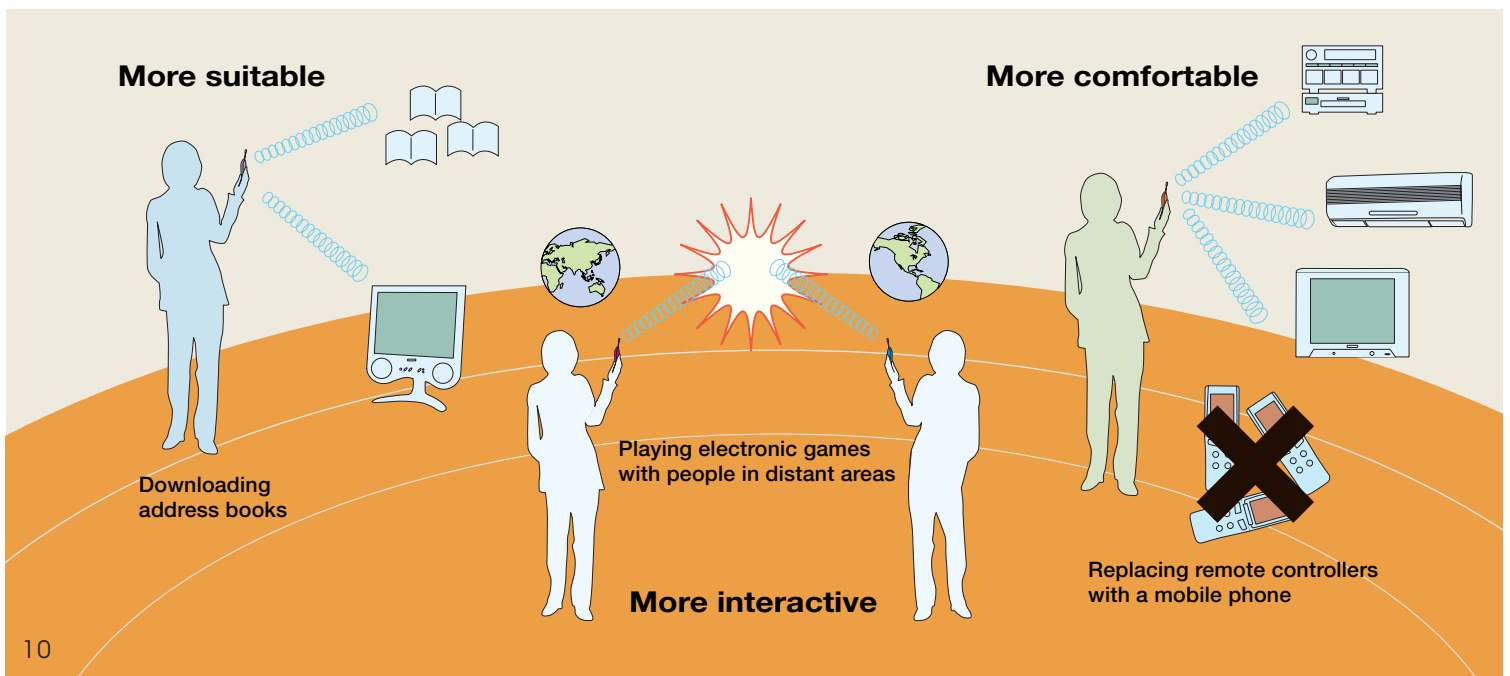
Initially, the sole feature of mobile phones was portability. Second-generation mobile phones allowed the transmission of data such as e-mail, and the phone thus evolved into an information handset that could interface directly with the Internet. Now, users can download necessary applications from the Internet to their handsets. Mobile phones will continue to evolve, not merely as communications devices but as multipurpose communications tools for the storage and use of all kinds of information. The Cybird Group will continue to promote research and development at each stage, to optimize new technologies for the mobile Internet, and to maintain its pioneer advantage over competitors.

Technical cooperation with wireless network operators, from the development stage

Cybird has been active in providing technical information and solutions to wireless network operators and handset manufacturers from the early stages before the explosive popularity of mobile Internet services. Supplying contents is no easy task, as domestic wireless network operators use different communications methods, page mark-up languages and imaging formats. We are therefore using optimization technology to ensure stable contents operation on a variety of platforms.

High-level expertise and technology is increasingly required for mobile Internet services. Since an improved telecommunications infrastructure — including faster communications and sophisticated high-performance handsets — has been established, demand has been increasing for new technologies such as full-motion video, networking technologies and authentication technologies for enhanced security.

Cybird established K Laboratory Co., Ltd. in August 2000 with the aim of building on the Company's accumulated technical expertise and applying this to handsets and embedded technologies. K Laboratory has already proven its excellence by developing and supplying several Java™ applications for client corporations. The Cybird Group will be at the forefront in developing promising new technologies to realize the potential of the mobile Internet as part of the new industrial revolution in our increasingly sophisticated information society.



Review of Operations

Welcome to the world of the mobile Internet

Growth in mobile and PHS phone subscribers

Evolution of mobile phone services from "communications" to "multimedia"
 Browser capability
 Internet enabling

All mobile telecommunications companies Internet-enabled

From mobile phones to mobile computing

Nov. 1999

Cybird starts screen saver downloading service

June 2000

Cybird starts first ring tone downloading service

Feb. 2000
56.85 million
 Mobile / PHS phone subscribers exceed ordinary phone subscribers for the first time

Aug. 2000
60.87 million
 Number of subscribers exceeds 10 million for i-mode and 3 million for EZweb

Dec. 2000
63.88 million
 DDI Pocket Feel H™ service starts (now, KDDI)

Jan. 2001
64.56 million
 NTT DoCoMo i-appli service starts
 503i phones go on sale

Apr. 2001
67.87 million
 Number of J-Phone subscribers exceeds 10 million

Apr. 1999
48.25 million
 EZweb and EZaccess service starts

Feb. 1999
46.28 million
 i-mode service inception

Dec. 1999
54.10 million
 J-Sky service starts

Feb. 2000

Cybird provides mobile commerce contents for the i-mode service.

1999

2000

2001

Communication

- E-mail

Information

- Contents
- Advertisements
- Personal Information Management (PIM)
- Community / matching services

Transaction

- Electronic account settlements, electronic money
- Banking / stock transactions
- Music / video sales
- Product sales, auctions

(Note) The names of mobile telecommunications services and their Internet-enabled services:
 i-mode : NTT DoCoMo, i-appli : Java™ application for i-mode (503i : first Java-capable phones),
 EZweb and EZaccess : former DDI Cellular / IDO and cdmaOne (now, AU by KDDI), J-Sky : J-Phone, Feel H™ (edge) : DDI Pocket

Mobile contents business

Information



Wave Legend

Cybird's most famous site, offering weather, wave and wind information for surfers. Provides information about 200 domestic surf spots and 34 overseas spots as well as shop, tour and competition information.



CoolSound

Most ring tone services so far have provided Japanese and western hit songs, but CoolSound offers Cybird's original music for ring tone melodies. You can download the melodies, which will distinguish you from others with their uniqueness. This is the first service of its kind in Japan.



Zenrin Mobile Map

Unlike other map information services, Zenrin Mobile Map helps you recognize even the shapes of the buildings, so you can tell where you are and where you want to go. Because convenience stores, banks, and other buildings are shown on the display as landmarks, you can easily find your exact location. More than 100,000 maps, covering restaurants, leisure facilities and public facilities all over Japan, are available on your small mobile phone. With the i-appli version, you can scroll, enlarge and reduce the size of the map easily.



Wine Shop ENOTECA

Mobile commerce site where you can search for and purchase your favorite wine anytime, anywhere. This site also serves as a wine guidebook. You can buy presents for your friends and can send e-mail to recommend your favorite brand.



Screen Savers!

©Hearst Holdings, Inc.

Provides wallpaper images for mobile phone displays. Images include popular characters from TV series and movies, such as "Heidi", "Betty Boop", "X-Men", "Lamb Chop", "Spawn", "Hell Boy", "Harvey Comic Classics", "Mutts", "Popeye", "Tintin" and "Casper". You can download 30 sets of these characters per month.



Robo☆Robo

A communication game, "Robo☆Robo" where you can journey through a wonderland together with intelligent creatures. Enjoy surprising and humorous conversation with these creatures, who will lead you to a more exciting world.

Communication



Prinnet

This service enables you to send photos with e-mail. You can also save the photos on 'Prinnet' server, which can be accessed anytime. Using this service, you can decorate your mobile phone display with photos.



@AJA Channel

A community site, which provides bulletin boards and other functions and helps you to find mail-friends easily. A 24-hour monitoring system safeguards the site in terms of privacy, etiquette and decency.

Other

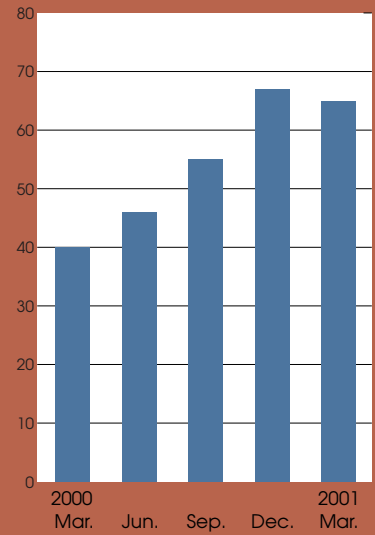


TV Panic Game Store

Mobile commerce site, where you can search for and purchase your favorite game software from vast lineups of old and new games. You can buy even the most popular game software by booking it before its release. Rankings and other game information are also available on this site.

Mobile contents business

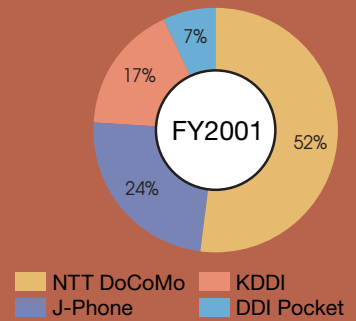
The number of domestic content services



The decline in contents in March 2001 was due to the termination of the specialized contents service for J-Phone's previous J-Sky handsets.

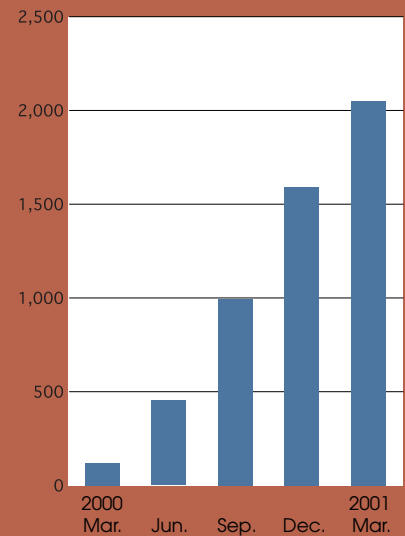
Breakdown of sales by wireless network operators

Contents services are being provided to all four major Japanese wireless network operators.



The number of Cybird's domestic content subscribers

(Thousand)



More than 2 million new subscribers were added within the year due to enriched contents and the Company's active response to Java™ compatibility

Overview of operations and major results for FY2000

During fiscal 2000, we added 25 services available via Internet-enabled mobile phones, and provided 65 “official contents” services as of March 31, 2001.

The number of services decreased by three in March 2000 because contracts with J-Phone for three text-based information services expired.

A major topic during the year under review was the January 26, 2001 start-up of Java™ applications.

The convenience appealed to users and contributed to a substantial increase in the number of subscribers. The number of subscribers increased by 1,937,000 year-over-year for the term ended March 31, 2001, from 118,000 to 2,055,000 — a record growth of 1,742%. As a result, sales in this segment surged 497.9% year-over-year to ¥2,322 million (US\$19 million).

Tasks Ahead

The number of domestic subscribers to mobile Internet contents supplied by Cybird is forecast to increase continuously. Due to the remarkable increase in the number of subscribers, sales and income are expected to rise for the current term, ending March 31, 2002. Concurrently, we will address the increased demand for new contents.

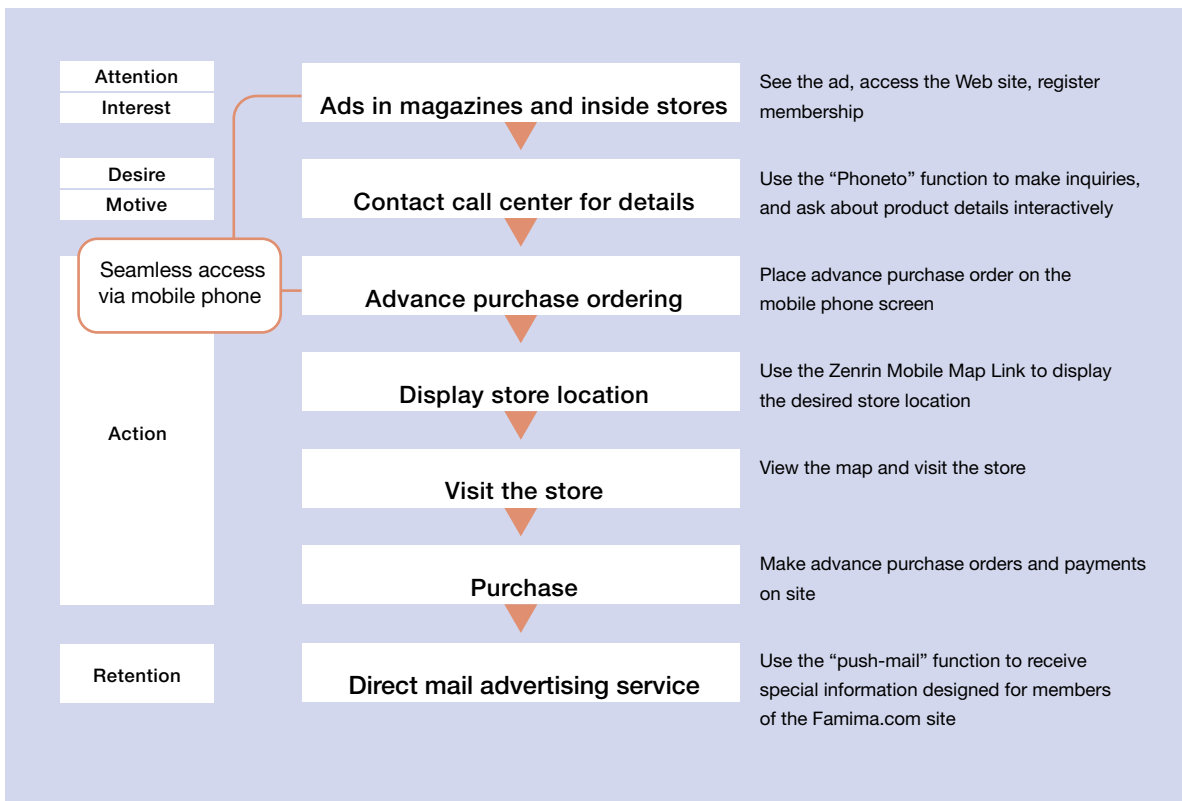
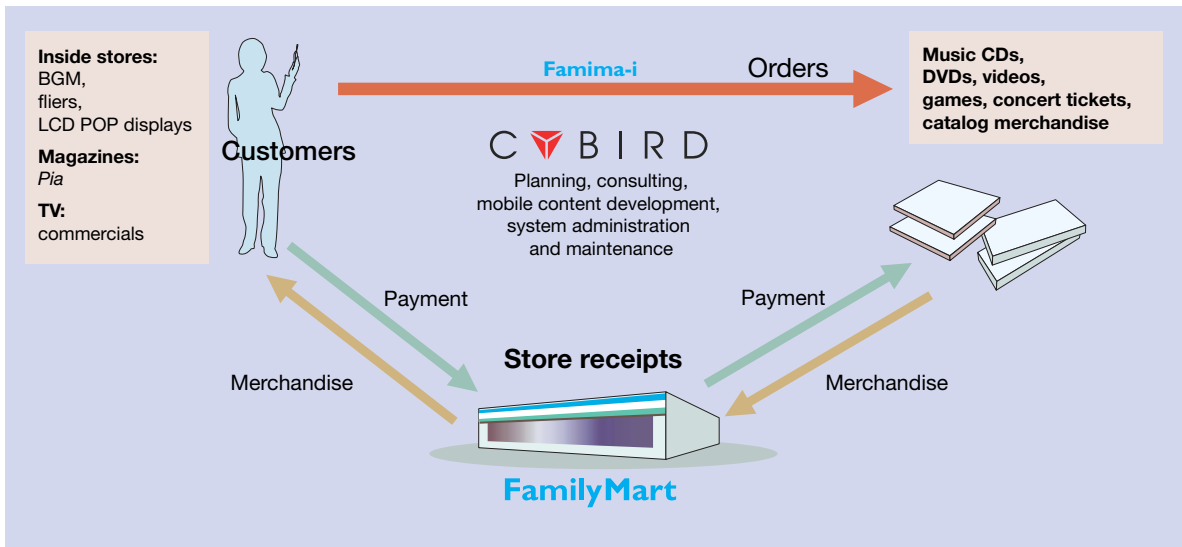
In addition, we will reduce development and operations costs to enhance the profitability of the contents business. Specifically, we will take measures such as promoting the creation of modular contents, the reuse of the same content by several wireless network operators, and the reduction in subscription fee payments to contents holders by leveraging our high brand image and the reduction in the costs and the load on servers by utilizing Java™ applications. We have set stringent criteria for both payback period and profitability, for the development of contents that offer good value for money.

The quantity of the contents has not increased since April this year due to a focus on enhancing the quality of these contents with Java™ programming and creating various modules to be utilized in future contents, such as greeting mail and chat board functions.

Mobile business solutions

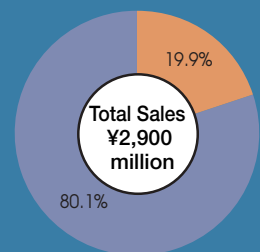
Clicks and Mortar-type Media Mix: Overview

The following is an example of the clicks and mortar model that was introduced to our client, Famima.com, a subsidiary of FamilyMart Co., Ltd., a leading chain of convenience stores.



Mobile business solutions

Sales Composition



- Mobile business solutions
¥578 million
- Mobile contents business
¥2,323 million

Increased orders from leading companies

Overview of operations and major results for FY2000

We will focus on providing mobile business solutions to a wide variety of corporations, not just mobile contents businesses.

For the term ended March 31, 2001, the business received 23 orders, which is 21 more than the previous term. For example, we undertook the development and operation of “Famima-i,” a virtual shop of Famima.com Co., Ltd., an e-commerce subsidiary of the leading convenience store chain, FamilyMart Co., Ltd. Sales of concert tickets are especially popular at this Web site, which allows speedy ticket reservations via mobile phone anytime. We also developed and operated the “H.I.S. World Travel Navigator,” a travel package reservation site on i-mode for H.I.S. Co., Ltd. At these Web sites, seamless connection via mobile Internet improves the convenience for users by providing the possibility of making detailed inquiries and placing and confirming orders and reservations via mobile phone.

Furthermore, we licensed the “Toon Time,” the screensaver clock found on “Disney-i,” the i-mode site of Walt Disney International Japan Inc., and we are also cooperating in the planning and development of the “Pooh Collection.”

As a result, sales in this sector rose considerably from the previous fiscal year to ¥553 million, generating 19.9% of consolidated net sales.

Tasks Ahead

In the current term and beyond, we will actively invest in mobile business solutions, which showed a remarkable growth in fiscal 2000. We especially aim to upgrade and extend mobile Internet services to industries essential to the healthy functioning of the social infrastructure and to support leading companies in each industry.

Moreover, we will strengthen our efforts to develop and sell software useful to new clients by using our accumulated expertise in the planning and development of business solutions for existing clients, thereby increasing the added value of our business.

Technology-related business

—Software modification development for mobile Internet and licensing businesses—

K Laboratory Co., Ltd.'s 3 Main Areas of Business

Application Business

- Application development and licensing for domestic and overseas Java™-enabled mobile handset manufacturers
- Application development for mobile phones and licensing for mobile handset manufacturers

Consulting Business

- Consulting for wireless network operators, handset manufacturers and software developers

Platform Business

- Research and development of the software development environment

Kamiya	(Virtual Machines for mobile phones)
Kare-B	(Runtime engine for drawing vector graphics data)
HMML Architecture	(Browser / built-in-type application architecture; Hyper Menu Mark-up Language Architecture)
FML Architecture	(Architecture for constructing animated browsing applications using our in-house Fukuwarai Mark-up Language)
KLOCK	(Java clock development kit)

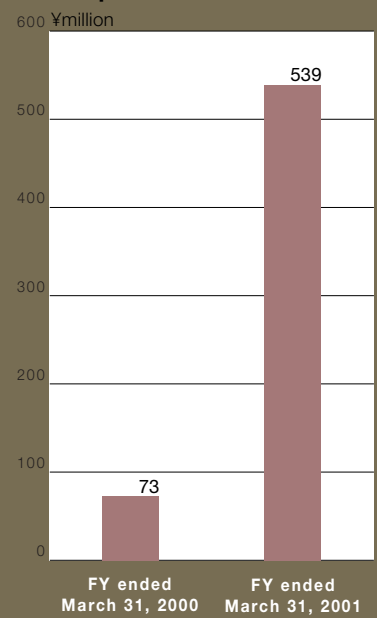


Cybird's Operational expertise in fields such as load testing

- Server-side load-testing tools and related services tailored to the mobile Internet

Technology-related business

R&D Expenses



Start-up of K Laboratory to strengthen development capabilities, beginning with the Java™ applications

Overview of operations and major results for FY2000

Cybird's subsidiary, K Laboratory, focuses on the technical development and licensing of software for mobile Internet use and mobile phone software platforms. (K Laboratory handles client-side technical development, while Cybird deals with server-side development.)

For the term ended March 31, 2001, K Laboratory received 11 orders, mostly in the fourth quarter, resulting in sales of ¥78 million. Sales to Cybird were ¥54 million, accounting for 69.6% of total K Laboratory sales.

During the year under review, we provided the following Java™ applications for NTT DoCoMo's Java™-enabled 503i-handset.

- Some of the Web site applications Cybird has developed for its clients include the screensaver clock "Toon Time" on the "Disney-i" site and the vector data map for the "Zenrin Mobile Map," provided by a leading map-making company.

- Apart from Cybird, they received orders from NTT DoCoMo, Inc., and The Japan Net Bank, Limited, the first cyberbank in Japan.

K Laboratory also developed several different technologies, including the mobile phone Instant Messenger on BREW™.

Tasks Ahead

Although mobile phones are extremely convenient communications tools, their hardware environment is subject to inherent technical and physical restrictions such as a low-speed CPU, low memory capacity and a small screen.

K Laboratory endeavors to overcome these barriers to create optimal mobile phone software ideally adaptable to user needs.

Far from limiting itself to the application business, K Laboratory is working on a graphic engine and virtual machine, both customized for mobile phones, as part of its R&D efforts for software platforms.

K Laboratory will continue to enhance its research and development in mobile phone software, which will also benefit Cybird businesses.

*Java™ and all the trademarks associated with Java™ are trademarks of Sun Microsystems, Inc. or are registered trademarks in the United States and other countries.

*BREW™ is the trademark of QUALCOMM Incorporated.

Financial Review

Consolidated Profit and Loss Statements

For the fiscal year ended March 31, 2001, consolidated sales rose ¥2,479 million, or 588.7%, to ¥2,900 million. The increase was due to the launching of new contents services, the upgrading of existing contents services and the expansion of the Mobile Business Solution business.

Cost of sales expanded by ¥1,841 million, or 858.7%, to ¥2,055 million. The increase can be attributed mainly to higher personnel expenses and rents for servers etc., related to business expansion. Consequently, the gross profit margin decreased by 20.0 percentage points from the previous year, to 29.1%.

General administrative and selling expenses increased by ¥1,726 million, or 509.6%, to ¥2,065 million. The breakdown of general administrative and selling expenses was as follows. Personnel expenses rose ¥391 million, or 344.4%, to ¥505 million. The Company added 92 employees during the fiscal year, and four employees during the fourth quarter, in accordance with business expansion. Advertising & general publicity expenses advanced by ¥231 million, or 1,066.9%, to ¥253 million. The increase can be attributed to higher expenditures on magazine and radio advertising to raise brand name recognition of our services and the number of subscribers. Research and development expenses climbed ¥466 million, or 631.5%, to ¥540 million. Higher R&D expenses resulted from the research and development of our contents business and a market survey performed abroad. K Laboratory Co., Ltd. is also conducting research and development on software modifications for mobile Internet use and software platforms for mobile phones. Charges and commissions grew ¥377 million, or 868.0%, to ¥420 million. This increase was due to greater payments made to mobile phone operators in the form of subscription fee collection commissions. Collection commissions rose ¥196 million to ¥204 million. Depreciation expenses rose ¥6 million, or 70.6%, to ¥13 million. The higher depreciation charge resulted from increased investment in office facilities and purchases of office appliances, due to the moving and expansion of the office. Rent was up ¥75 million, or 539.2%, at ¥89 million. Office rent rose, as did rental expenses for furniture and office appliances.

Operating loss increased by ¥1,088 million, or 824.3%, to ¥1,220 million, due to investment in the research and development of new contents and overseas business, and research and development by the subsidiary.

Non-operating expenses totaled ¥156 million, due to stock issuance expenses for the IPO, such as printing fees for materials, meetings with analysts overseas and legal fees.

Net loss increased by ¥1,246 million, or 929.8%, to ¥1,380 million. Net loss per share amounted to ¥98,803, up ¥16,104, or 19.5%, compared with the previous fiscal year. The average number of shares issued increased 12,345 shares to 13,965 shares, compared with 1,620 shares in the previous fiscal year.

Consolidated Balance Sheets

Total assets were ¥3,999 million, up ¥1,501 million, or 60.1%, from the previous fiscal year. Among current assets, trade accounts receivable increased ¥1,172 million due to sales growth. Among fixed assets, software increased ¥461 million in accordance with the expansion in contents; investment securities, including the investment of ¥40 million in Cybird Korea Co., Ltd., rose ¥82 million; and lease deposits increased ¥104 million due to moving office.

Total liabilities amounted to ¥672 million, an increase of ¥422 million, or 168.9%. Among current liabilities, trade accounts payable increased ¥345 million, due to business expansion. Among fixed liabilities, installments payable increased ¥58 million due to the installment purchase of buildings as well as fixtures and equipment and furniture for the new office.

Total shareholders' equity was ¥3,323 million, up ¥1,119 million, or 50.8%. By account, capital stock increased ¥1,136 million, and capital reserve expanded ¥1,331 million, due to the domestic public offering of 1,300 common shares and the global offering of 600 common shares. In the fiscal year ended March 31, 2001, the deficit increased ¥1,348 million due to a net loss of ¥1,380 million, in spite of the ¥32 million profit realized from the merger with Paradiseweb Co., Ltd.

Consolidated Cash Flow Statements

Total cash and cash equivalents were down ¥543 million, or 25.8%.

Cash Flow from Operating Activities:

Net cash used in operating activities rose ¥1,828 million compared with the previous fiscal year, to ¥1,898 million, due to a notable increase in trade accounts receivable during the last half of the fiscal year and to higher recruiting and research and development expenses.

Cash Flow from Investing Activities:

Net cash used in investing activities increased ¥777 million to ¥915 million due to increases in intangible fixed assets, mainly software for newly launched contents services.

Cash Flow from Financing Activities:

Although proceeds from IPO and other financing activities amounted to ¥2,270 million, net cash decreased by ¥17 million due to the stock issuance expenses.

Free cash flow for the fiscal year ended March 31, 2001 was minus ¥2,618 million, after deducting the ¥81 million in acquisitions of tangible fixed assets and ¥639 million in purchases of intangible fixed assets included under cash flows from investment activities from the ¥1,898 million used in operating activities.

Consolidated Balance Sheets

March 31, 2001 and 2000

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2000	2001
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	¥1,560,377	¥2,103,413	\$12,584
Receivables:			
Trade accounts	1,297,822	126,033	10,466
Allowance for doubtful receivables	(22,245)	(3,217)	(179)
Inventories (Note 3)	61,894	13,221	499
Deferred tax assets (Note 8)		1,011	
Prepaid expenses and other current assets	83,565	22,509	674
Total current assets	2,981,413	2,262,970	24,044
PROPERTY AND EQUIPMENT:			
Leasehold improvements	66,306	2,371	535
Furniture and fixtures	115,998	20,347	935
Total	182,304	22,718	1,470
Accumulated depreciation	(34,709)	(3,736)	(280)
Net property and equipment	147,595	18,982	1,190
INVESTMENTS AND OTHER ASSETS:			
Investment in an associated company	39,913		322
Investment securities (Note 4)	42,000		339
Software	665,633	204,519	5,368
Lease deposit	111,556	7,593	899
Deferred tax assets (Note 8)		2,445	
Other	11,143	1,122	90
Total investments and other assets	870,245	215,679	7,018
TOTAL	¥3,999,253	¥2,497,631	\$32,252

See notes to consolidated financial statements.

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2000	2001
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Current portion of long-term debt (Note 5)	¥ 39,207	¥ 10,621	\$ 316
Trade accounts payable	523,901	178,996	4,225
Accrued income taxes	2,433	46,511	20
Accrued bonuses	29,610	7,851	239
Accrued expenses and other current liabilities	18,619	6,019	150
Total current liabilities	613,770	249,998	4,950
LONG-TERM DEBT (Note 5)	58,499		472
MINORITY INTERESTS	4,219	44,105	34
COMMITMENTS AND CONTINGENT LIABILITIES			
SHAREHOLDERS' EQUITY (Notes 6 and 7):			
Common stock, ¥50,000 par value— authorized, 17,920 shares; issued and outstanding, 15,340 shares for fiscal 2001 and 4,380 shares for fiscal 2000	2,405,500	1,270,000	19,399
Additional paid-in capital	2,462,200	1,130,500	19,856
Deficit	(1,544,935)	(196,972)	(12,459)
Total shareholders' equity	3,322,765	2,203,528	26,796
TOTAL	¥3,999,253	¥2,497,631	\$32,252

Consolidated Statements of Operations

Years Ended March 31, 2001 and 2000

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2000	2001
NET SALES	¥2,900,115	¥421,107	\$23,388
COST OF SALES	2,055,465	214,406	16,576
Gross profit	844,650	206,701	6,812
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 9 and 10)	2,064,626	338,694	16,651
Operating loss	1,219,976	131,993	9,839
OTHER INCOME (EXPENSES):			
Interest income	962	37	8
Interest expenses	(5,388)	(276)	(43)
Gain on exchange of Cybird's stocks owned by a subsidiary		97,500	
Stock issuance expenses	(156,339)	(14,170)	(1,261)
Other—net	(2,441)	(684)	(20)
Other income (expenses)—net	(163,206)	82,407	(1,316)
LOSS BEFORE INCOME TAXES AND MINORITY INTEREST	1,383,182	49,586	11,155
INCOME TAXES (Note 8):			
Current	2,492	46,522	20
Deferred	3,456	(3,456)	28
Total	5,948	43,066	48
MINORITY INTEREST	(9,344)	41,335	(76)
NET LOSS	¥1,379,786	¥133,987	\$11,127
		Yen	U.S. Dollars
PER SHARE OF COMMON STOCK—			
Net loss (Note 2.I)	¥ 98,803	¥ 82,699	\$796.80

See notes to consolidated financial statements.

Cybird Co., Ltd. and a Subsidiary

Consolidated Statements of Shareholders' Equity

Years Ended March 31, 2001 and 2000

	Outstanding Number of Shares of Common Stock	Thousands of Yen			Cybird's Stocks Owned by a Subsidiary
		Common Stock	Additional Paid-in Capital	Deficit	
BALANCE, APRIL 1, 1999	1,800	¥ 90,000		¥ (62,985)	¥(35,000)
Net loss				(133,987)	
Issuance of new shares	1,580	1,130,000	¥1,130,000		
Exercise of warrants	1,000	50,000	500		
Exchange of Cybird's stocks owned by a subsidiary					35,000
BALANCE, MARCH 31, 2000	4,380	1,270,000	1,130,500	(196,972)	Nil
Net loss				(1,379,786)	
Issuance of new shares at merger with a subsidiary	100	5,000	15,000		
Decrease in deficit from merger with a subsidiary				31,823	
Stock split	8,960				
Issuance of new shares	1,900	1,130,500	1,316,700		
BALANCE, MARCH 31, 2001	15,340	¥2,405,500	¥2,462,200	¥(1,544,935)	

Thousands of U.S. Dollars (Note 1)

	Common Stock	Additional Paid-in Capital	Deficit
Net loss			(11,127)
Issuance of new shares at merger with a subsidiary	40	121	
Decrease in deficit from merger with a subsidiary			256
Issuance of new shares	9,117	10,618	
BALANCE, MARCH 31, 2001	\$19,399	\$19,856	\$(12,459)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended March 31, 2001 and 2000

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2000	2001
OPERATING ACTIVITIES:			
Loss before income taxes and minority interests	¥(1,383,182)	¥ (49,586)	\$(11,155)
Adjustments to reconcile net loss to net cash used in operating activities:			
Income taxes—paid	(46,723)	(270)	(377)
Depreciation and amortization	211,812	11,134	1,708
Provision of allowance for doubtful receivables	19,028	3,006	153
Gain on exchange of Cybird's stocks owned by a subsidiary		(97,500)	
Stock issuance expenses	156,339	14,170	1,261
Change in operating assets and liabilities:			
Increase in trade accounts receivable	(1,171,915)	(104,735)	(9,451)
Increase in inventories	(48,673)	(11,852)	(392)
Increase in trade accounts payable	385,912	159,260	3,112
Increase in accrued bonuses	21,760	7,851	176
Other—net	(42,749)	(1,582)	(345)
Total adjustments	(515,209)	(20,518)	(4,155)
Net cash used in operating activities	(1,898,391)	(70,104)	(15,310)
INVESTING ACTIVITIES:			
Expenditures for property and equipment	(80,743)	(21,702)	(651)
Expenditures for software	(638,970)	(116,323)	(5,153)
Expenditures for investment securities	(81,913)		(661)
Expenditures for lease deposit	(119,448)		(963)
(Increase) decrease in other assets	6,642	255	54
Net cash used in investing activities	(914,432)	(137,770)	(7,374)
FINANCING ACTIVITIES:			
Proceeds from long-term debt		49,341	
Repayment of long-term debt	(32,728)	(58,990)	(264)
Proceeds from new shares issued, net of stock issuance expenses	2,290,861	2,296,330	18,475
Other—net	11,650		94
Net cash provided by financing activities	2,269,783	2,286,681	18,305
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
	4		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(543,036)	2,078,807	(4,379)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,103,413	24,606	16,963
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 1,560,377	¥2,103,413	\$ 12,584
NON-CASH INVESTING ACTIVITIES:			
Acquisition of software in exchange of Cybird's stocks owned by a subsidiary		¥ 100,000	
Acquisition of furniture and equipment on an installment payment basis	¥ 119,813		\$ 966

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years Ended March 31, 2001 and 2000

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In accordance with accounting procedures generally accepted in Japan, certain comparative disclosures are not required to be and not been presented herein.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Cybird Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥124 to \$1, the approximate rate of exchange at March 31, 2001. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Consolidation**—The consolidated financial statements include the accounts of the Company and a subsidiary, K Laboratory Co., Ltd. for the year ended March 31, 2001, and Paradiseweb Co., Ltd. for the year ended March 31, 2000 (together, the "Group").
- Investment in an associated company is stated at cost. If the equity method of accounting had been applied to the investment in the company, the effect on the accompanying consolidated financial statements would not be material.
- The excess of cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition is charged to income when the acquisition is made.
- All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.
- b. Cash Equivalents**—Cash equivalents are time deposits which become due within three months of the date of acquisition and can be withdrawn on demand with no diminution of principal.
- c. Inventories**—Merchandise is stated at cost determined by the moving-average method and work in process is stated at cost determined by the specific identification method.
- d. Allowance for Doubtful Receivables**—Allowance for doubtful receivables is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding.
- e. Property and Equipment**—Property and equipment are stated at cost. Depreciation is computed by the declining-balance method at rates based on the estimated useful lives of assets. The range of useful lives is principally from 10 to 15 years for leasehold improvements and from 5 to 6 years for furniture and fixtures.
- f. Investment Securities**—Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, non-marketable securities are reduced to net realizable value by a charge to income.
- g. Amortization of Software**—Software for in-house use is amortized over 3 years by the straight-line method.
- b. Leases**—All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases deemed to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.
- i. Stock Issuance Expenses**—Stock issuance expenses are charged to income when incurred.
- j. Research and Development Costs**—Research and development costs are charged to income as incurred.
- k. Income Taxes**—The provision for income taxes is computed based on the pretax income included in the consolidated statements of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

- l. Per Share Information**—The computation of net loss per common share is based on the weighted average number of shares outstanding after giving retroactive adjustment for stock split. The average number of common shares used in the computation was 13,965 and 1,620 for the years ended March 31, 2001 and 2000. Diluted per share information is not disclosed because of the Company's net loss position.

3. INVENTORIES

	Thousands of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Merchandise	¥17,701		\$143
Work in process	44,193	¥13,221	356
Total	¥61,894	¥13,221	\$499

4. INVESTMENT SECURITIES

Investment securities as of March 31, 2001, consisted of non-marketable equity securities of ¥42,000 thousand (\$339 thousand), which were classified as available-for-sale.

5. LONG-TERM DEBT

Long-term debt at March 31, 2001 and 2000, consisted of the following:

	Thousands of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Long-term debt from individuals and a private company:			
Unsecured non-interest bearing		¥10,621	
Accounts payable	¥97,706		\$788
Total	97,706	10,621	788
Less current portion	(39,207)	(10,621)	(316)
Long-term debt, less current portion	¥58,499	Nil	\$472

6. SHAREHOLDERS' EQUITY

The Japanese Commercial Code (the "Code") requires at least 50% of the issue price of new shares, with a minimum of the par value thereof, to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital are credited to additional paid-in capital.

The Code also requires the Company to appropriate from retained earnings to a legal reserve an amount equal to at least 10% of all cash payments which are made as an appropriation of retained earnings until such reserve equals 25% of stated capital.

The Company may transfer portions of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Company may also transfer portions of unappropriated retained earnings, available for dividends, to stated capital by resolution of the shareholders.

Under the Code, the Company may issue new common shares to existing shareholders without consideration as a stock split pursuant to resolution of the Board of Directors. The Company may make such a stock split to the extent that the aggregate par value of the shares outstanding after the stock split does not exceed the stated capital. However, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the stock split cannot be less than ¥50,000.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semi-annual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

During the year ended March 31, 2000, the Company consecutively issued and allocated new shares of common stock to a third party, as follows:

Date	Thousands of Yen			
	Number of Shares Issued	Credited to Shares Stated Capital	Credited to Additional Paid-in Capital	Total Proceeds
November 23, 1999	200	¥ 50,000	¥ 50,000	¥100,000
December 30, 1999	200	50,000	50,000	100,000
January 29, 2000	200	50,000	50,000	100,000
March 14, 2000	300	300,000	300,000	600,000
March 28, 2000	200	200,000	200,000	400,000
March 31, 2000	480	480,000	480,000	960,000

On December 21, 2000, the Company made both a public offering in Japan and international offering, and issued 1,300 and 600 shares, respectively for gross proceeds of ¥2,447,200 thousand (\$11,436 thousand). Out of such proceeds, ¥1,130,500 thousand (\$9,117 thousand) was designated as stated capital, and the rest of ¥1,316,700 thousand (\$10,618 thousand) was credited to additional paid-in capital.

On April 1, 2000, the Company merged with Paradiseweb Co., Ltd., which was consolidated up to March 31, 2000, by the issuance of 100 common shares, resulting in increases in common stock of ¥5,000 thousand (\$40 thousand) and additional paid-in capital of ¥15,000 thousand (\$121 thousand) and decrease in deficit of ¥31,823 thousand (\$256 thousand).

On June 20, 2000, the Company made a stock split by way of a free share distribution at the rate of 3 shares for each outstanding share, and 8,960 shares were issued to shareholders of record at that date. Stated capital was not changed as a result of this stock split.

On May 24, 2001, the Board of Directors resolved that a stock split will be made by way of a free distribution at the rate of 2 shares for each outstanding share on July 4, 2001, and 15,340 shares will be issued to shareholders of record on this date.

7. STOCK OPTIONS

The Code permits the Company to adopt a stock option plan subject to resolution of shareholders. The Code requires that such resolution must specify the identity of directors or employees to whom options will be granted, the class and number of shares to be newly issued to them on exercise of the options, the exercise price, the exercise period and other terms of options. The total number of shares issued upon exercise of the options may not exceed one-tenth of the total number of shares issued and outstanding. The exercise period may not be more than ten years.

At the general shareholders' meeting held on February 22, 2000, an incentive stock option plan was approved for the Company's directors and employees. Under the plan ("No. 1 plan"), 5 directors and 37 employees were granted options to purchase up to 193 shares of the Company's common stock (579 shares after a stock split exercised on June 20, 2000) and 47 shares (141 shares after a stock split exercised on June 20, 2000), respectively, at the exercise price of ¥2,000,000 (¥666,667 after a stock split exercised on June 20, 2000) during the period from March 1, 2002 to February 28, 2005.

At the general shareholders' meeting held on May 31, 2000, an incentive stock option plan was approved for the Company's employees. Under the plan ("No. 2 plan"), 49 employees were granted options to purchase up to 126 shares of the Company's common stock at the exercise price of ¥666,667 during the period from September 1, 2002 to August 31, 2005.

At the annual general shareholders' meeting held on June 28, 2001, an incentive stock option plan was approved for the Company's directors and employees. Under the plan, on September 1, 2001, 8 directors and 46 employees will be granted options to purchase up to 600 shares of the Company's common stock and 200 shares, respectively, during the period from September 1, 2003 to August 31, 2008. The exercise price will be the larger of the average of closing prices on each trading date in August 2001 at the over-the-counter market or the closing price on the last trading date in August 2001.

The above exercise price will be adjusted for the dilutive effect of a stock split or business combination.

The exercise price under No. 1 and No. 2 plans will be adjusted from ¥666,667 to ¥333,334 by a stock split to be made on July 4, 2001.

8. INCOME TAXES

The Company and a subsidiary are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 42% for the years ended March 31, 2001 and 2000.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2001 and 2000, were as follows:

	Thousands of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Deferred tax assets (current):			
Allowance for doubtful receivables	¥ 23,610	¥ 1,011	\$ 190
Less valuation allowance	(23,610)		(190)
Total	Nil	¥ 1,011	Nil
Deferred tax assets (non-current):			
Tax loss carryforwards	¥583,740	¥75,563	\$4,708
Investments and other assets	30,941	2,445	249
Less valuation allowance	(614,681)	(75,563)	(4,957)
Total	Nil	¥ 2,445	Nil

A reconciliation between the normal effective statutory tax rate for the years ended March 31, 2001 and 2000, and the actual effective tax rates reflected in the accompanying consolidated statements of operations is as follows:

	2001	2000
Normal effective statutory tax rate	42.0%	42.0%
Expenses not deductible for income tax purposes	(0.9)	(7.1)
Tax loss carryforwards	(36.7)	(102.8)
Other—net	(4.8)	(19.0)
Actual effective tax rate	(0.4)%	(86.9)%

9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Details of selling, general and administrative expenses are as follows:

	Thousands of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Advertising and general publicity expenses	¥ 253,151	¥ 21,695	\$ 2,042
Provision for doubtful receivables	22,113	3,170	178
Compensation paid to directors	180,840	64,930	1,458
Salaries	261,205	22,777	2,107
Welfare expenses	55,025	26,102	444
Bonuses	9,464	672	76
Traveling and transportation expenses	39,857	12,877	321
Research and development costs	539,845	73,798	4,354
Commission	214,357	7,184	1,729
Others	488,769	105,489	3,942
Total	¥2,064,626	¥338,694	\$16,651

10. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥556,811 thousand (\$4,490 thousand) and ¥73,798 thousand for the years ended March 31, 2001 and 2000, respectively.

11. LEASES

The Group has entered into lease agreements as lessee with regard to computer equipment and other assets.

Total expenses under finance lease arrangements that do not transfer ownership of the leased equipment were ¥112,598 thousand (\$908 thousand) and ¥2,633 thousand for the years ended March 31, 2001 and 2000, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance lease, depreciation expense and interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an “as if capitalized” basis at March 31, 2001 and 2000, was as follows:

Property, equipment and software:

	Thousands of Yen		Thousands of U.S. Dollars
	March 31		March 31
	2001	2000	2001
Acquisition cost	¥648,651	¥77,268	\$5,231
Accumulated depreciation	107,294	4,172	865
Net leased property	¥541,357	¥73,096	\$4,366

Obligations under finance leases:

	Thousands of Yen		Thousands of U.S. Dollars
	March 31		March 31
	2001	2000	2001
Due within one year	¥177,105	¥20,956	\$1,428
Due after one year	398,529	62,300	3,214
Total	¥575,634	¥83,256	\$4,642

Depreciation expense and interest expense under finance leases:

	Thousands of Yen		Thousands of U.S. Dollars
	Year Ended March 31		Year Ended March 31
	2001	2000	2001
Depreciation expense	¥104,009	¥2,373	\$839
Interest expense	18,134	867	146
Total	¥122,143	¥3,240	\$985

Depreciation expense and interest expense, which are not reflected in the accompanying consolidated statements of operations, are computed by the straight-line method and the interest method, respectively.

12. SEGMENT INFORMATION

The Group is mainly engaged in the business of handset-based mobile Internet content services in Japan. The net sales and operating loss from and the assets of such business segment in Japan exceeded 90% of the Group's total business, and there were no sales to foreign customers for the years ended March 31, 2001 and 2000.

Therefore, segment information for the years ended March 31, 2001 and 2000 is not required to be disclosed.

Independent Auditors' Report

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**Deloitte
Touche
Tohmatsu**

To the Board of Directors and Shareholders of
Cybird Co., Ltd.

We have examined the consolidated balance sheets of Cybird Co., Ltd. and a subsidiary as of March 31, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Cybird Co., Ltd. and a subsidiary as of March 31, 2001 and 2000, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

Our examinations also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 28, 2001

Company Outline

Name:	CYBIRD Co., Ltd.	
Established:	September 29, 1998	
Capital:	¥2,405.5 million	
Head office:	Kamiyacho Mori-Bldg. 4-3-20 Toranomon, Minato-ku, Tokyo, Japan 105-0001	
Tel:	+81-3-3431-0111	
Employees:	129	
(as of June 30, 2001)		
Business lines:	<ul style="list-style-type: none"> •Provision of contents for Internet-enabled mobile phones •Consulting, planning, development, and operation of Web sites for Internet-enabled mobile phones 	
Listing code number:	4823 (JASDAQ)	
Directors		
(as of June 28, 2001)	President and CEO	Kazutomo Robert Hori
	Senior Executive Vice President and CTO	Tetsuya Sanada
	Executive Vice President	Yosuke Iwai
	Executive Vice President	Kenichiro Nakajima
	Senior Vice Presidents	Shinichiro Yamashita
		Tomosada Yoshikawa
		Mikio Inari
		Tomoo Tateishi
	Standing Corporate Auditor	Jun Utsumi
	Corporate Auditors	Masahisa Takeyama
		Hiroshi Shimizu
Banks:	The Bank of Tokyo-Mitsubishi, Ltd., The Fuji Bank, Ltd., Sumitomo Mitsui Banking Corporation	
Consolidated subsidiary:	K Laboratory Co., Ltd.	
Affiliate:	CYBIRD KOREA Co., Ltd.	



From left:

Y.Iwai, T.Tateishi, T.Yoshikawa, K.R.Hori,
M.Inari, T.Sanada, S.Yamashita, K.Nakajima

Stock Information

Number of shares issued and outstanding:	15,340
Number of shareholders:	974
Principal shareholders:	

	(shares)	(%)
Kazutomo Robert Hori	2,103	13.7
Tetsuya Sanada	1,056	6.8
Yosuke Iwai	1,056	6.8
Omron Corp.	900	5.8
Omron Enterprise Co., Ltd.	890	5.8
Tomoo Tateishi	705	4.5
Intel Pacific Inc.	690	4.4
Itochu Corp.	630	4.1

CYBIRD



<http://www.cybird.co.jp/>

CYBIRD Co., Ltd.

Kamiyacho Mori-Bldg. 4-3-20 Toranomom, Minato-ku, Tokyo, Japan 105-0001

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