

C  B I R D

*The Best partner for mobile Internet* ANNUAL REPORT 2002

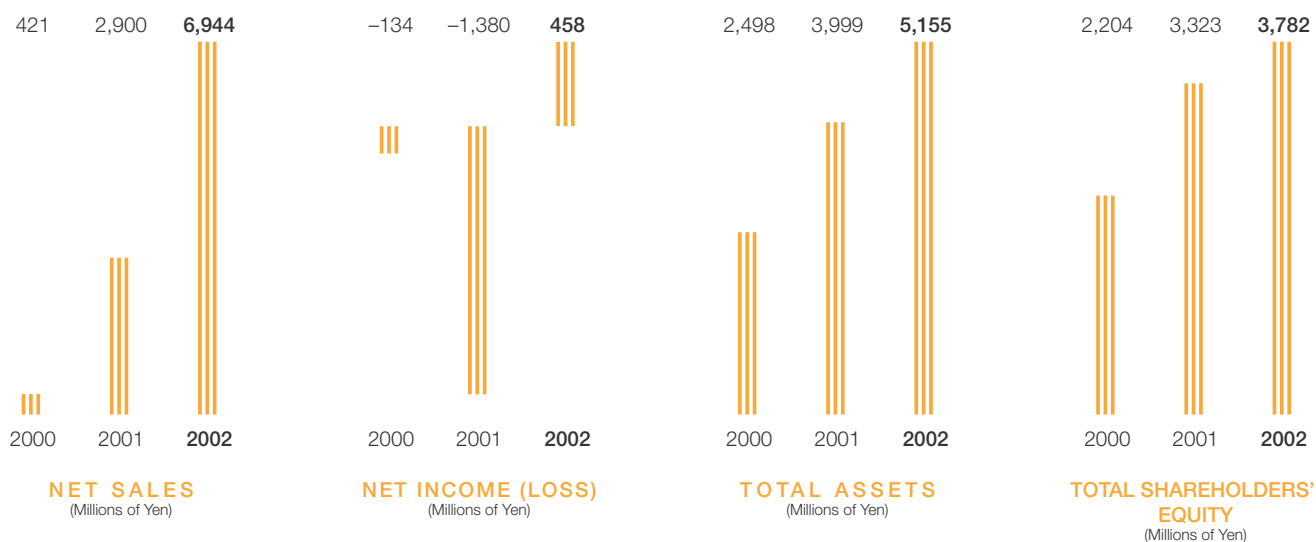


# Consolidated Financial Highlights

Years Ended March 31, 2002, 2001 and 2000

	Thousands of Yen			Thousands of U.S. Dollars (Note 1)
	2002	2001	2000	2002
Net sales .....	¥6,944,433	¥2,900,115	¥ 421,107	\$52,214
Gross profit.....	3,515,355	844,650	206,701	26,431
Operating income (loss) .....	509,565	(1,219,976)	(131,993)	3,831
Net income (loss) .....	457,767	(1,379,786)	(133,987)	3,442
Total assets .....	5,154,871	3,999,253	2,497,631	38,758
Total shareholders' equity .....	3,781,687	3,322,765	2,203,528	28,434
		Yen		U.S. Dollars (Note 1)
Basic net income (loss) per share.....	¥14,920	¥(98,803)	¥(82,699)	\$112.18
Diluted net income per share .....	14,571	—	—	109.56
Shareholders' equity per share .....	123,190	216,608	503,088	926.24
Equity ratio (percent) .....	73.3	83.1	88.2	
Current ratio (times) .....	3.16	4.86	9.05	

Note : 1. Yen amounts are translated into U.S dollars, solely for convenience, at the rate of ¥133 to \$1, the approximate rate of exchange at March 31, 2002.



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## Message from the President



**Kazutomo Robert Hori**  
*President and CEO*

In the fiscal year ended March 31, 2002, CYBIRD's bottom line moved into the black for the first time since its founding four years ago. This is no small feat for a company operating in an industry that many thought would never be profitable as few as five years ago.

CYBIRD maintains close partnerships with all major Japanese wireless network operators and an array of corporate clients. These relationships and our hallmark spirit of innovation have enabled us to play a pioneering role in helping to create the mobile Internet industry since its beginning. The future will see CYBIRD maintain a resilient profit structure as we aim for fresh growth through the development of cutting-edge business models. We will aim to take results to new levels.

### **The Mobile Internet Business Enters a Period of Profitability**


It was in 1995 that pioneers, including the eventual founders of CYBIRD, began to see the possibilities inherent in integrating mobile phone and Internet-related technologies to create new business models. At that time, there was no shortage of experts who believed the combination would never reach profitability.

But today, the figures speak for themselves. As of March 2002, the total number of domestic mobile phone contracts (including PHS contracts) had reached 74.81 million, 72.6% of which were capable of connecting to the Internet.\*

CYBIRD was well aware of the massive potential of the mobile Internet market ever since it first came into existence, and this awareness underlies the proactive advance investments the Company made in the area. This speed off the mark has allowed us to carve out a position as a pioneer in the industry, on the basis of which we have put in place a business foundation ideally suited to long-term growth.

This fiscal year, the results were positive. CYBIRD recorded net income during the first quarter of the year under review for the first time since its public offering. Results for the entire year saw consolidated net sales climb 139.5% over the previous year, to ¥6,944 million (US\$52 million), with net income of ¥458 million (US\$3 million) replacing the previous year's net loss of ¥1,380 million. These results can be seen as the fruit of CYBIRD's unyielding efforts

\*Source  
Telecommunications Carriers  
Association



to build up its business. Yet we see them more as a transitional point from which the arrival of the period of full-scale profitability is within sight.

### **Boosting Results While Moving into New Businesses**

A number of different reasons underlie the net income recorded during the fiscal year under review. The first of these was the favorable performance of the mobile content business. As other companies struggled with each other in this area, CYBIRD added a record 1.2 million new subscribers to its customer database during the year under review.

In the marketing solution business, CYBIRD developed its proprietary “Sugu Mail™” platform (see Note 1 of the Glossary on page 27) during the first half of the year. The second half of the year saw the Company focus on raising awareness of this new brand in the marketplace through an alliance with Dentsu Inc., Japan’s largest advertising agency. CYBIRD will continue to expand sales of the new platform in the year under review.

Moving on to the technology-related business, for which K Laboratory Co., Ltd. is responsible, CYBIRD worked to accelerate the development and launch of applications for Java™-enabled (see Note 2 of the Glossary) mobile phones, including NTT DoCoMo Inc.’s 503i model. These efforts resulted in sales skyrocketing 589% over the previous fiscal year.

In overseas business, CYBIRD dedicated its efforts to building relationships with Asian and European wireless network operators and handset manufacturers, primarily through offering consultation services. In addition, CYBIRD KOREA Co., Ltd. was restructured as a development division to operate in the domestic content business.

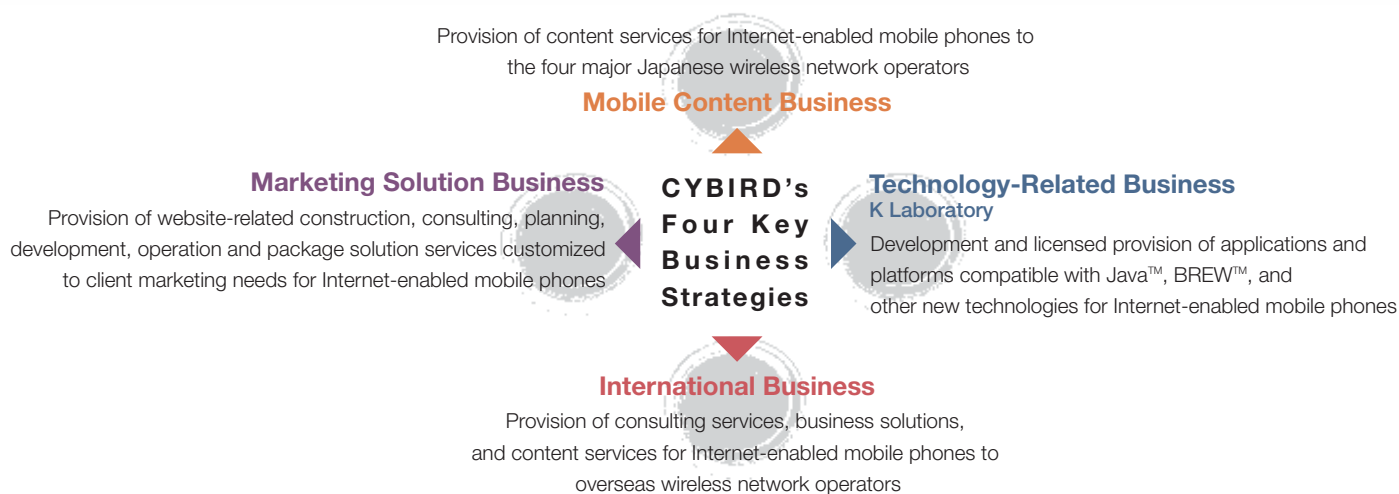
### **Steady Growth by Cultivating New Businesses and Restructuring Business Portfolios**

During the fiscal year under review, CYBIRD drove up its results while fleshing out business portfolios to stimulate further growth in the future. Now, CYBIRD is committing its management resources to areas with as yet untapped potential to play a pivotal role in the second major period of development for the mobile Internet market. Sustained growth is the Company’s objective.

The mobile content business continues to expand both domestically and overseas. In response to this trend, CYBIRD will provide customers with high-quality content services for Java™, BREW™ (see Note 3 of the Glossary) and other platforms. In so doing, the Company will maintain the excellence that has served it so well in this market to date.

In the marketing solution business, CYBIRD will endeavor to expand sales of “Sugu Mail™,” a platform that has proven hugely successful at connecting standard client sales and promotion activities with mobile phone-based Internet campaigns. Alliances with such varied parties as advertising agencies, media organizations and corporate clients will be an integral part of these efforts.

In technology-related business, CYBIRD will continue to make its mark in developing sophisticated technology compatible with NTT DoCoMo’s newly released 504i mobile phone and other cutting-edge handsets. The next fiscal year will see no letup in CYBIRD’s efforts to differentiate itself further than ever from its competitors.



Overseas business is due to see new developments in the content and marketing solution businesses, as CYBIRD brings its unique expertise to bear on developing new services to offer to overseas wireless network operators.

CYBIRD is pushing forward with alliances in all those industries in which it is active and is working to understand and create growth-oriented business models in each area. CYBIRD established DMOVE Co., Ltd., a joint venture company, with IMAGICA Corp., a major movie film laboratory in Japan; fleshed out its digital photo communications services through the "Prinet" service by combining forces with Kodak Japan Ltd.; and is developing the core technology for the next-generation mobile phone units.

The CYBIRD Group takes return on equity (ROE) as one of its most important management indicators. As such, the Company plans to account for losses brought forward from previous years with all speed in its efforts to maintain ROE of 10% or more. In addition to this key objective, CYBIRD will set itself targets around the following themes: selection and concentration; quick responses to changes in environment; profitability, continuity and expandability; and greater synergies with affiliated companies.

Disclosure is another area about which CYBIRD's management is keenly aware. Timely and fair disclosure has an integral role to play in the construction of solid relationships with shareholders and investors. We have emphasized this commitment through such methods as production of investor relations materials, quarterly release of earnings, timely updating of our investor relations website and by other means. CYBIRD will ensure that it continues to maintain frequent and timely contact with investors and potential investors.

We ask for the support of all our shareholders as we work to further improve results and take corporate value to new heights.

**Kazutomo Robert Hori**  
*President and CEO*

## CYBIRD's Growth Strategy



### **MOE**

The Japanese character *moe*, meaning to “burgeon forth” or “blossom,” summarizes CYBIRD’s strategy for moving ahead.

The development of Java™ and BREW™ applications, improvements in the quality of screens for mobile devices, and increasing bandwidth. These are just a few of the developments that are reshaping the mobile Internet environment and bringing a wider range of applications and services directly, to the mobile phones of consumers and businessmen and women in Japan and overseas.

### MANAGEMENT CHALLENGE

## Maintain Forefront Innovation in “Unique Platforms”

CYBIRD’s spirit of innovation, its management style and proven experience at the forefront of the market for mobile services position us well to leverage these exciting market opportunities through the creation and development of “unique platforms,” such as i-mode® by NTT DoCoMo, an area that forms the core of our strategy going forward.

Unique platforms extend the benefits of mobile connectivity to our customers’ businesses, providing them with flexible solutions they can adapt to suit their needs. The characteristics of each platform can differ from customer to customer, but the advantages for us are the same: they maintain our competitiveness and increase growth in sales and profits.

MARKETING SOLUTIONS

Connecting Clients with Their Customers

CYBIRD's marketing solution business aims to develop unique platforms that can match the success of our "Sugu Mail™" "mortar and clicks" corporate marketing platform. CYBIRD's corporate customers can use this platform in a variety of ways, depending on their aims; be it providing customers with a low-cost way to respond rapidly to a product promotion, gathering important information such as customer response times about specific campaigns or even measuring the effectiveness of certain campaigns. For consumers, "Sugu Mail™" allows them to respond immediately to advertisements and items of interest in magazines.

Using "Sugu Mail™," Famima.com Co., Ltd. the online business of FamilyMart Co., Ltd, a leading convenience store operator, reported a record 1.8 million responses within three weeks of launching its campaign to give away tickets to a concert by Ayumi Hamasaki, a pop superstar. This was a massive improvement on a similar campaign Famima.com conducted the year before without using "Sugu Mail™" and which generated only a few tens of thousands of responses. By placing "Sugu Mail™" in specific

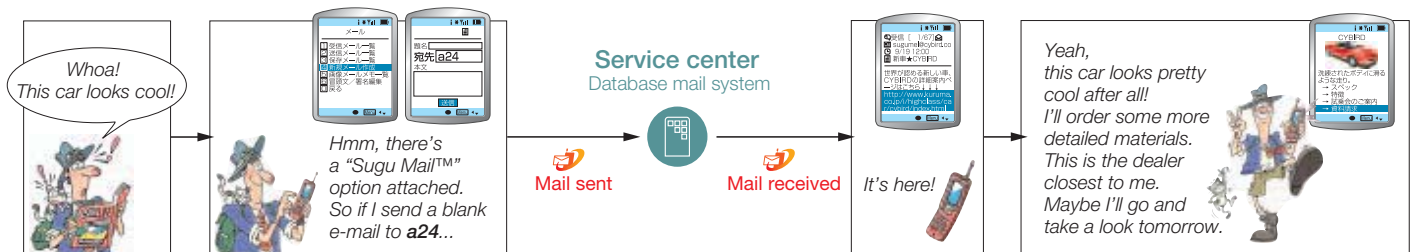
media or areas of Japan, it allows them to compare the response rate to improve promotion targeting in the future.

Since the service started in October last year, some 26 companies had signed up for it as of July 31, 2002. They come from a diverse range of industries, from financial services to concert ticket retailers to package holiday operators, a feature that bears witness to the platform's flexibility.

The success of the platform depends on three key elements; the first is its advanced technology, and the second is that it is patent protected, making it difficult for competitors to duplicate the system. In addition, it is marketed by the Dentsu Group, which, as Japan's largest advertising company, has an existing customer base of thousands of the largest companies, government organizations and public corporations in Japan, all of which may have a potential need for the "Sugu Mail™" service.



What is "Sugu Mail™"?



When sending e-mails between mobile phones provided by the same wireless network operator, that part of the address to the right of the @-mark can be left out. "Sugu Mail™" makes use of this fact to allow easy

access to homepages. Sending a blank message to the three-figure address attached to the item in question results in an e-mail with the desired URL being sent back to the user via the service center. Clicking on this URL then

allows access to the relevant site. This one-click access to sites removes the need to type in URLs, which can be a long and troublesome process on mobile phones.

CONTENT BUSINESS

Capturing Advances in Handset Screens Visually

Similarly, CYBIRD plans to create unique platforms for its content business. We have already successfully extended the “Prinet” digital photo service, which was originally launched in 2000, as a way for users to exchange digital photos taken in Print Club Machines, produced by ATLUS CO., LTD. using their mobile phones. (Print Clubs are photo booths that allow users to change the colors, add designs and make the photos into stickers.)

The “Prinet” service was further enhanced by an alliance between CYBIRD and Yahoo! Japan Corporation’s “Yahoo! PHOTOS” in November 2001. Thanks to the agreement, users could view and exchange digital photos they had stored at “Yahoo! PHOTOS” servers using their mobile phones.

In addition, this year CYBIRD agreed with Kodak Japan Ltd. to bring together our “Prinet” content services with Kodak’s digital lab service to create a unique platform that combines the benefits of digitized photographs with mobile connectivity. Using one of the 50,000 Kodak development labs around Japan, customers can have traditional analogue photographs converted into digital images and then sent to their mobile phones so they can enjoy their

pictures with more immediacy and then forward them to friends or family and no longer have to print multiple copies of photographs for all to enjoy.

Spurred on by improvements in the resolution of handset screens, some of which have nearly half the resolution quality of television sets, and PDAs, the “Prinet” platform is set to expand the size of the entire digital contents market by making it possible to provide digital content services to customers who, until now, have used only regular photography film.



Image of “Prinet” content service with Kodak



## TECHNOLOGY DIVISION

### Developing Key Components for the Next Generation

The unique platform model is also at the core of our strategy for the technology division, where our subsidiary of K Laboratory Co., Ltd. is actively developing Java™- and BREW™-enabled applications and software platforms for mobile phones. CYBIRD believes this research will lead to the development of key components for next-generation business-to-business and business-to-consumer mobile commerce.



© K Laboratory

solution for a secure wireless environment, develop Java™-based mobile services for handsets equipped with smart cards, and study ways to manage digital copyrights and license agreements.

Using Binary Runtime Environment for Wireless, commonly known as BREW™, K Laboratory also developed the world's first Instant Messenger system for mobile phones, providing a convenient messaging solution to the fast-growing number of people who send and receive e-mail from their mobile phones while also allowing them to link up with Internet Messaging systems on personal computers.

In November last year K Laboratory agreed with French company Gemplus S.A., the leading provider of solutions empowered by smart cards, to study and develop jointly secure architecture for distributing Java™ applications to mobile phones, smart cards and servers. The companies aim to create the right

convenient messaging solution to the fast-growing number of people who send and receive e-mail from their mobile phones while also allowing them to link up with Internet Messaging systems on personal computers.



## INTERNATIONAL BUSINESS

### Exploring Boundaries beyond Japan

Finally, CYBIRD aims to extend further its services to overseas markets. We announced in March we will offer "CoolSound," a ring tone downloading content service, and "Cool Screen," a wallpaper image content service in Germany following the start of NTT DoCoMo's i-mode® wireless Internet service. NTT

DoCoMo plans to start offering i-mode® in Belgium, the Netherlands, France and Taiwan, which would also enable CYBIRD to provide its cutting-edge content services and marketing services to businesses and consumers in countries around the world.

CYBIRD foresaw the start of the mobile content market even before the launch of i-mode® in Japan. This focus on innovation has allowed us to maintain our leading position in the mobile services industry, and we aim in the future to continue to develop and provide services and environments that many people cannot even imagine at the moment. We are and will continue to be "The Best Partner for mobile Internet."

MOBILE CONTENT BUSINESS

User Base Explodes, Leading to High Profitability



**Ki**

This Japanese character, pronounced *ki* or *moto*, means “strength” or “base.” The content business is the foundation of CYBIRD’s global business.

■ Net Sales/Percentage of CYBIRD’s Net Sales

	Millions of yen		Year-on-year change
	2002	2001	
Net sales.....	¥5,909	¥2,322	154.5%
Percentage of CYBIRD’s net sales .....	85.1%	80.1%	+5.0% points

**Outline of Results for the Fiscal Year Ended March 31, 2002**

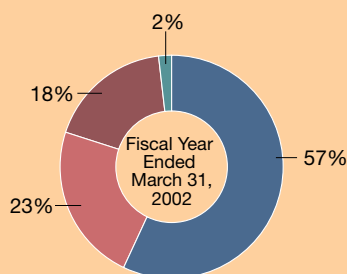
Sales in the Mobile Content Business rose 154%, to ¥5,909 million, from ¥2,322 million the year before, boosted by a 58.8% rise in subscribers to 3.2 million.

By the end of the fiscal year, CYBIRD was offering 73 different content services to domestic wireless network operators, eight more than the prior year. Of these, 25 services were for NTT DoCoMo, Inc., 16 were for J-PHONE Co., Ltd. (a subsidiary of Japan Telecom Co.), 18 were for KDDI Corp. and 14 were for DDI Pocket. Inc.

CYBIRD supplied 19 new Java™-enabled content services for NTT DoCoMo’s i-appli™ (see Note 4 of the Glossary), KDDI’s ezplus (see Note 5 of the Glossary) and J-PHONE’s Java™-Applet during the year under review and released three motion picture content services for i-motion™, available on NTT’s DoCoMo’s 3G mobile phone FOMA®, and KDDI’s ezmovie KEITAI.

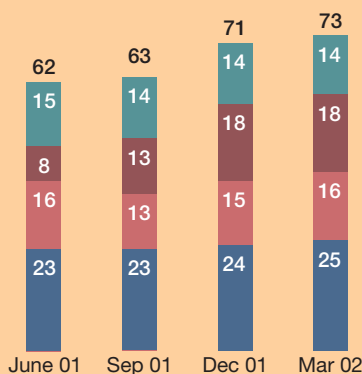
Among the most popular items this year were “CoolSound” (ring tones), “TFM Chakushin Melody” (ring tones), “Chaku Chara!” (wallpaper images), “Cool Screen” (wallpaper images), “iTakarazuka Kageki” (information and community space), “Nami Densetsu” (surf information), “Mini-game☆-Tengoku” (games), “Idoru to Koisiyo” (games), “Zenrin Keitai Map” (map and spot information), and “Anata no Nedan” (fortune-telling).

CYBIRD plans to continue to launch new content services or upgrade existing services, adapting them to changes in the business environment, such as the slowdown of mobile phone shipments and the evolution of the mobile phone platform. In fiscal 2002, the Company plans to launch one or two content services each month.

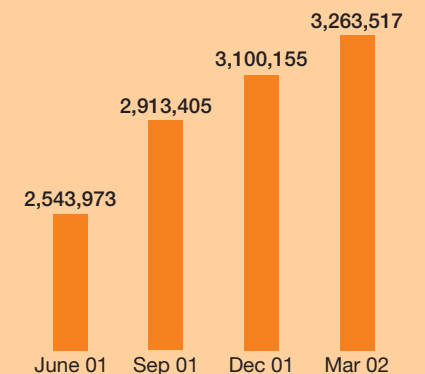


SALES COMPOSITION BY DOMESTIC WIRELESS NETWORK OPERATORS

■ NTT DoCoMo ■ J-PHONE ■ KDDI ■ DDI POCKET



NUMBER OF CONTENT SERVICES OFFERED



NUMBER OF REGISTERED SUBSCRIBERS (Persons)



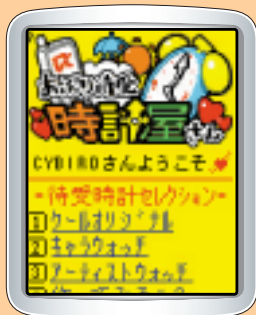
**“CYBIRD STYLE”** (Entertainment)

The “CYBIRD STYLE” site, available from June 17, 2002, sets a goal of providing both members and non-members with various content services of CYBIRD quality. Members will be provided with a special menu list that enables them to access content services such as news, weather reports and entertainment columns, content which has a high retention rate because of its convenience. Non-members will still have access to a wide variety of services that include free wallpaper images, game applications, ring tones and entertainment information such as new movies and DVD titles.

**Introduction to CYBIRD Content Services**

CYBIRD’s content services are rich in originality and variety. The following represents the most popular items offered at present.

● **“Appli Machiuke Tokeiya-san”** Waiting Clock



This attractive service enables you to use your mobile phone as a multi-function clock. More than 300 kinds of cool analog and digital watches are available for your own display. The 504i handset-compatible watches can easily be changed, and have functions such as “Weekly & 3 Hour Weather Forecast,” “TV Program Guide” and “Scheduler.” This content service also offers you “Alarm Clock,” which prevents you from sleeping in.

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● **“Digital Tokoro-san 3D Town”** Wallpaper Images

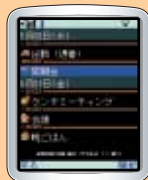


Tokoro-san, a popular TV celebrity, is now a “wait” or “processing” indicator with Java™ functions. In addition to a moving image appearing on the screen as you receive calls and e-mail, today’s news and fortune-telling services are also available. “Tokoro-san’s News” offers you a 3D figure that you can manipulate when you read news. “Golfing Tokoro-san” offers you a golfing Tokoro-san, who starts his golf swing when the call comes in and finishes it after the call is over.

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**New Functions Accompanying the Launch of the NTT DoCoMo 504i**

● **“Nami Densetsu”** Outdoor



**Scheduler**

Setting important appointments on screens of mobile phones makes for easy schedule management and helps users avoid missing any important appointment.



**Information Alarm**

With the addition of an alarm function as requested by many users, the information alarm allows alarms to be set at different times for each day of the week.



**Wallpaper Selector**

Wallpaper Image Selector allows clock designs to be changed easily, without downloading the necessary application each time.



© 1999-2002 CYBIRD

“Nami Densetsu” is aimed at surf and bodyboarding fans. It provides access to wave, weather and surf condition information for 200 Japanese and 40 international surf spots, and is updated several times a day. This content is supported by NTT DoCoMo’s i-motion™, and surfing-related moving image clipping services are also available. Those customers accessing the service through NTT DoCoMo’s i-motion™, can also download surfing-related still and moving images.



MARKETING SOLUTION BUSINESS  
Future Growth Potential

■ Net Sales/Percentage of CYBIRD's Net Sales

	Millions of yen		Year-on-year change
	2002	2001	
Net sales.....	¥778	¥545	42.8%
Percentage of CYBIRD's net sales .....	11.2%	18.8%	-7.6% points

SO

This Japanese character, which contains the element for "sword" (on the right side), expresses the meaning of starting off on a new path, the present goal of our marketing solution business.

**Outline of Results for the Fiscal Year Ended March 31, 2002**

Sales in the Marketing Solution Business rose 42.8%, to ¥778 million, from ¥545 million the year before. The business is responsible for the development and sales of corporate-oriented marketing solutions and package solutions, and also operates in the commerce business. Each of these areas has a broad range of possible customers and has huge growth potential in the long term. The commerce business is working to use various media such as print and radio in conjunction with e-marketing solutions.

During the fiscal year under review, CYBIRD focused on the planning and development of "Sugu Mail™," a revolutionary new marketing tool. With "Sugu Mail™," vendors place a number code next to advertisements for products in magazines, on television, or on billboards. Readers interested in the promotion can then send a blank e-mail to the company from their mobile phone and instantly receive a URL, which they then click to access the company's web page to find out more information or even order the product.

The service doesn't require consumers to thumb lengthy URLs into their keypads, which has proved to be a major problem in attracting users to websites. This service has been devised for use with mobile phone-based marketing campaigns and e-commerce transactions, and has already been adopted by a wide variety of corporations, leading to increased revenue at the division. With this application service provider (ASP) model, the larger the amount sold, the greater the profit margin. After the break-even point is reached, profitability will surge.

**Mobile Marketing via "Sugu Mail™"**

"Sugu Mail™" has proved to be an effective marketing tool for a wide range of corporate customers. PIA Corporation, Japan's largest ticketing company, has made all its ticket information pages of *Weekly Pia* compatible with "Sugu Mail™," to allow readers to purchase tickets immediately. Benesse Corp. has gathered 20,000 applicants to the program through its magazine *Thank You*, targeted at housewives. The company decided on a one-year contract. Famima.com Co., Ltd., a subsidiary of FamilyMart Co., Ltd., a convenience store operator, said its site was accessed 1.8 million times in three weeks after it started a giveaway-ticket campaign for a concert by pop superstar Ayumi Hamasaki using "Sugu Mail™."

"Sugu Mail™" also bring the benefits of mobile e-commerce to publishing companies by allowing readers of magazines and similar publications to instantly purchase featured goods. Sales of mail-order catalogs by Sanrio Company Ltd., a maker of character-based goods, rose after the company signed up for "Sugu Mail™."

## “Sugu Mail™”: Major Uses to Date

### “Sugu Mail™” Sales

● **Benesse Corporation**—This correspondence-course education company agreed to a one-year contract after reporting extremely favorable responses to tests of “Sugu Mail™.” Plans call for expansion to include mail-order sales.

● **ACOM Co., Ltd.**—“Sugu Mail™” effectively attracted customers to the website of this consumer finance company. Addition of one extra address has already been agreed upon.

● **DAIICHIKOSHO CO., LTD.**—Music company used to register new official site members and has been extremely effective at gaining new members. Allows direct access to the website through advertising.

● **H.I.S. Co., Ltd.**—Travel agency used “Sugu Mail™” to attract customers to a 24-hour reception website. H.I.S. staff then call customers back at desired times inputted through their mobile phones by customers.

● **Asahi Broadcasting Corporation**—Used to register new subscribers to the mail magazine *Miyomaga*, released by the popular TV program “It’s ABCDE.”

● **Fuji Television Network, Inc.**—Fuji Television started a “Sugu Mail™”-related information program in April 2002. The program provides a range of services that allows users access to regularly updated information about their areas of interest.

● **At-Loan Co., Ltd.**—Used to attract customers to website via radio spots and public transport advertisements.

### Campaign-Based Sales Expansion

● **Oriental Land Co., Ltd.**—Used in Tokyo Disneyland’s Campus Day campaign, its first-ever mobile promotion.

● **Kanebo, LTD.**—Cosmetics company used “Sugu Mail™” in product advertisements broadcast and in promoting applications for samples.

● **Yomiuri Shimbun**—Leading national newspaper used in official website campaigns.

● **TAKARA SHUZO CO., LTD.**—Used in new product gift campaigns.

● **Kirin Brewery Co., LTD.**—Used in product promoting campaigns.

### Mobile E-Commerce

● **Asahi Shimbun**—One of Japan’s leading daily newspapers took out a full-page newspaper spread to publicize the promotion it used for its “Spring Dictionary Fair” sales event.

● **Svenson Japan Inc.**—This hair-related services company conducted mobile e-commerce related to the planning of a special edition for the popular magazine *Caz*, which is published by FUSO Publishing Inc.

### ● Tie-Up between *Weekly Pia* and “Sugu Mail™”



*Weekly Pia*



← The magazine has a page on ticket information that explains the convenience of “Sugu Mail™,” which allows the sending of just a three-figure address to access the URL in question.

← It also explains the steps for going directly to the ticket reservation page for each event with a P-code, which is the code for reservation using the telephone.

PIA Corporation, the strongest sales network for event tickets, actively uses “Sugu Mail™” to promote ticket reservations through mobile phones in its entertainment information magazine *Weekly Pia*.

### ● Giveaway-Ticket Campaign of FamilyMart Co., Ltd., a Convenience Chain-Store Operator



The flier employed at each store in the chain announces invitations for a December concert by Japan’s female pop chart leader Ayumi Hamasaki.

The application method for this campaign is to apply by inputting a written code on the application ticket that is given with each shopping equivalent of ¥700 (about US\$5.30). The easy access achieved by “Sugu Mail™” has led to a surge in the number of applications.

### ● “Sugu Mail™” Utilized by Sanrio Company Ltd. for Its E-Commerce



Sanrio’s mail-order catalog featuring its character-based goods



A page that explains how easy it is to go to the ordering site by using “Sugu Mail™”

# Technology without Boundaries

## ■ Net Sales/Percentage of CYBIRD's Net Sales

	Millions of yen		Year-on-year change
	2002	2001	
Net sales.....	¥225	¥32	589.0%
Percentage of CYBIRD's net sales.....	3.2%	1.1%	+2.1% points

### TAKUMI

This Japanese character, composed of elements for "box" and "axe," symbolizes the great masters of craftsmanship or technique. In the same way, CYBIRD prides itself on its craftsmanship in new technology.

### Outline of Results for the Fiscal Year Ended March 31, 2002

Sales in the technology division rose to ¥225 million, from ¥32 million the year before.

Research and development is carried out at our Strategic Technology Planning Department, Technology Department and K Laboratory Co., Ltd., a consolidated subsidiary. The Strategic Technology Planning Department researches Bluetooth™ technologies and network technologies as Ipv6, and works together with K Laboratory on architectures and platforms such as BREW™.

K Laboratory conducts R&D activities specializing in mobile phone software. K Laboratory develops Java™ applications for mobile phones. It is licensed to provide the first Java™ mobile phone application for German electronics giant Siemens AG, and also develops and offers BREW™ mobile phone applications for KDDI.

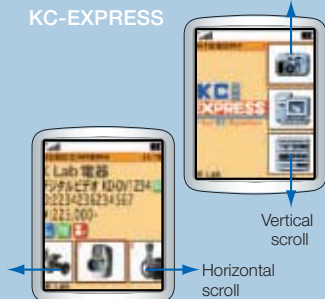
Overseas, demand for Java™-enabled or BREW™-enabled mobile phones is expected to increase. Taking advantage of its experience in Japan, K Laboratory will stay ahead of competitors in the overseas market by forming alliances with major manufacturers, wireless network operators and software houses abroad.

### Recognized as Leading BREW™ Application Producer

K Laboratory garnered the 1st QUALCOMM BREW™ Developer Award in June 2002. KDDI's "Carrier's Choice" Award was given in recognition of the top content "Kyara Komyu," a service that allows users to select 3D characters (happy, sad, angry, etc.) to attach to their e-mail messages. This award is given to recognize excellence, innovation and individual achievements by application developers.

### Java™ Applications

#### KC-EXPRESS



©K Laboratory 2001-2002

K Laboratory joined forces with Imagineer Co., Ltd. to develop the super-convenient "Hello Kitty Mail" service available as an official i-mode® website. The company also worked with San-ai GIGA Networks Co., Ltd. to plan and develop a downloadable ring tone for i-mode®. K Laboratory also developed the "i-appli™ Ugoku Mail" series for use with the official i-appli™ service "i-Chekeracho" for NTT DoCoMo Kansai, Inc.

K Laboratory also developed "KC-EXPRESS™", a mobile e-commerce-enabling solutions package. "KC-EXPRESS™" allows users to browse online product information easily and efficiently, departing from previous methods of downloading a new page each time customers can browse by product. This has achieved considerable boosts in customer satisfaction and cut mobile phone bills.



**SHO**

This Japanese character, which means to “fly out” or “embark,” speaks to CYBIRD’s steps toward a global enterprise.

■ Net Sales/Percentage of CYBIRD’s Net Sales

	Millions of yen		Year-on-year change
	2002	2001	
Net sales.....	¥31	-	-
Percentage of CYBIRD’s net sales .....	0.5%	-	-

**Outline of Results for the Fiscal Year Ended March 31, 2002**

Sales from the International Business came to ¥31 million, from zero the year before. The International Business Department provides European and Asian wireless network operators with consulting and content provision services. In the future, the Company plans to develop joint activities and provide content services to firms in the United States as well. The department aims to expand revenues by providing a workshop, consultation, solution and content services to wireless network operators in prospective overseas markets.

Recognizing the lack of an adequate source of information on changes in the mobile Internet market, in September 2001, CYBIRD introduced a report to explain new movements in the Japanese industry from an insider’s perspective. The report, which is sold to industry professionals through CYBIRD’s website, analyzes market structure, business models, technologies, stakeholders’ power base and trends in popular content. It has been successful in increasing awareness of the industry and positioning CYBIRD as an expert at understanding a market evolution and implementing creative new ideas and solutions.

**North America**

- CYBIRD has been chosen by JAMDAT Mobile Inc. (USA), which has a copublishing relationship with Electronic Arts, the official FIFA and FIFA World Cup™ Worldwide Licensee, to develop EA SPORTS™ 2002 FIFA World Cup™ game—the only official 2002 FIFA World Cup game for use on mobile phones in Japan.



JAMDAT and JAMDAT Mobile are trademarks of JAMDAT Mobile, Inc. All rights reserved. ©2002 Electronic Arts Inc. All rights reserved. Official licensed product. Manufactured under license by Electronic Arts Inc.  
Electronic Arts, EA SPORTS and the EA SPORTS logo are trademarks or registered trademarks of Electronic Arts Inc. in the U.S. and/or other countries. All other trademarks are the property of their respective owners.  
EA SPORTS is an Electronic Arts™ brand.

**Asia**

- Forging an alliance with chinadotcom (Hong Kong), CYBIRD has started distributing SMS (see Note 6 of the Glossary) content services via Chinese wireless network operator, China Mobile.
- CYBIRD has begun to offer a license project with an Asian GSM (see Note 7 of the Glossary) operator. Investigations into the feasibility of expanding this service to European markets are also underway.
- CYBIRD has agreed to distribute 16-tone polyphonic ring tones provided by Wrap-IT Group PTE LTD. (Singapore).
- CYBIRD KOREA Co., Ltd., a strategic base for CYBIRD’s Asian business, has reinforced its software development function by making the best use of its cost-competitiveness in software development. CYBIRD KOREA is expected to contribute not only to our overseas expansion but also to our competitiveness in the domestic software development market.



**Europe**

- With the start of i-mode® services provided by E-Plus Mobilfunk (Germany) and KPN Mobile (the Netherlands), CYBIRD provides “CoolSound” and “Cool Screen” content services, extremely popular in Japan, to both companies.



▲ CoolSound  
© 2000-2002 CYBIRD



▲ Cool Screen  
© 2000-2002 CYBIRD

## Financial Review

### Income and Expenses

For the fiscal year ended March 31, 2002, consolidated net sales amounted to ¥6,944 million, an increase of ¥4,044 million, or 139.5%, in comparison with the previous fiscal year. The major reasons for sales expansion were the steady growth of the mobile content business and good performances by the marketing solution and technology-related businesses.

Cost of sales totaled ¥3,429 million, an increase of ¥1,374 million, or 66.8%. Control of fixed costs contributed to a higher gross profit margin of 50.6%, an improvement from 29.1% the prior fiscal year.

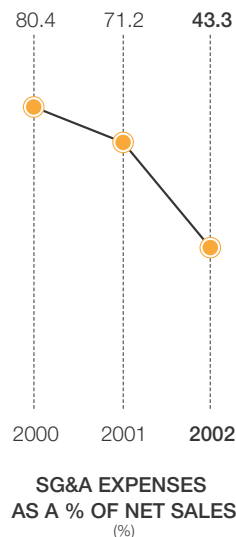
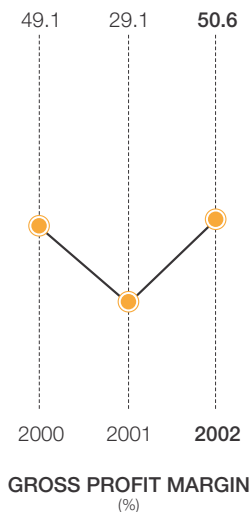
Selling, general and administrative (SG&A) expenses increased 45.6%, an increase of ¥941 million, to ¥3,006 million. Personnel expenses rose ¥256 million, or 50.8%, to ¥762 million. The number of employees on a consolidated basis, as of March 31, 2002, was 214, compared with 144 a year earlier. Advertising and general publicity expenses totaled ¥387 million, an expansion of ¥134 million, or 52.9%. The increase resulted from greater expenses for advertising in the various media to support our content services. Research and development costs amounted to ¥486 million, a decrease of ¥54 million, or 9.9%. This decline was due to the Company's emphasis on the conversion of existing content services to Java™-enabled ones and others, resulting in lower R&D costs in the content business. The transition of our international business from a market-exploring phase to an earnings phase also contributed to lower R&D costs. Charges and commissions grew to ¥837 million, an increase of ¥417 million, or 99.4%. This jump was due to greater payments made to wireless network

operators as subscription fee collection commissions. Collection commissions rose ¥370 million, to ¥584 million. Rent totaled ¥104 million, rising ¥15 million, or 16.7%. This growth stemmed from higher rent for the new office, which we moved into in June 2000, and an expansion in lease and rental fees for office appliances.

Operating income was ¥510 million, an improvement from the operating loss of ¥1,220 million the previous fiscal year. This recovery was due to the control of cost of sales and SG&A expenses.

Net income was ¥458 million, an improvement from the net loss of ¥1,380 million the prior fiscal year. This reversal was mainly the result of higher operating income. Other factors contributing to the change were ¥62 million of equity in net loss of an associated company (CYBIRD KOREA Co., Ltd.), an extraordinary gain of ¥50 million from subscription of new shares by minority, and an extraordinary gain of ¥54 million on sales of investment securities. Furthermore, we revaluated all content services to focus our investment in profitable services, resulting in an impairment loss on software of ¥102 million.

Basic net income per share was ¥14,920, an improvement from the net loss per share of ¥98,803 a year earlier. The average number of shares issued rose 16,715, to 30,680 shares, compared with 13,965 shares the previous fiscal year. The average number of shares issued was calculated by assuming that the three-for-one stock split on June 20, 2000 and the two-for-one stock split on August 24, 2001 were conducted at the beginning of the fiscal year, respectively.



Earnings before interest, taxes, depreciation and amortization (EBITDA) totaled ¥875 million, an increase of ¥1,883 million from the loss before interest, taxes, depreciation and amortization of ¥1,008 million the previous fiscal year. Our EBITDA is calculated using the following formula.

$$\text{EBITDA} = \text{Operating income} + \text{depreciation cost (tangible assets and intangible assets)}$$

### Financial Position

Total assets at March 31, 2002 were ¥5,155 million, up ¥1,156 million, or 28.9%, from a year earlier. Major changes were a ¥300 million increase in cash, which rose due to borrowing from banks by a subsidiary, and trade account receivables, which expanded along with sales growth. Depreciation and devaluation of software contributed to a decline in intangible fixed assets.

Total liabilities amounted to ¥1,343 million, a rise of ¥671 million, or 99.8%. Major changes were increases in the short-term bank loans of the subsidiary and in trade accounts payable and other current liabilities in accordance with the growth in the sales of the content business.

Total shareholders' equity was ¥3,782 million, up ¥459 million, or 13.8%, from the prior fiscal year. The deficit decreased by ¥450 million mainly due to the net income earned for the year.

### Cash Flows

Total cash and cash equivalents at the fiscal year-end totaled ¥2,063 million, up ¥502 million, or 32.2%, compared with the previous fiscal year.

### Cash Flow from Operating Activities

Net cash provided by operating activities was ¥652 million. In addition to growth in operating income, the control of cost of sales and SG&A expenses contributed to the improvement in net cash provided by operating activities, compared with net cash used of ¥1,898 million recorded a year earlier.

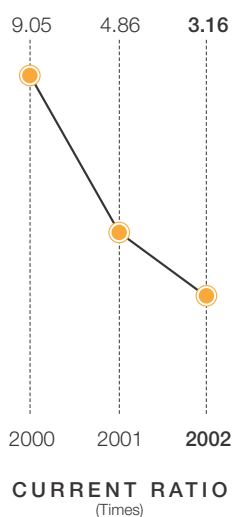
### Cash Flow from Investing Activities

Net cash used in investing activities was ¥498 million, down ¥416 million from the prior fiscal year. This decline was due to less cash invested in intangible fixed assets (software for content services). Proceeds from sales of investment securities and collection of loan receivables supported this performance.

### Cash Flow from Financing Activities

Net cash provided by financing activities totaled ¥348 million, primarily reflecting ¥300 million in short-term bank loans by the subsidiary. Since we had raised ¥2,291 million from our IPO the previous fiscal year, net cash provided by financing activities decreased by ¥1,922 million in the fiscal year under review.

Free cash flow for the fiscal year ended March 31, 2002 was ¥292 million, after deducting the ¥37 million in acquisitions of tangible fixed assets and ¥323 million in purchases of intangible fixed assets included under cash flows from investing activities from the ¥652 million in net cash provided by operating activities. This result compared favorably with the negative free cash flow of ¥2,618 million recorded the prior fiscal year.



# Consolidated Balance Sheets

March 31, 2002 and 2001

ASSETS	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2002	2001	2002
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents .....	¥2,062,691	¥1,560,377	\$15,509
Receivables:			
Trade accounts .....	2,015,729	1,297,822	15,155
Allowance for doubtful receivables .....	(36,159)	(22,245)	(271)
Inventories (Note 3) .....	40,531	61,894	305
Prepaid expenses and other current assets .....	97,995	83,565	736
<b>Total current assets .....</b>	<b>4,180,787</b>	<b>2,981,413</b>	<b>31,434</b>
<b>PROPERTY AND EQUIPMENT:</b>			
Leasehold improvements .....	68,378	66,306	514
Furniture and fixtures.....	143,555	115,998	1,079
Total.....	211,933	182,304	1,593
Accumulated depreciation .....	(77,575)	(34,709)	(583)
<b>Net property and equipment .....</b>	<b>134,358</b>	<b>147,595</b>	<b>1,010</b>
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment in an associated company .....	13,007	39,913	98
Investment securities (Note 4) .....	29,032	42,000	218
Software .....	521,504	665,633	3,921
Lease deposit .....	254,680	111,556	1,915
Other.....	21,503	11,143	162
<b>Total investments and other assets .....</b>	<b>839,726</b>	<b>870,245</b>	<b>6,314</b>
<b>TOTAL.....</b>	<b>¥5,154,871</b>	<b>¥3,999,253</b>	<b>\$38,758</b>

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2002	2001	2002
<b>CURRENT LIABILITIES:</b>			
Short-term bank loans (Note 5) .....	¥ 300,000		\$ 2,255
Current portion of long-term debt (Note 5) .....	40,923	¥ 39,207	308
Trade accounts payable .....	771,363	523,901	5,800
Accrued income taxes .....	2,893	2,433	22
Accrued consumption taxes .....	119,565		899
Accrued bonuses .....	42,387	29,610	319
Accrued expenses and other current liabilities .....	46,124	18,619	346
Total current liabilities .....	1,323,255	613,770	9,949
<b>LONG-TERM LIABILITIES:</b>			
Long-term debt (Note 5) .....	17,576	58,499	132
Others .....	2,638		20
Total long-term liabilities .....	20,214	58,499	152
<b>MINORITY INTERESTS</b> .....	29,715	4,219	223
<b>COMMITMENTS AND CONTINGENT LIABILITIES</b>			
<b>SHAREHOLDERS' EQUITY</b> (Notes 6 and 7):			
Common stock—authorized, 61,360 shares; issued and outstanding, 30,698 shares at March 31, 2002 and 15,340 shares at March 31, 2001 .....	2,408,500	2,405,500	18,109
Additional paid-in capital .....	2,465,200	2,462,200	18,535
Deficit .....	(1,095,133)	(1,544,935)	(8,234)
Unrealized gain on available-for-sale securities .....	3,644		28
Foreign currency translation adjustments .....	(524)		(4)
Total shareholders' equity .....	3,781,687	3,322,765	28,434
<b>TOTAL</b> .....	¥5,154,871	¥3,999,253	\$38,758

See notes to consolidated financial statements.

## Consolidated Statements of Operations

Years Ended March 31, 2002 and 2001

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2002	2001	2002
<b>NET SALES</b> .....	<b>¥6,944,433</b>	¥ 2,900,115	<b>\$52,214</b>
<b>COST OF SALES</b> .....	<b>3,429,078</b>	2,055,465	<b>25,783</b>
Gross profit .....	<b>3,515,355</b>	844,650	<b>26,431</b>
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b> (Notes 9 and 10) .....	<b>3,005,790</b>	2,064,626	<b>22,600</b>
Operating income (loss) .....	<b>509,565</b>	(1,219,976)	<b>3,831</b>
<b>OTHER INCOME (EXPENSES):</b>			
Interest income .....	1,040	962	9
Interest expenses .....	(8,607)	(5,388)	(65)
Equity in net loss of an associated company .....	(62,392)		(469)
Impairment loss on software .....	(101,743)		(765)
Stock issuance expenses .....	(1,664)	(156,339)	(13)
Gain on sales of investment securities .....	53,607		403
Gain from subscription of new shares by minority .....	49,642		373
Other—net .....	(3,044)	(2,441)	(23)
Other expenses—net .....	(73,161)	(163,206)	(550)
<b>INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS</b> .....	<b>436,404</b>	(1,383,182)	<b>3,281</b>
<b>INCOME TAXES</b> (Note 8):			
Current .....	2,920	2,492	22
Deferred .....		3,456	
Total .....	2,920	5,948	22
<b>MINORITY INTERESTS</b> .....	<b>24,283</b>	9,344	<b>183</b>
<b>NET INCOME (LOSS)</b> .....	<b>¥457,767</b>	¥(1,379,786)	<b>\$ 3,442</b>
	Yen		U.S. Dollars
<b>PER SHARE OF COMMON STOCK</b> (Note 2.I):			
Basic net income (loss) .....	<b>¥14,920</b>	¥(98,803)	<b>\$112.18</b>
Diluted net income .....	<b>14,571</b>		<b>109.56</b>

See notes to consolidated financial statements.

## Consolidated Statements of Shareholders' Equity

Years Ended March 31, 2002 and 2001

	Outstanding Number of Shares of Common Stock	Thousands of Yen				
		Common Stock	Additional Paid-in Capital	Deficit	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments
<b>BALANCE, APRIL 1, 2000</b> .....	4,380	¥1,270,000	¥1,130,500	¥ (196,972)	Nil	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			
<b>BALANCE, MARCH 31, 2001</b> .....	15,340	2,405,500	2,462,200	(1,544,935)	Nil	Nil
Adjustment of deficit from new application of equity method to an associated company .....				(7,965)		
Net income .....				457,767		
Stock split .....	15,340					
Exercise of stock options .....	18	3,000	3,000			
Net increase in unrealized gain on available-for-sale securities .....					¥3,644	
Net increase in foreign currency translation adjustment .....						¥(524)
<b>BALANCE, MARCH 31, 2002</b> .....	<b>30,698</b>	<b>¥2,408,500</b>	<b>¥2,465,200</b>	<b>¥(1,095,133)</b>	<b>¥3,644</b>	<b>¥(524)</b>

	Thousands of U.S. Dollars (Note 1)				
	Common Stock	Additional Paid-in Capital	Deficit	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments
<b>BALANCE, MARCH 31, 2001</b> .....	\$18,086	\$18,512	\$(11,616)	Nil	Nil
Adjustment of deficit from new application of equity method to an associated company .....			(60)		
Net income .....			3,442		
Exercise of stock options .....	23	23			
Net increase in unrealized gain on available-for-sale securities .....				\$28	
Net increase in foreign currency translation adjustment .....					\$(4)
<b>BALANCE, MARCH 31, 2002</b> .....	<b>\$18,109</b>	<b>\$18,535</b>	<b>\$ (8,234)</b>	<b>\$28</b>	<b>\$(4)</b>

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Years Ended March 31, 2002 and 2001

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2002	2001	2002
<b>OPERATING ACTIVITIES:</b>			
Income (loss) before income taxes and minority interests .....	¥ 436,404	¥(1,383,182)	\$ 3,281
Adjustments for:			
Income taxes—paid.....	(2,309)	(46,723)	(17)
Depreciation and amortization.....	365,261	211,812	2,746
Provision for doubtful receivables .....	16,904	22,113	127
Equity in net loss of an associated company .....	62,392		469
Gain on sales of investment securities.....	(53,607)		(403)
Gain from subscription of new shares by minority.....	(49,642)		(373)
Impairment loss on software .....	101,743		765
Stock issuance expenses.....		156,339	
Change in operating assets and liabilities:			
Increase in trade accounts receivable.....	(720,576)	(1,175,000)	(5,417)
(Increase) decrease in inventories .....	21,363	(48,673)	161
Increase in trade accounts payable.....	293,825	385,912	2,209
Increase in accrued consumption taxes .....	119,565		899
Increase in accrued bonuses .....	12,777	21,760	96
Other—net.....	48,153	(42,749)	361
Total adjustments .....	215,849	(515,209)	1,623
Net cash provided by (used in) operating activities .....	652,253	(1,898,391)	4,904
<b>INVESTING ACTIVITIES:</b>			
Expenditures for property and equipment.....	(37,296)	(80,743)	(280)
Expenditures for software .....	(322,787)	(638,970)	(2,427)
Expenditures for investment in an associated company.....	(42,692)		(321)
Proceeds from sales of investment securities.....	87,994		662
Expenditures for investment securities .....		(81,913)	
Expenditures for lease deposit.....	(146,276)	(119,448)	(1,100)
(Increase) decrease in other assets.....	(37,011)	6,642	(278)
Net cash used in investing activities.....	(498,068)	(914,432)	(3,744)
<b>FINANCING ACTIVITIES:</b>			
Proceeds from short-term bank loans.....	800,000		6,015
Repayment of short-term bank loans.....	(500,000)		(3,759)
Repayment of long-term debt .....	(39,207)	(32,728)	(295)
Proceeds from new shares issued, net of stock issuance expenses.....	6,000	2,290,861	45
Other—net .....	81,336	11,650	611
Net cash provided by financing activities.....	348,129	2,269,783	2,617
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS .....</b>		4	
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS .....</b>	<b>502,314</b>	<b>(543,036)</b>	<b>3,777</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR.....</b>	<b>1,560,377</b>	<b>2,103,413</b>	<b>11,732</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR .....</b>	<b>¥2,062,691</b>	<b>¥1,560,377</b>	<b>\$15,509</b>
<b>NON-CASH INVESTING ACTIVITIES:</b>			
Acquisition of furniture and equipment on an installment payment basis .....	Nil	¥ 119,813	Nil

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Years Ended March 31, 2002 and 2001

## 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 have 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 ¥133 to \$1, the approximate rate of exchange at March 31, 2002. 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 subsidiaries, K Laboratory Co., Ltd. and DMOVE Co., Ltd., for the year ended March 31, 2002, and a subsidiary, K Laboratory Co., Ltd., for the year ended March 31, 2001 (together, the "Group").

The equity method has been newly applied to investment in an associated company, Cybird Korea Co., Ltd.

The excess of cost of an acquisition over the fair value of the net assets of the acquired subsidiaries and an associated company accounted for by the equity method 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**—Available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

For other than temporary declines in fair value, investment 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.

**h. Leases**—All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases which are 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 income (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 30,680 and 13,965 for the years ended March 31, 2002 and 2001, respectively. Diluted net income per share of common stock assumes full exercise of stock options. However, it was not disclosed because of the Company's net loss position for the year ended March 31, 2001.

### 3. INVENTORIES

	Thousands of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Merchandise .....	¥ 300	¥17,701	\$ 2
Work in process .....	40,231	44,193	303
Total .....	¥40,531	¥61,894	\$305

### 4. INVESTMENT SECURITIES

Investment securities as of March 31, 2002 and 2001, were all classified as available-for-sale and consisted of the following:

	Thousands of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Equity securities:			
Marketable .....	¥22,032		\$166
Non-marketable .....	7,000	¥42,000	52
Total .....	¥29,032	¥42,000	\$218

Information regarding marketable equity securities was as follows:

	Thousands of Yen		
	2002		
	Cost	Unrealized Gains	Fair Value
Securities classified as—			
Available-for-sale .....	¥15,750	¥6,282	¥22,032

	Thousands of U.S. Dollars		
	2002		
	Cost	Unrealized Gains	Fair Value
Securities classified as—			
Available-for-sale .....	\$119	\$47	\$166

Proceeds from sales of available-for-sale securities for the year ended March 31, 2002, were ¥87,994 thousand (\$662 thousand), resulting in gross gains of ¥53,607 thousand (\$403 thousand), computed on the moving average cost basis.

### 5. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at March 31, 2002, consisted of notes to banks. The annual interest rates applicable to the short-term bank loans ranged from 1.75% to 2.00%.

Long-term debt at March 31, 2002 and 2001, consisted of the following:

	Thousands of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Accounts payable in installments due August 2003.....	¥58,499	¥97,706	\$440
Less current portion .....	(40,923)	(39,207)	(308)
Long-term debt, less current portion .....	¥17,576	¥58,499	\$132

### 6. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which certain amendments became effective from October 1, 2001.

Prior to October 1, 2001, the Code required 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 were credited to additional paid-in capital. Effective October 1, 2001, the Code was revised and common stock par values were eliminated resulting in all shares being recorded with no par value.

Prior to October 1, 2001, the Code also provided that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other cash payments which are made as an appropriation of retained earnings applicable to each fiscal period shall be appropriated and set aside as a legal reserve until such reserve equals 25% of stated capital. Effective October 1, 2001, the revised Code allows for such appropriations to be set aside as a legal reserve until the total additional paid-in capital and legal reserve equals 25% of stated capital. The amount of total additional paid-in capital and legal reserve which exceeds 25% of stated capital can be transferred to retained earnings by resolution of the shareholders, which may be available for dividends. Under the Code, companies may issue new common shares to existing shareholders without consideration as a stock split pursuant to a resolution of the Board of Directors. Prior to October 1, 2001, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the stock split could not be less than ¥50 thousand. The revised Code eliminated this restriction.

Prior to October 1, 2001, the Code imposed certain restrictions on the repurchase and use of treasury stock. Effective October 1, 2001, the Code eliminated these restrictions allowing companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders' meeting and dispose of such treasury stock by resolution of the Board of Directors after March 31, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of stated capital, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders' meeting.

The Code permits companies to transfer a portion of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Code also permits companies to transfer a portion of unappropriated retained earnings, available for dividends, to stated capital by resolution of the shareholders.

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

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 and additional paid-in capital of ¥15,000 thousand and a decrease in deficit of ¥31,823 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 December 21, 2000, the Company made both a public offering in Japan and an international offering, and issued 1,300 and 600 shares, respectively, for gross proceeds of ¥2,447,200 thousand. Out of such proceeds, ¥1,130,500 thousand was designated as stated capital, and the remaining ¥1,316,700 thousand was credited to additional paid-in capital.

On August 24, 2001, the Company made a stock split by way of a free share distribution at the rate of 2 shares for each outstanding share, and 15,340 shares were issued to shareholders of record at that date. Stated capital was not changed as a result of this stock split.

During the year ended March 31, 2002, the Company issued 18 shares of common stock for exercise of stock options, for gross proceeds of ¥6,000 thousand (\$46 thousand). Out of such proceeds, ¥3,000 thousand (\$23 thousand) was designated as stated capital, and the remaining ¥3,000 thousand (\$23 thousand) was credited to additional paid-in capital.

## 7. STOCK OPTIONS

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 be issued new shares up to 193 shares of the Company's common stock (1,158 shares after a stock split exercised on June 20, 2000 and August 24, 2001) and 47 shares (282 shares after a stock split exercised on June 20, 2000 and August 24, 2001), respectively, at the exercise price of ¥2,000,000 (¥333,334 after a stock split exercised on June 20, 2000 and August 24, 2001) 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 be issued new shares up to 126 shares of the Company's common stock (252 shares after a stock split exercised on August 24, 2001) at the exercise price of ¥666,667 (¥333,334 after a stock split exercised on August 24, 2001) 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 ("No. 3 plan"), on September 1, 2001, 8 directors and 46 employees were granted options to be issued new shares up to 600 shares of the Company's common stock and 200 shares, respectively, at the exercise price of ¥452,566 during the period from September 1, 2003 to August 31, 2008.

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

## 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, 2002 and 2001.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2002 and 2001, were as follows:

	Thousands of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Deferred tax assets (current):			
Allowance for doubtful receivables and other current assets .....	¥68,547	¥23,610	\$515
Less valuation allowance .....	(68,547)	(23,610)	(515)
Total .....	Nil	Nil	Nil

	Thousands of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Deferred tax assets (non-current):			
Tax loss carryforwards.....	¥213,599	¥583,740	\$1,606
Investments and other assets .....	143,965	30,941	1,082
Less valuation allowance .....	(357,564)	(614,681)	(2,688)
Total .....	Nil	Nil	Nil
Deferred tax liabilities (non-current):			
Unrealized gain on available- for-sale securities.....	¥ 2,638		\$ 20
Total .....	¥ 2,638	Nil	\$ 20

A reconciliation between the normal effective statutory tax rate for the years ended March 31, 2002 and 2001, and the actual effective tax rates reflected in the accompanying consolidated statements of operations is as follows:

	2002	2001
Normal effective statutory tax rate .....	42.0%	42.0%
Expenses not deductible for income tax purposes.....	3.6	(0.9)
Utilization of tax loss carryforwards.....	(91.2)	(36.7)
Depreciation of software .....	24.2	(2.1)
Tax benefits not recognized on operating loss at subsidiaries.....	9.3	
Write-off of accounts receivable.....	8.4	
Equity in net loss of an associated company ...	6.0	
Other—net.....	(1.6)	(2.7)
Actual effective tax rate.....	0.7%	(0.4)%

## 9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

	Thousands of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Advertising and general publicity expenses.....	¥ 387,034	¥ 253,151	\$ 2,910
Provision for doubtful receivables .....	16,904	22,113	127
Compensation paid to directors .....	230,808	180,840	1,735
Salaries .....	437,164	261,205	3,287
Welfare expenses .....	77,086	55,025	580
Bonuses .....	17,416	9,464	131
Traveling and transportation expenses.....	33,297	39,857	250
Research and development costs.....	486,165	539,845	3,655
Commission .....	583,992	214,357	4,391
Others .....	735,924	488,769	5,534
Total .....	¥3,005,790	¥2,064,626	\$22,600

## 10. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥486,165 thousand (\$3,655 thousand) and ¥539,845 thousand for the years ended March 31, 2002 and 2001, respectively.

## 11. LEASES

The Group has entered into lease agreements as a 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 ¥189,770 thousand (\$1,427 thousand) and ¥112,598 thousand for the years ended March 31, 2002 and 2001, 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, 2002 and 2001, was as follows:

Property, equipment and software:

	Thousands of Yen		Thousands of U.S. Dollars
	March 31		March 31,
	2002	2001	2002
Acquisition cost.....	¥660,311	¥648,651	\$4,965
Accumulated depreciation .....	285,658	107,294	2,148
Net leased property .....	¥374,653	¥541,357	\$2,817

Obligations under finance leases:

	Thousands of Yen		Thousands of U.S. Dollars
	March 31		March 31,
	2002	2001	2002
Due within one year .....	¥183,629	¥177,105	\$1,381
Due after one year .....	216,940	398,529	1,631
Total.....	¥400,569	¥575,634	\$3,012

Depreciation expense and interest expense under finance leases:

	Thousands of Yen		Thousands of U.S. Dollars
	Year Ended March 31		Year Ended March 31,
	2002	2001	2002
Depreciation expense.....	¥174,958	¥104,009	\$1,315
Interest expense .....	23,813	18,134	179
Total.....	¥198,771	¥122,143	\$1,494

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. SUBSEQUENT EVENTS

From April 1, 2002 to June 27, 2002, certain stock options have been exercised, resulting in the issuance of 881 new shares of common stock. Out of proceeds of ¥293,667 thousand (\$2,208 thousand), ¥146,834 thousand (\$1,104 thousand) was designated as stated capital, and the remaining ¥146,833 thousand (\$1,104 thousand) was credited to additional paid-in capital. As a result, the number of shares issued and outstanding was changed into 31,579 shares, the amount of common stock into ¥2,555,334 thousand (\$19,213 thousand) and the amount of additional paid-in capital into ¥2,612,033 thousand (\$19,639 thousand).

## 13. 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, 2002 and 2001. Therefore, segment information for the years ended March 31, 2002 and 2001, is not required to be disclosed.

# Independent Auditors' Report

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**Deloitte  
Touche  
Tohmatsu**

## INDEPENDENT AUDITORS' REPORT

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

We have examined the consolidated balance sheets of Cybird Co., Ltd. and subsidiaries as of March 31, 2002 and 2001, 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 subsidiaries as of March 31, 2002 and 2001, 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 27, 2002

# Glossary

**Note 1: Platform**

Refers to the individual hardware and software standards of different makers. The expression compares these standards to a railway system in which different rails run their own paths without ever crossing.

**Note 2: Java™**

A programming language created by Sun Microsystems, Inc. that does not rely on a specific operating system. Programs developed in Java™ can be run solely by mobile phone units, allowing them to be used in areas that telecommunication carrier signals cannot reach.

**Note 3: BREW™** (Binary Runtime Environment for Wireless)

An application execution environment for mobile phones developed by U.S. company QUALCOMM Incorporated. BREW™ is installed on the mobile phones of those telecommunications carriers using CDMA (see below) transmission standards, such as KDDI Corp. and certain U.S. and South Korean companies. CDMA (Code Division Multiple Access) is an access method developed by QUALCOMM that allows multiple communications to take place over the same frequency range. CDMA realizes greater efficiency in the use of channels through this multiplexing capability.

**Note 4: i-appli™**

An NTT DoCoMo, Inc. service that allows customers to download games and other software from the Internet. Alternately, the software application that accompanies the service.

**Note 5: ezplus**

A KDDI Corp. service aimed at Java™-compatible mobile phones. In addition to allowing software downloads, the service also allows real-time communication between mobile phones.

**Note 6: SMS** (Short Message Service)

A service that allows short text messages to be exchanged between mobile phones. SMS operates on a system whereby messages are saved at a service center then downloaded later by the recipients, a system quite distinct from that used by e-mail.

**Note 7: GSM** (Global System for Mobile Communications)

A digital mobile phone system used in Europe, Africa, Asia, and elsewhere.

## Board of Directors and Auditors

As of June 28, 2002

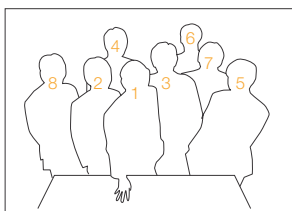


### President and CEO

Kazutomo Robert Hori (1)

### Executive Vice President and CTO

Tetsuya Sanada (2)



### Executive Vice Presidents

Yosuke Iwai (3)

Kenichiro Nakajima (4)

### Senior Vice Presidents

Shinichiro Yamashita (5)

Tomosada Yoshikawa (6)

Mikio Inari (7)

Tomoo Tateishi (8)

### Standing Corporate Auditor

Jun Utsumi

### Corporate Auditors

Masahisa Takeyama

Hiroshi Shimizu

## Company Outline

As of March 31, 2002

### Name

CYBIRD Co., Ltd.

### Established

September 29, 1998

### Capital

¥2,408.5 million

### Head office

Kamiyacho MT-Bldg., 4-3-20 Toranomon,  
Minato-ku, Tokyo, Japan 105-0001

Tel: +81-3-3431-0111

### Employees

155 (214 in Group companies)

### Business lines

- Distribution of mobile content services for the general public for Internet-enabled mobile phones
- Marketing solutions for corporations for Internet-enabled mobile phones
- Planning, development and operation of websites for Internet-enabled mobile phones

### Listing code number

4823 (JASDAQ)

### Banks

The Bank of Tokyo-Mitsubishi, Ltd.

Mizuho Bank, Ltd.

UFJ Bank Limited

Sumitomo Mitsui Banking Corporation

### Consolidated subsidiaries

K Laboratory Co., Ltd.

DMOVE Co., Ltd.

### Affiliate

CYBIRD KOREA Co., Ltd.

## Stock Information

As of March 31, 2002

### Number of shares issued and outstanding

30,698

### Number of shareholders

1,588

### Principal shareholders

	(shares)	(%)
Kazutomo Robert Hori	4,206	13.7
Yosuke Iwai	2,112	6.8
Tetsuya Sanada	2,100	6.8
Omron Corporation	1,800	5.8
Omron Enterprise Co., Ltd.	1,780	5.7
Tomoo Tateishi	1,400	4.5
Itochu Corporation	1,260	4.1
Raumuzu Co., Ltd.	1,260	4.1
Kenichiro Nakajima	1,191	3.8

- \*Java and Java-related trademarks are the brands or registered trademarks of Sun Microsystems, Inc. in the United States and other countries.
- \*BREW is a trademark of QUALCOMM Incorporated.
- \*i-mode and FOMA are trademarks or registered trademarks of NTT DoCoMo, Inc. in Japan and other countries.
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- \*J-PHONE is the registered trademark of J-PHONE Co., Ltd.
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#### **Forward-Looking Statements**

Statements in this Annual Report herein with respect to CYBIRD's plans, strategies, and beliefs, as well as other statements that are not historical facts, are forward-looking statements involving risks and uncertainties. The important factors that could cause actual results to differ materially from such statements include, but are not limited to, general economic conditions in CYBIRD's markets, which are primarily Japan, North America, Asia and Europe; demand for, and competitive pricing pressure on, CYBIRD's products and services in the marketplace; CYBIRD's ability to continue to win acceptance for its products and services in these highly competitive markets; and movements of currency exchange rates.

C Y B I R D



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

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