

C  B I R D[®]

+ mobile = smile

ANNUAL REPORT 2003

Consolidated Financial Highlights

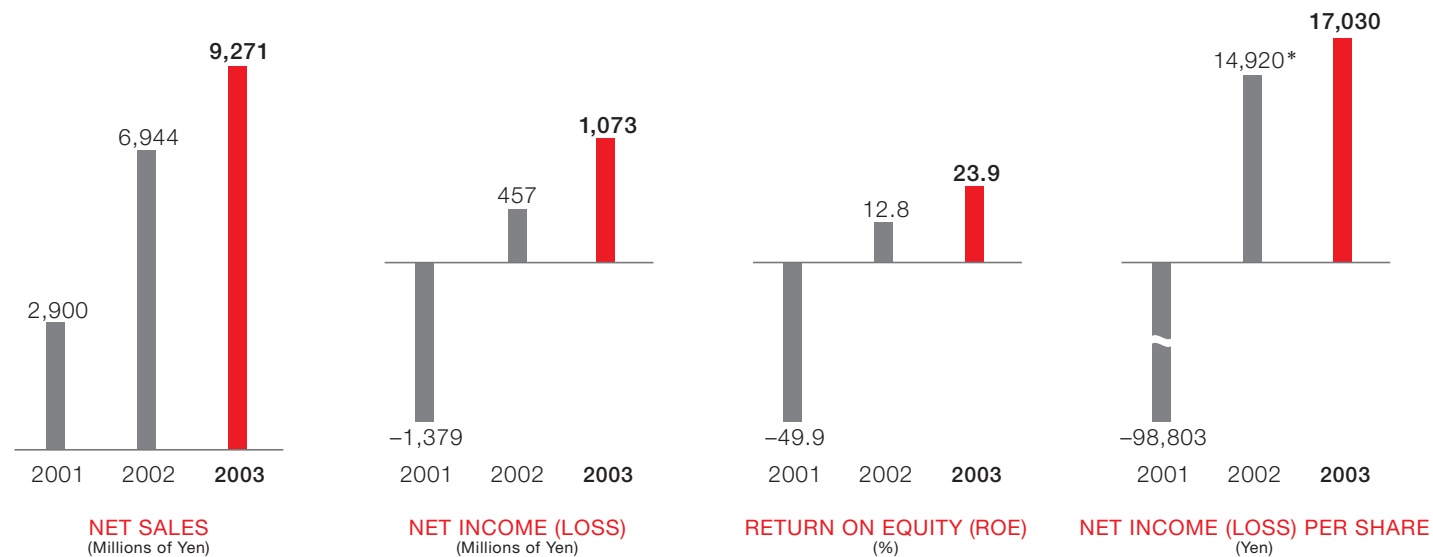
Years Ended March 31, 2003, 2002 and 2001

	Thousands of Yen			Thousands of U.S. Dollars (Note 1)
	2003	2002	2001	2003
Net sales	¥9,271,276	¥6,944,433	¥2,900,115	\$77,261
Gross profit	4,897,806	3,515,355	844,650	40,815
Operating income (loss)	1,324,049	509,565	(1,219,976)	11,034
Net income (loss)	1,073,017	457,767	(1,379,786)	8,942
Total assets	7,113,912	5,154,871	3,999,253	59,283
Total shareholders' equity.....	5,204,712	3,781,687	3,322,765	43,373
Cash flow	651,257	502,314	(543,036)	5,427
Free cash flow (Note 2)	860,245	292,170	(2,618,104)	7,169
EBITDA	1,709,875	874,826	(1,008,164)	14,249
		Yen		U.S. Dollars (Note 1)
Shareholders' equity per share	¥81,939	¥123,190	¥216,607	\$682.83
Net income (loss) per share.....	17,030	14,920*	(98,803)	141.92
ROE (%)	23.9	12.8	(49.9)	
Equity ratio (%)	73.2	73.3	83.1	

Note : 1. Yen amounts are translated into U.S dollars, solely for convenience, at the rate of ¥120 to \$1, the approximate rate of exchange at March 31, 2003.

2. Free cash flow : cash flow with consideration of indispensable investment on facilities for operating activities.

(Cash flow from operating activities – expenses for acquiring tangible fixed assets / intangible fixed assets).



* Net income per share for the accounting term ended March 2002 would have been ¥7,460 if the 2-for-1 stock split of common stock dated November 15, 2002 had taken place at the beginning of the accounting term ended March 2002.

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Into the New “+ mobile” Era



We managed to secure operating margins of 14.3% and posted a remarkable 160% increase in operating income on a year-on-year basis despite the difficult business environment.

The number of Internet-enabled mobile phones sold in the Japanese market (including PHS) was 64.82 million units at the end of March 2003. Mobile networks have become an essential infrastructure, with mobile phones in the hands of half the population of Japan. Growth in new unit sales has begun to slow, however, and the market has become even more competitive as market players race to improve their services.

Since the dawn of the mobile Internet age, our goal has been to make the mobile phone an ideal tool for everyday living and business use. The mission to transform people's lives with the convenience and prosperity that only the mobile phone can deliver has continued to fuel our aggressive business growth. In fiscal 2002, CYBIRD recorded its highest sales and recurring profit figures to date, ¥9.2 billion and ¥1.3 billion, respectively. There is much to be proud of.

Message from the President

Each of the Company's businesses recorded very favorable results. Sales in our Mobile Content Business grew 14% over fiscal 2001, and now represent 76% of total sales. This growth was driven by our aggressive sales activities for CYBIRD's 81 content services, which continued to win high levels of customer satisfaction across the board. We worked to ensure a strong contribution from our overseas mobile content business, as well. Building on successes in Japan, CYBIRD now distributes 11 content items in eight countries worldwide. In the Marketing Solution Business, we strove to generate new profit opportunities by providing mobile solutions to corporate clients. CYBIRD adds value to our clients' businesses by providing effective solutions for mobile e-commerce ventures and creating mobile phone-based promotional campaigns. The share of total sales held by our Marketing Solution Business grew from 11% in fiscal 2001 to 17%. With total sales also growing, our marketing solutions are clearly performing well. K Laboratory Co., Ltd., CYBIRD's new technologies subsidiary, achieved a turnaround, demonstrating that it can continue to create new profit opportunities.

Though we are encouraged by these very favorable business results, we are also aware that the change in our stock price has been disappointing for our shareholders and investors. On behalf of the management at CYBIRD, I would like to commit to redoubling our efforts to deliver on our essential goal of profit for shareholders and investors by achieving profitable growth, as well as through appropriate disclosure of key information on company performance. We are also dedicated to responsible governance.

We shall continue to grow in fiscal 2003. Our ultimate satisfaction is to put smiles on the faces of mobile phone users and corporate clients. That's what our "+ mobile" strategy is designed to do. Our goal is nothing less than making CYBIRD the leading company in the mobile Internet market.

A handwritten signature in black ink, appearing to read 'Kazutomo Robert Hori', written over a white background.

Kazutomo Robert Hori
President and CEO
CYBIRD Co., Ltd.



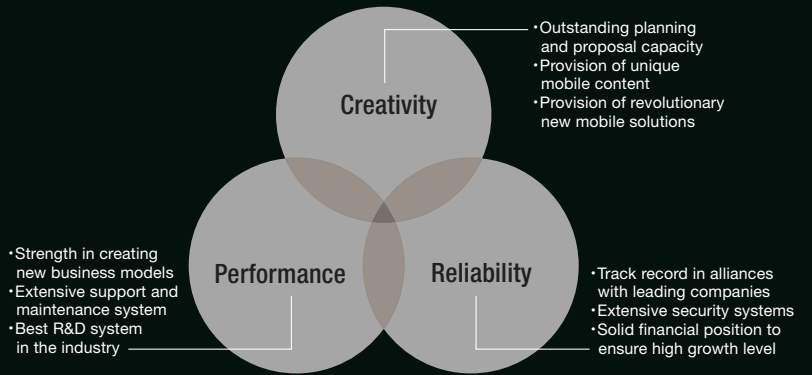
+ mobile = smile

Mobile Internet access by the 15 to 59 age group in Japan increased 12.0 percentage points in fiscal 2002 to reach 47.1%. User contracts for mobile handsets with cameras and third generation (3G) mobile communication services are on the rise. Users are enjoying their mobile phones in a greater and greater variety of ways, and an increasing number of companies are turning to the mobile phone as a key channel for communicating with customers and to market products and services.

CYBIRD has been providing content services with high added-value since before the launch of i-mode™ in February 1999. The Company's proven track record has given it a great deal of leverage in creating and developing new markets together with wireless network operators and mobile device manufacturers. Although the mobile phone market in Japan has entered a period of long-term steady growth, CYBIRD remains committed to realizing the limitless possibilities of mobile phone technology. CYBIRD will continue to spread its "wings" — creativity, reliability, and performance — pursuing strong, growth-focused management for years to come.



CYBIRD's Three Wings



CYBIRD's Four Key Business Strategies

Mobile Content Business

Providing mobile phone content through Japan's four major wireless network operators

Marketing Solution Business

Providing solutions for the planning, development, and operation of mobile Internet sites, and consulting on corporate utilization of the mobile Internet e-commerce business providing e-commerce solutions for mobile phones

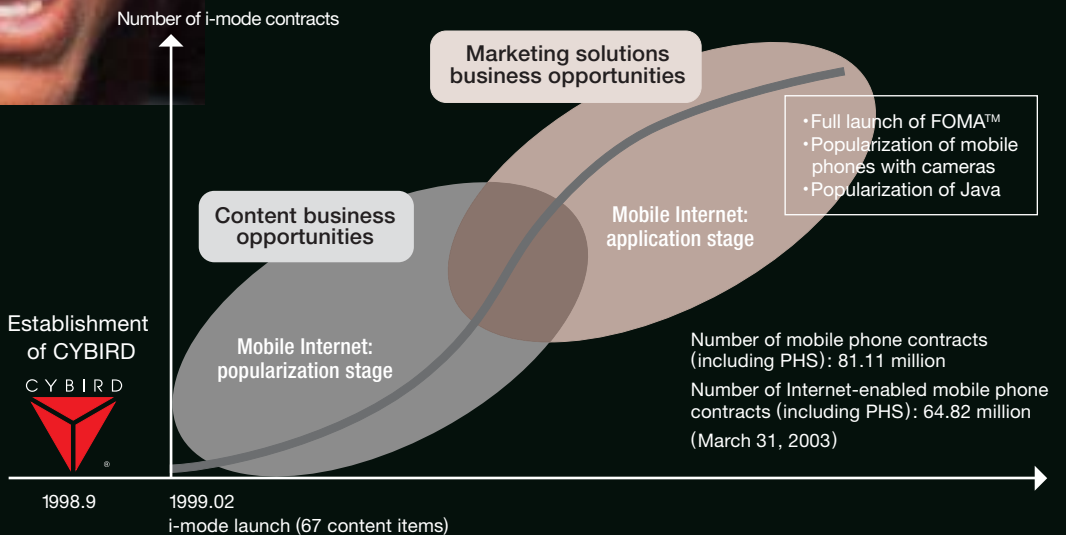
International Business

Providing consulting, solutions, and content for overseas wireless network operators

Technology-Related Business (K Laboratory Co., Ltd.)

Developing applications for Java™ and BREW™, as well as built-in native applications, middleware, libraries, and platform technologies

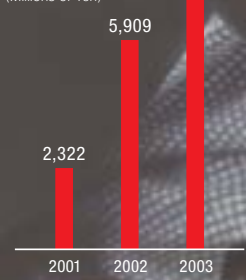
CYBIRD and the Growth of the Japanese Mobile Phone Market (i-mode Case)





Mobile Content Business

NET SALES (Millions of Yen)



Mobile Content Business

	Millions of yen		Year-on-year change
	2003	2002	
Net sales.....	¥7,074	¥5,909	19.7%
Percentage of CYBIRD's net sales.....	76.3%	85.1%	-8.8% points

CYBIRD's Mobile Content Business adds value to mobile phone communications by distributing a diverse range of content via wireless network operators to users of Internet-enabled mobile phones. Various content and services are provided to users for a monthly fee, including special ring tones to announce incoming calls and e-mail, original images to enjoy on mobile phone display screens, Java-based games, news, and even horoscopes. In this business model, wireless network operators collect the service fees along with regular calling charges, and then transfer the fees collected to content providers after deducting a commission.

CYBIRD formulated this business model together with mobile phone manufacturers and wireless network operators before the start of wireless content distribution in Japan, and implemented the service with the advent of i-mode in 1999. Since then, CYBIRD has continued to provide content that attracts people's attention, as a leader in the Japanese mobile phone content distribution. As a result, CYBIRD has come to boast the largest share in this industry as measured by the number of users or by the amount of content provided, and its sales for this year increased by 19.7% year on year to ¥7.074 million.

STAR WARS Mobile



Through a partnership with America's Lucasfilm Ltd., CYBIRD obtained the exclusive mobile phone distribution rights for *Star Wars* content within Japan. In addition to mobile phone screen images, sound effects, and theme songs, CYBIRD has been offering a database of content items from all the *Star Wars* episodes since December 2002.

©2002 Lucasfilm Ltd. & TM All rights reserved/©2002 CYBIRD

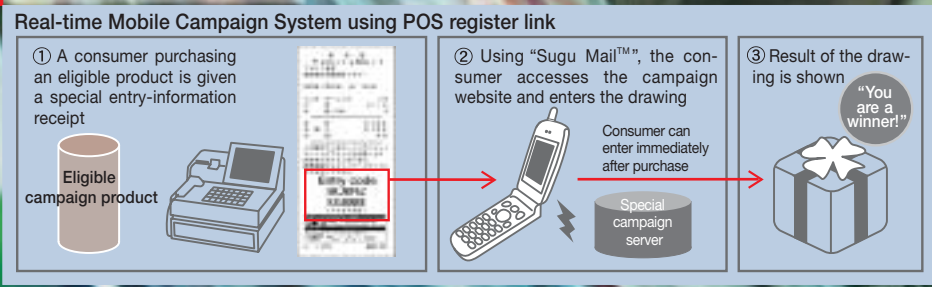
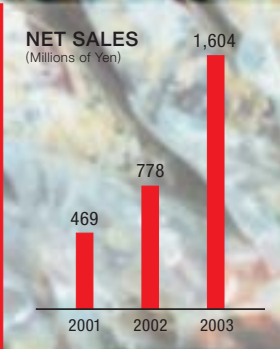
In just four or five years, mobile phone technology has rapidly advanced to the point where polyphonic tones have become available, along with high-resolution color displays and Java software applications. Joining forces with wireless network operators and mobile phone manufacturers, CYBIRD has nimbly kept pace with the technology, providing high-quality content based on its technical expertise. As a result, CYBIRD has attracted many users. In addition, the Company is promoting alliances with top licensors around the world, including the film *Star Wars* owned by Lucasfilm Ltd., and the EA Sports™ 2002 FIFA World Cup™ content owned by JAMDAT Mobile Inc., in the U.S., and has obtained the exclusive mobile phone usage rights to this content in Japan. CYBIRD is providing enjoyable content including appealing characters, movie soundtracks, and extensive soccer game coverage that brings all the action right to the mobile phone user.

CYBIRD's unrivaled strength lies in its advanced planning capabilities, which address both user needs and the unique characteristics of mobile phone technology. CYBIRD's compelling R&D is constantly adding to the Company's technological leadership, which is also bolstered by its close alliances with wireless network operators, mobile phone manufacturers, and top-level licensors. CYBIRD has also established a solid business base through stringent cost management and rapid decision-making.

The mobile phone content market in Japan will force uncompetitive companies out in the future. Given this situation, CYBIRD has been making the most of the expertise and results it has already achieved to develop a long-term strategy based on its unparalleled strengths and superior position in the market. In doing so the Company is able to create even more advanced businesses and services.



Marketing Solution Business



Marketing Solution Business

	Millions of yen		Year-on-year change
	2003	2002	
Net sales.....	¥ 1,604	¥ 778	106.2%
Percentage of CYBIRD's net sales.....	17.3%	11.2%	+6.1% points

As of March 2003, there were 81.11 million mobile phone subscribers in Japan (including PHS users). Of these, 79.9% use Internet-enabled mobile phones, demonstrating the enormous popularity of the mobile Web. More importantly, mobile phones have become an essential item in the daily lives of Japanese people today. No matter where users go, they have constant access to mobile information and in a variety of life situations. Companies and government institutions are taking advantage of the pervasiveness of mobile phones to communicate with consumers. CYBIRD is proposing revolutionary solutions to realize new business models utilizing mobile phones for corporate promotion and already boasts an impressive track record in serving Japan's leading companies.

Take this case in point. When consumers see TV commercials or magazine advertisements, even if they have an interest in the product, if they are not given an opportunity to take immediate action, they often forget about the product. CYBIRD has succeeded in dramatically increasing the effectiveness of its clients' advertising campaigns by enabling consumers to use their mobile phones to obtain information on the products they see advertised, and even to purchase products over the phone.

Here is another specific example. A major Japanese convenience store chain developed a campaign featuring free concert tickets for a popular artist. As part of the program, CYBIRD enabled the convenience store customers to access the campaign using their mobile phones. By providing a system that instantly picked the winners, the Company succeeded in boosting the previous number of campaign entries from several hundred thousand to 1.8 million. At the same time, since this convenience store chain gave concert ticket entry forms to customers that made purchases over a certain amount, this helped substantially increase the average individual purchase amount at the stores during the campaign period. This technique has also been adopted in the campaigns of top companies in various industries, and it has been spreading rapidly since 2002. This method is also starting to be adopted by government agencies in order to provide public information to residents.

In this way, CYBIRD is providing one-stop platform comprehensive services ranging from consulting on new business models using mobile phones, to actual business planning, system development and management, to handling inquiries from users. Furthermore, the Company is continuing to form partnerships with major advertising agencies, and is proactively pursuing orders from various companies. CYBIRD expects remarkable growth in its Marketing Solution Business.

**“Sugu Mail”™
dramatically increases
hit rates at mobile
Internet sites**

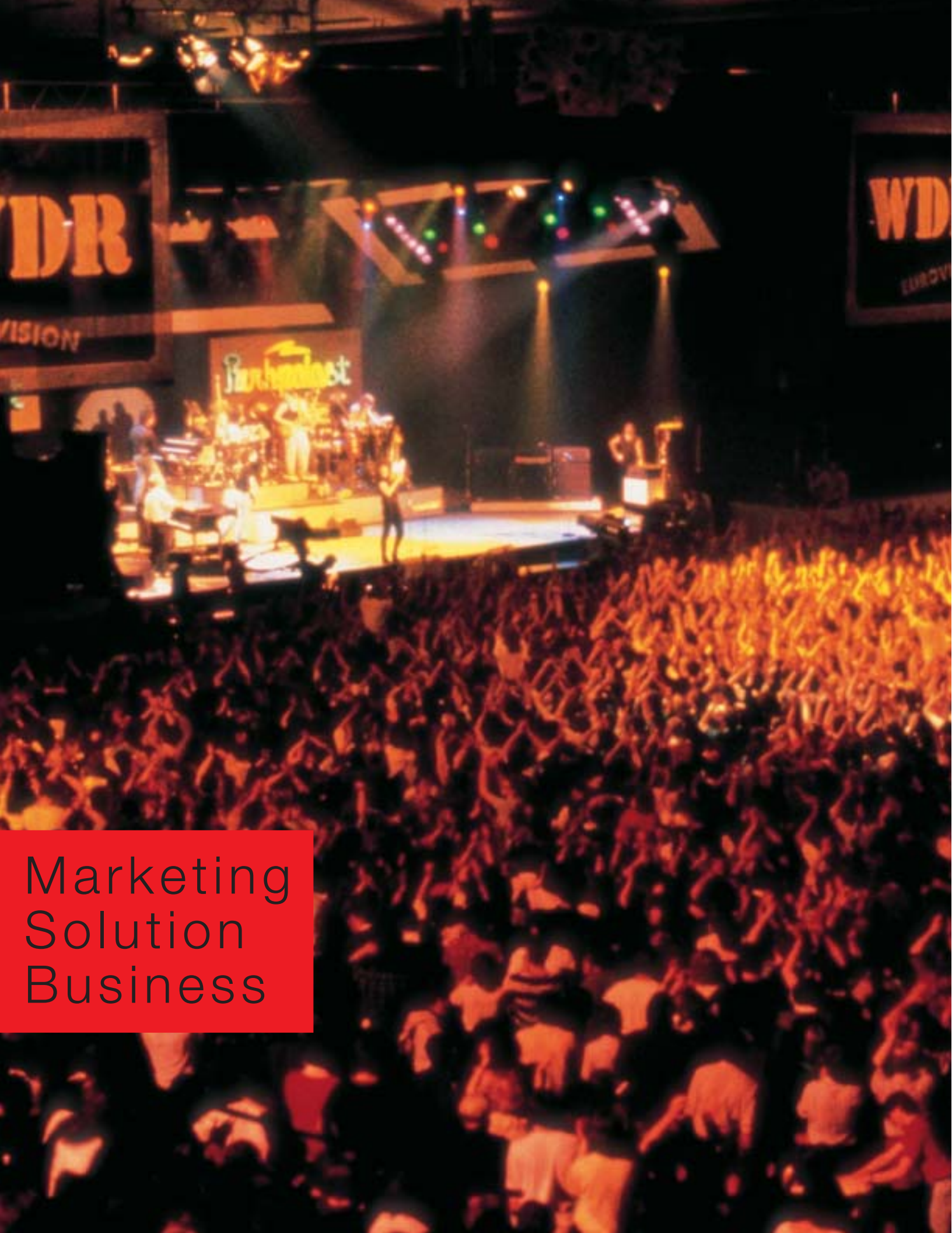
Accessing a site on the mobile Internet involves the effort of inputting a very long website address into a mobile device with a small screen and buttons. “Sugu Mail” is a system developed by CYBIRD that allows users to easily obtain URLs, website addresses, using the email function common to all Internet-enabled mobile phones. When the user inputs a simple address consisting of three to four digits or letters and sends the e-mail, a reply comes back with the corresponding URL. Then, by clicking on the URL link, the user is connected to the desired site.

“Sugu Mail” offers a way for consumers to access Internet sites quickly and easily, and is also used by companies offering electronic transaction services or promoting campaigns via mobile phones to realize high response rates and increase consumer drawing power.

**Real-time mobile
campaigns linking
mobile phones and
POS registers**

Together with the major Japanese convenience store chain, FamilyMart Co., Ltd., CYBIRD carried out the first real-time mobile campaign in Japan, linking mobile phones and POS registers. The customer for this campaign model was a major Japanese beverage manufacturer. In this model, when a consumer purchases a canned coffee drink in the store, the cash register automatically prints a unique (campaign entry) code on the customer's receipt along with campaign information and a “Sugu Mail” e-mail address. By sending an e-mail from a mobile phone to the “Sugu Mail” e-mail address appearing on the receipt, the customer can connect to the campaign site of the major beverage manufacturer. The consumer then inputs the unique campaign entry code into the mobile phone, and finds out in real time whether a prize has been won, much like an online game.

The beverage manufacturer client for this model was able to drastically reduce campaign preparation and operation costs while at the same time obtaining a high response rate from consumers.



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Marketing
Solution
Business

Partnerships with media firms add value by enabling e-commerce via mobile phone

E-commerce using mobile phones is now possible in Japan. This market is expected to reach the staggering size of ¥2.45 trillion (US\$20.4 billion) by 2005. While the market is mostly comprised of new participants, the reality is that there have been many failed attempts, due to a lack of understanding of the potential of mobile phone technology and the needs of users, and the mistake of conceiving of the business as a mere extension of the PC Internet.

With its powerful proprietary technology, CYBIRD has built up a stable business with a sound revenue base ensured by three special advantages. The first advantage is the Company's development of mobile e-commerce models that tie in famous rock concerts with strong consumer appeal, in addition to finding top partners in a variety of fields that possess high product appeal and dynamic name recognition such as Toys "R" Us. The second advantage is CYBIRD's technological and planning ability, along with its unrivaled expertise in the mobile content business. The third advantage is CYBIRD's methods for fast and easy website access based on CYBIRD's own "Sugu Mail" service, which dramatically increases website access rates from mobile phones. In this way, CYBIRD is providing new sales channels to companies, and securing profits through revenue sharing. In 2003, the Company will utilize this wealth of mobile commerce expertise to begin its own sales operation.

Toys "R" Us

CYBIRD is providing a model for mobile electronic purchases to Toys "R" Us, a leading toy retailer that is aggressively expanding in Japan. Toys "R" Us has a lineup of several thousands of items for mobile e-shopping including new or recommended products such as toys, games, and baby products, and the retailer advertises mobile online purchase options in its catalogs and flyers. Mobile users that see this information can access a special Toys "R" Us site quickly and easily using "Sugu Mail". Since setting up this mobile shopping system in November 2002, CYBIRD has contributed greatly to sales figures at Toys "R" Us.



©2002 TOYS R US

Media Partnerships

CYBIRD has launched a revolutionary system for linking mobile phones to different media including TV and informational magazines. Instead of merely undertaking mobile content development for media companies, CYBIRD's business concept is to work as a partner with them to create new value-added media systems based on mobile phones.

For example, by pairing mobile phones with an informational magazine that is extremely popular with young people, readers can check detailed information on products and restaurants featured in the magazine, and even save a map of the store or restaurant location, all using their mobile phones. Moreover, the system allows readers to see something they like in the magazine and then purchase it on the spot, which provides value that goes beyond the limits of paper media to offer a new profit model to information magazine companies. The potential for implementing this new mobile e-shopping method with informational TV programs is also attracting a great deal of attention from television stations.



Magazine + mobile

Successfully bringing customers to restaurants by enabling them to search and record the restaurant information in *Gourmet PIA* magazine using mobile phones.



© 2003 Nagoya Broadcasting Network

TV + mobile

Adding interactive features to a TV program by linking mobile phones to the information program "Mei-Tele Wide Thunder 5" from Nagoya Broadcasting Network (NBN).

International Business

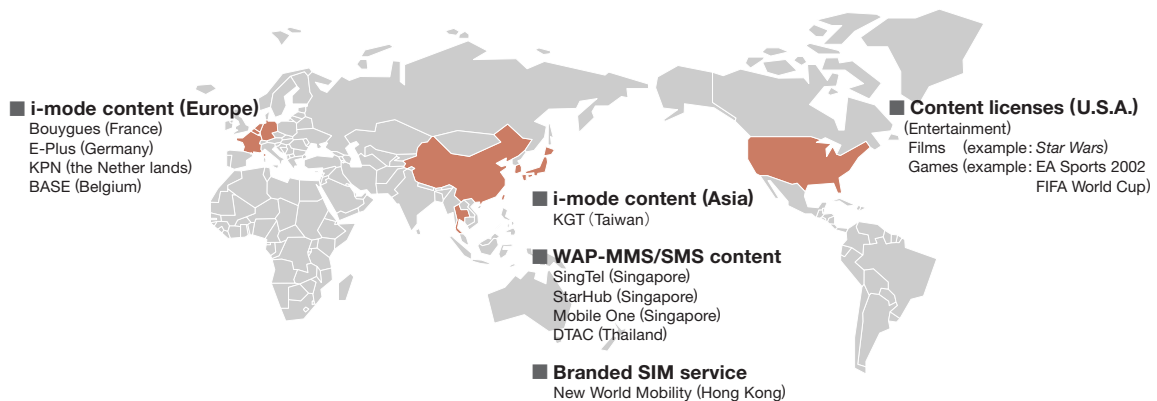
International Business

	Millions of yen		Year-on-year change
	2003	2002	
Net sales.....	¥48	¥31	54.8%
Percentage of CYBIRD's net sales.....	0.5%	0.5%	0.0% points

Using the assets and expertise that it has developed in Japan, CYBIRD is now engaged in content distribution in seven countries in partnership with local wireless network operators. Currently, the Company is providing two types of popular content in Japan, customized to meet local market needs. The first content type is “CoolSound™” ring tone melodies that signal incoming calls and e-mail, and the other is “Cool Screen™” original images that can be enjoyed on the mobile phone display screen.

Gaining access to content with strong customer appeal is one strategy for boosting competitiveness in the mobile content business, and CYBIRD is focusing on obtaining first-class character and brand licenses around the world. Overseas licenses provide a substantial competitive advantage for CYBIRD in its aim to develop businesses not only in Japan, but also in markets and regions with large growth potential. CYBIRD has already obtained mobile phone content usage rights for the film *Star Wars* owned by Lucasfilm Ltd. of the U.S., EA Sports 2002 FIFA World Cup content owned by JAMDAT Mobile Inc. of the U.S., and Formula One racing content owned by Sports Telecom Ltd. of Finland, featuring the racer J. P. Montoya.

As the No. 1 company contributing to the creation and popularization of Internet-enabled mobile phones in Japan, CYBIRD offers consulting services to overseas wireless network operators. Furthermore, in 2003 the Company plans to develop marketing solutions based on mobile technology for companies in Japan and other countries where Internet-enabled mobile phone usage has become widespread.



World's first branded SIM service starts in Hong Kong for general consumers

In cooperation with New World Mobility, a leading Hong Kong wireless network operator, CYBIRD launched a branded SIM card called “Twins Mobile” in August 2002, featuring the female duo, Twins, who are overwhelmingly popular in Hong Kong. Just by inserting the Twins Mobile card into their mobile phones, users can easily access Twins-related content, which has made it a hot topic in that city. CYBIRD constructed a new business model whereby it receives from New World Mobility a portion of the total calling charges from users of Twins Mobile and the data transmission charges generated by use of the content.

Technology-Related Business

Technology-Related Business

	Millions of yen		Year-on-year change
	2003	2002	
Net sales.....	¥543	¥225	141.3%
Percentage of CYBIRD's net sales.....	5.9%	3.2%	+2.7% points

CYBIRD's leadership in Internet-enabled mobile phone technology owes much to the Company's outstanding research and development. Researchers at CYBIRD are churning out new "killer applications" for both mobile content and business solutions at an astonishing rate. With the increasingly advanced technology required to deliver today's sophisticated mobile phone content, even major companies with well-known mobile solutions of their own are turning to CYBIRD for new R&D. CYBIRD's advanced technology has come to enjoy a reputation for rock-solid reliability, and this gives the Company an unparalleled advantage in an otherwise extremely competitive mobile market.

CYBIRD's Strategic Technology Planning Department

CYBIRD's research and development for the mobile Internet is guided by the Company's Strategic Technology Planning Department. R&D resources are strategically focused on platforms and technologies with a high potential to generate new business, such as next-generation platforms using Java, BREW, new mobile phone operating systems, and non-contact IC cards using Bluetooth™ technology. Other development priorities include AI and VoIP, mobile technologies for use with intelligent transportation systems (ITS), and systems for an interactive TV experience for application in fields such as terrestrial digital broadcasting.

K Laboratory Co., Ltd.

K Laboratory, CYBIRD's technology development subsidiary, is tasked with research and development of mobile phone software. K Laboratory's Java and BREW development, built-in native applications, middleware, and platform technologies are attracting global recognition. K Laboratory's technological prowess is now attracting global recognition. At the 2001 JavaOne™ Conference in Japan, K Laboratory became the first Japanese firm to be certified by Sun Microsystems, Inc. as a technology partner. Then, in 2002, K Laboratory was also a recipient of the first annual BREW Developer Award from QUALCOMM Inc. K Laboratory turned a profit for the first time in fiscal 2002, due to strong contributions from Java application development services and higher revenue shares from content providers.



©Nokia

World Clock II

World Clock II is K Laboratory's global timekeeping application. Nokia Corporation of Finland, the world's largest mobile phone manufacturer, has adopted World Clock II, selecting K Laboratory as its first Japanese provider of a built-in application for mobile phones.



e-Government Solution for Iizuka City, Fukuoka, Japan

K Laboratory developed a unique Java application to create the News Browser information distribution system for residents of Iizuka City, Fukuoka. The system is the first e-government service of its kind in Japan.

A photograph of Kazutomo Robert Hori, President and CEO, sitting on a tall, black, three-legged stool. He is wearing a dark navy blue turtleneck sweater and light grey trousers. He is holding a large, white, folded document or envelope in his hands. He is looking towards the camera with a slight smile. The background is white, and there is a red vertical bar on the left side of the image.

Message
for
Tomorrow

Kazutomo Robert Hori
President and CEO

CYBIRD has designated fiscal 2003 as the year of the offensive, and is focusing its energies on constructing a new profit base and strengthening existing businesses for the second growth phase.

We recognize that the best strategy is to create new value for the company and investors. We remain fully committed to our four key points for growth:

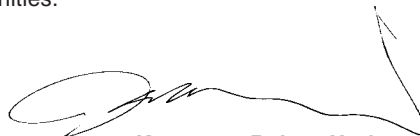
- Business selection and focus
- Responding to environmental change
- Emphasizing profitability, continuity and expansion
- Maximization of synergy effects

On the financial side, we will stress cash flow and continue efforts for improving cost efficiency. The Company is aiming to achieve an ROE of 20% or more and maximization of EVA[®] in the medium and long term.

CYBIRD will expand profit opportunities and boost competitiveness. In the Mobile Content Business, the Company is aiming to expand market share by stressing marketing and product strengthening in order to accelerate the expansion of the profit base. In the Marketing Solution Business area, CYBIRD will boost its profit growth rate by focusing energy on the campaign solutions business using Sugu Mail, our mobile Internet access tool. For the International Business, we will concentrate on music distribution, and are aiming to construct a profit base for this area in the near future.

In addition to strengthening the competitiveness of each of our business areas, CYBIRD is promoting the construction of business models that can anticipate the day when society is immersed in an ubiquitous Internet environment. In April 2003, the Media Development Department was set up in order to pave the way for providing new value to society including linkups between existing businesses and media like broadcasting, film, and publishing, as well as connecting mobile phones to existing network systems. In the near future, CYBIRD will fuel growth in existing businesses, and will carry out its business strategies in areas with anticipated growth for the medium and long term.

We believe that the possibilities for the mobile phone business are limitless. CYBIRD seeks to become the leading company in the mobile phone market through persistently seizing profit opportunities.



Kazutomo Robert Hori
President and CEO
CYBIRD Co.,LTD.

Financial Review

Income and Expenses

For the fiscal year ended March 31, 2003, consolidated net sales reached ¥9,271 million, an increase of ¥2,327 million, or 33.5%, in comparison with the prior fiscal year. The major reasons for the sales expansion were the strong performance of the Mobile Content Business and satisfactory growth in the Marketing Solution and Technology-Related Businesses.

Cost of sales totaled ¥4,373 million, an increase of ¥944 million, or 27.5%. Gross profit reached ¥4,898 million, up ¥1,382 million, or 39.3%. The gross profit margin improved to 52.8%, from 50.6%, the previous fiscal year, reflecting tight control of fixed costs.

Selling, general and administrative (SG&A) expenses expanded ¥568 million, or 18.9%, to ¥3,574 million. Personnel expenses rose ¥300 million, or 39.3%, to ¥1,062 million. The number of employees on a consolidated basis, as of March 31, 2003, was 246, compared with 214 a year earlier. Advertising and general publicity expenses totaled ¥331 million, a decrease of ¥56 million, or 14.6%. The decline reflected improvements in cost efficiency through the accumulation of advertising expertise. Research and development costs amounted to ¥503 million, an increase of ¥17 million, or 3.7%. Charges and commissions totaled ¥1,052 million, an increase of ¥216 million, or 25.8%. This result reflected the growth of substituting collection fees for wireless network operators, as sales increased. Collection fees rose ¥128 million, or 22.0%, to ¥712 million.

Operating income was ¥1,324 million, up ¥814 million, or 159.8%. This result was due to stringent control of cost of sales and SG&A expenses. Income before income taxes and minority interests improved ¥834 million, or 191.2%, to ¥1,271 million.

Income taxes totaled ¥187 million, up from ¥3 million the prior year.

The cash surrender value for directors' insurance as an extraordinary gain and devaluation of software as an extraordinary loss were recorded. Since the Company reviewed collection possibilities of deferred tax assets related to temporary differences of the previous year, deferred income taxes of ¥335 million were recorded. Due to these factors, net income rose to ¥1,073 million, up ¥615 million, or 134.4%.

Basic net income per share was ¥17,030, an improvement of ¥2,110, or 14.1%, from a year earlier. The number of shares issued rose by 32,821, to 63,519 shares, compared with 30,698 shares a year earlier. The average number of shares issued increased by 32,324 shares, to 63,005 shares, as against 30,681 shares the previous year. The average number of shares issued was calculated after giving retroactive adjustment for stock split. Net income per share for the fiscal year ended March 31, 2002 was ¥7,460, reflecting the stock split completed at the beginning of the period.

Earnings before interest, taxes, depreciation and amortization (EBITDA) totaled ¥1,710 million, an increase of ¥835 million, or 95.5%, from ¥875 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, 2003 rose 38.0%, or ¥1,959 million, compared with year before, to ¥7,114 million. Major factors behind the expansion were increases of ¥651 million in cash and cash equivalents; ¥466 million in trade account receivables, which expanded together with sales growth; ¥157 million in current deferred tax assets; ¥427 million in investment securities; and ¥178 million in non-current deferred tax assets.

Total liabilities amounted to ¥1,855 million, a rise of ¥512 million, or 38.1%. Major changes included increases of ¥519 million in accrued income taxes and ¥58 million in trade accounts payable. Short-term bank loans declined ¥29 million, or 9.7%, to ¥271 million, and long-term debt was eliminated.

Total shareholders' equity was ¥5,205 million, up ¥1,423 million, or 37.6%, from the previous fiscal year. The accumulated deficit was reduced by ¥1,073 million due to the net income earned for the year.

Cash Flows

Total cash and cash equivalents at the fiscal year-end totaled ¥2,714 million, up ¥652 million, or 31.6%, compared with the previous fiscal year.

Cash Flow from Operating Activities

Net cash provided by operating activities expanded ¥588 million, or 90.1%, to ¥1,240 million. The substantial growth in income before income taxes and minority interests, together with smaller increases in

trade accounts receivable compared with the previous year and a rise in depreciation and amortization, contributed to the surge in net cash provided by operating activities.

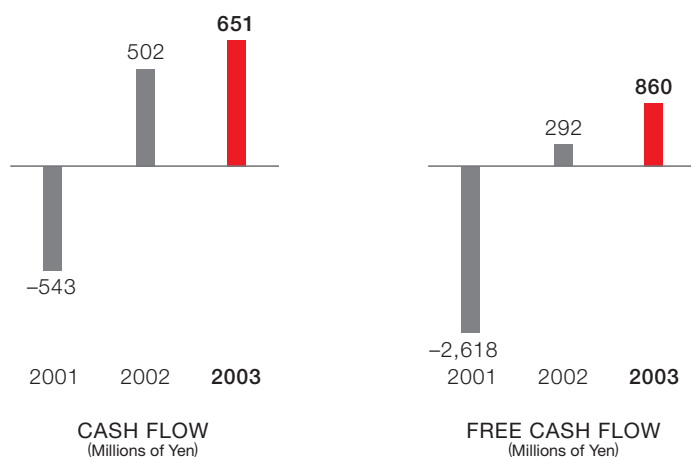
Cash Flow from Investing Activities

Net cash used in investing activities rose 77.9%, or ¥388 million, to ¥886 million. This result primarily reflected expenditures for investment securities of ¥450 million and expenditures for software of ¥346 million.

Cash Flow from Financing Activities

Net cash provided by financing activities declined ¥50 million, or 14.4%, to ¥298 million, mainly because of a decrease in the proceeds from short-term bank loans. Proceeds from new shares issued, net of stock issuance expenses, totaled ¥368 million.

Free cash flow for the fiscal year ended March 31, 2003 was ¥860 million, after deducting the ¥34 million in acquisitions of tangible fixed assets and ¥346 million in purchases of intangible fixed assets included under cash flows from investing activities from the ¥1,240 million in net cash provided by operating activities. This result was an expansion of ¥568 million, or 194.5%, from the free cash flow of ¥292 million recorded the prior fiscal year.



Consolidated Balance Sheets

March 31, 2003 and 2002

ASSETS	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
CURRENT ASSETS:			
Cash and cash equivalents	¥2,713,948	¥2,062,691	\$22,616
Receivables:			
Trade accounts	2,481,797	2,015,729	20,682
Allowance for doubtful receivables	(32,051)	(36,159)	(267)
Inventories (Note 3)	55,506	40,531	463
Deferred tax assets (Note 8)	156,736	—	1,306
Prepaid expenses and other current assets	171,958	97,995	1,432
Total current assets	5,547,894	4,180,787	46,232
PROPERTY AND EQUIPMENT:			
Leasehold improvements	82,434	68,378	687
Furniture and fixtures	163,776	143,555	1,365
Total	246,210	211,933	2,052
Accumulated depreciation	(122,735)	(77,575)	(1,023)
Net property and equipment	123,475	134,358	1,029
INVESTMENTS AND OTHER ASSETS:			
Investment in an associated company	8,751	13,007	73
Investment securities (Note 4)	456,000	29,032	3,800
Software	451,778	521,504	3,765
Lease deposit	315,781	254,680	2,632
Deferred tax assets (Note 8)	178,412	—	1,487
Other	31,821	21,503	265
Total investments and other assets	1,442,543	839,726	12,022
TOTAL	¥7,113,912	¥5,154,871	\$59,283

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
CURRENT LIABILITIES:			
Short-term bank loans (Note 5)	¥ 271,000	¥ 300,000	\$ 2,258
Current portion of long-term debt (Note 5)	17,576	40,923	146
Trade accounts payable	829,437	771,363	6,912
Accrued income taxes	522,300	2,893	4,353
Accrued consumption taxes	93,778	119,565	781
Accrued bonuses	89,591	42,387	747
Accrued expenses and other current liabilities	31,318	46,124	261
Total current liabilities	<u>1,855,000</u>	<u>1,323,255</u>	<u>15,458</u>
LONG-TERM LIABILITIES:			
Long-term debt (Note 5)	—	17,576	—
Other	—	2,638	—
Total long-term liabilities	<u>—</u>	<u>20,214</u>	<u>—</u>
MINORITY INTERESTS	<u>54,200</u>	<u>29,715</u>	<u>452</u>
COMMITMENTS AND CONTINGENT LIABILITIES			
SHAREHOLDERS' EQUITY (Notes 6 and 7):			
Common stock—authorized, 122,792 shares; issued, 63,519 shares at March 31, 2003 and 30,698 shares at March 31, 2002	2,585,417	2,408,500	21,545
Additional paid-in capital	2,642,117	2,465,200	22,018
Accumulated deficit	(22,116)	(1,095,133)	(184)
Unrealized gain on available-for-sale securities	—	3,644	—
Foreign currency translation adjustments	(706)	(524)	(6)
Total shareholders' equity	<u>5,204,712</u>	<u>3,781,687</u>	<u>43,373</u>
TOTAL	<u>¥7,113,912</u>	<u>¥5,154,871</u>	<u>\$59,283</u>

Consolidated Statements of Income

Years Ended March 31, 2003 and 2002

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
NET SALES	¥9,271,276	¥6,944,433	\$77,261
COST OF SALES	4,373,470	3,429,078	36,446
Gross profit	4,897,806	3,515,355	40,815
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 9 and 10)	3,573,757	3,005,790	29,781
Operating income	1,324,049	509,565	11,034
OTHER INCOME (EXPENSES):			
Interest income	823	1,040	7
Interest expenses	(7,557)	(8,607)	(63)
Other—net	(46,579)	(65,594)	(388)
Other expenses—net	(53,313)	(73,161)	(444)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	1,270,736	436,404	10,590
INCOME TAXES (Note 8):			
Current	522,631	2,920	4,355
Deferred	(335,147)	—	(2,793)
Total	187,484	2,920	1,562
MINORITY INTERESTS IN NET INCOME	(10,235)	24,283	(86)
NET INCOME	¥1,073,017	¥ 457,767	\$ 8,942
		Yen	U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.m, 12):			
Basic net income	¥17,030	¥7,460	\$141.92
Diluted net income	16,822	7,293	140.18

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Years Ended March 31, 2003 and 2002

	Thousands of Yen					
	Outstanding Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments
BALANCE, APRIL 1, 2001	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			
Unrealized gain on available-for-sale securities					¥ 3,644	
Net increase in foreign currency translation adjustments						¥(524)
BALANCE, MARCH 31, 2002	30,698	2,408,500	2,465,200	(1,095,133)	3,644	(524)
Net income				1,073,017		
Stock split	31,640					
Exercise of stock options	1,181	176,917	176,917			
Transfer to realized gain on sales of available-for-sale securities					(3,644)	
Net increase in foreign currency translation adjustments						(182)
BALANCE, MARCH 31, 2003	63,519	¥2,585,417	¥2,642,117	¥ (22,116)	¥ —	¥(706)

	Thousands of U.S. Dollars (Note 1)				
	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments
BALANCE, MARCH 31, 2002	\$20,071	\$20,544	\$(9,126)	\$ 30	\$(4)
Net income			8,942		
Exercise of stock options	1,474	1,474			
Transfer to realized gain on sales of available-for-sale securities				(30)	
Net increase in foreign currency translation adjustments					(2)
BALANCE, MARCH 31, 2003	\$21,545	\$22,018	\$ (184)	\$ —	\$(6)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended March 31, 2003 and 2002

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥1,270,736	¥ 436,404	\$10,590
Adjustments for:			
Income taxes—paid	(3,224)	(2,309)	(27)
Depreciation and amortization	385,826	365,261	3,215
Provision for doubtful receivables	32,051	16,904	267
Equity in net loss of an associated company	2,175	62,393	18
Gain on sales of investment securities	(8,361)	(53,607)	(70)
Loss (gain) from subscription of new shares by minority	1,900	(49,642)	16
Impairment loss on software	54,620	101,743	455
Change in operating assets and liabilities:			
Increase in trade accounts receivable	(501,742)	(720,576)	(4,181)
(Increase) decrease in inventories	(14,975)	21,363	(125)
Increase in trade accounts payable	52,055	293,825	434
Increase in accrued consumption taxes	—	119,565	—
Increase in accrued bonuses	47,204	12,777	394
Other—net	(78,229)	48,152	(652)
Total adjustments	(30,700)	215,849	(256)
Net cash provided by operating activities	1,240,036	652,253	10,334
INVESTING ACTIVITIES:			
Expenditures for property and equipment	(34,277)	(37,296)	(286)
Expenditures for software	(345,514)	(322,787)	(2,879)
Expenditures for investment in an associated company	—	(42,692)	—
Proceeds from sales of investment securities	25,111	87,994	209
Expenditures for investment securities	(450,000)	—	(3,750)
Expenditures for lease deposit	(63,125)	(146,276)	(526)
Increase in other assets	(18,319)	(37,011)	(152)
Net cash used in investing activities	(886,124)	(498,068)	(7,384)
FINANCING ACTIVITIES:			
Proceeds from short-term bank loans	300,000	800,000	2,500
Repayments of short-term bank loans	(329,000)	(500,000)	(2,742)
Repayments of long-term debt	(40,923)	(39,207)	(341)
Proceeds from new shares issued, net of stock issuance expenses	353,834	6,000	2,948
Other—net	14,250	81,336	119
Net cash provided by financing activities	298,161	348,129	2,484
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
	(816)	—	(7)
NET INCREASE IN CASH AND CASH EQUIVALENTS	651,257	502,314	5,427
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,062,691	1,560,377	17,189
CASH AND CASH EQUIVALENTS, END OF YEAR	¥2,713,948	¥2,062,691	\$22,616

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years Ended March 31, 2003 and 2002

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 Financial Reporting 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 addition, certain reclassifications have been made in 2002 financial statements to conform to the classifications used in 2003. 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 ¥120 to \$1, the approximate rate of exchange at March 31, 2003. 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. (together, the "Group").

The equity method has been 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 business acquired 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, which is determined by the moving-average method. Work in process is stated at cost, which is 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 equipment.

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, which is 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 by the straight-line method over its estimated useful life of 3 years.

h. 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 income. 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. Appropriations of Retained Earnings—Appropriations of retained earnings are reflected in the financial statements for the following year upon shareholders' approval.

m. Per Share Information—Basic net income per share is computed by dividing net income available to common shareholders, by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

3. INVENTORIES

	Thousands of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Merchandise	¥ 1,082	¥ 300	\$ 9
Work in process	54,424	40,231	454
Total	¥55,506	¥40,531	\$463

4. INVESTMENT SECURITIES

Investment securities as of March 31, 2003 and 2002, were all classified as available-for-sale and consisted of the following:

	Thousands of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Equity securities:			
Marketable	¥400,000	¥22,032	\$3,333
Non-marketable	56,000	7,000	467
Total	¥456,000	¥29,032	\$3,800

Information regarding marketable equity securities was as follows:

	Thousands of Yen		
	2003		
	Cost	Unrealized Gains	Fair Value
Securities classified as available-for-sale	¥400,000	¥—	¥400,000

	Thousands of U.S. Dollars		
	2003		
	Cost	Unrealized Gains	Fair Value
Securities classified as available-for-sale	\$3,333	\$—	\$3,333

Proceeds from sales of available-for-sale securities for the years ended March 31, 2003, were ¥25,111 thousand (\$209 thousand), resulting in gross gains of ¥9,360 thousand (\$78 thousand), computed on the moving average cost basis.

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

Short-term bank loans at March 31, 2003 and 2002 consisted of notes to banks. The annual interest rates applicable to the short-term bank loans ranged from 1.88% to 3.8% and 1.75% to 2.00% at March 31, 2003 and 2002, respectively.

Long-term debt at March 31, 2003 and 2002, consisted of the following:

	Thousands of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Accounts payable in installment due			
August 2003	¥ 17,576	¥ 58,499	\$ 146
Less current portion	(17,576)	(40,923)	(146)
Long-term debt, less current portion	¥ —	¥ 17,576	\$ —

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 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 the 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.

On November 15, 2002, the Company made a stock split by way of a free share distribution at the rate of 2 shares for each outstanding share, and 31,640 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, 2003, the Company issued 1,099 shares of common stock for the exercise of stock options ("No. 1 plan" described in Note 7) for gross proceeds of ¥335,834 thousand (\$2,798 thousand). Out of such proceeds, ¥167,917 thousand (\$1,399 thousand) was designated as stated capital, and the remaining ¥167,917 thousand (\$1,399 thousand) was credited to additional paid-in capital.

During the year ended March 31, 2003, the Company also issued 82 shares of common stock for the exercise of stock options ("No. 2 plan" described in Note 7) for gross proceeds of ¥18,000 thousand (\$150 thousand). Out of such proceeds, ¥9,000 thousand (\$75 thousand) was designated as stated capital, and the remaining ¥9,000 thousand (\$75 thousand) was credited to additional paid-in capital.

The amount of retained earnings available for dividends under the Code was ¥149,724 thousand (\$1,247 thousand) as of March 31, 2003, based on the amount recorded in the parent company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

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 (2,316 shares after a stock split exercised on June 20, 2000, August 24, 2001 and November 15, 2002) and 47 shares (564 shares after a stock split exercised on June 20, 2000, August 24, 2001 and November 15, 2002), respectively, at the exercise price of ¥2,000,000 (¥166,667 after a stock split exercised on June 20, 2000, August 24, 2001 and November 15, 2002) 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 (504 shares after a stock split exercised on August 24, 2001 and November 15, 2002) at the exercise price of ¥666,667 (¥166,667 after a stock split exercised on August 24, 2001 and November 15, 2002) 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 (1,200 shares after a stock split exercised on November 15, 2002) and 200 shares (400 shares after a stock split exercised on November 15, 2002), respectively, at the exercise price of ¥452,566 (¥226,283 after a stock split exercised on November 15, 2002) during the period from September 1, 2003 to August 31, 2008.

At the annual general shareholders' meeting held on June 27, 2002, an incentive stock option plan was approved for the Company's directors and employees. Under the plan ("No. 4 plan"), on June 9, 2003, 7 directors and 12 employees were granted options to be issued new shares up to 800 shares of the Company's common stock in total at the exercise price of ¥276,334 during the period from September 1, 2004 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 subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 42% and 40% for the years ended March 31, 2003 and 2002, respectively.

On March 31, 2003, a tax reform law was enacted in Japan which changed the normal effective statutory tax rate from approximately 42% to 40%, effective for years beginning on or after April 1, 2004. The effect of this change on deferred taxes in the consolidated statements of income for the year ended March 31, 2003 was a decrease approximately ¥8,920 thousand.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2003 and 2002, were as follows:

	Thousands of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Deferred tax assets (current):			
Allowance for doubtful receivables and other current assets	¥161,515	¥68,547	\$1,346
Less valuation allowance ...	(4,779)	(68,547)	(40)
Total	¥156,736	Nil	\$1,306
Deferred tax assets (non-current):			
Tax loss carryforwards	¥34,314	¥213,599	\$286
Investments and other assets	185,582	143,965	1,547
Less valuation allowance ...	(41,484)	(357,564)	(346)
Total	¥178,412	Nil	\$1,487
Deferred tax liabilities (non-current):			
Unrealized gain on available-for-sale securities	¥—	¥2,638	\$—
Total	¥—	¥2,638	\$—

A reconciliation between the normal effective statutory tax rate for the years ended March 31, 2003 and 2002, and the actual effective tax rates reflected in the accompanying consolidated statements of income is as follows:

	2003	2002
Normal effective statutory tax rate	42.0%	42.0%
Expenses not deductible for income tax purposes	1.5	3.6
Tax loss carryforwards	—	(91.2)
Depreciation of software not deductible	(29.9)	24.2
Other—net	1.2	22.1
Actual effective tax rate	14.8%	0.7%

9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Details of selling, general and administrative expenses for the years ended March 31, 2003 and 2002 are as follows:

	Thousands of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Advertising and general publicity expenses	¥330,638	¥387,034	\$2,755
Provision for doubtful receivables	32,051	16,904	267
Compensation paid to directors	270,483	230,808	2,254
Salaries	643,020	437,164	5,358
Welfare expenses	112,160	77,086	935
Bonuses	36,796	17,416	307
Traveling and transportation expenses	78,484	33,297	654
Research and development costs	503,971	486,165	4,200
Commission	712,253	583,992	5,935
Others	853,901	735,924	7,116
Total	¥3,573,757	¥3,005,790	\$29,781

10. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥503,971 thousand (\$4,200 thousand) and ¥486,165 thousand for the years ended March 31, 2003 and 2002, 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 ¥223,373 thousand (\$1,861 thousand) and ¥189,770 thousand for the years ended March 31, 2003 and 2002, 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, 2003 and 2002, was as follows:

	Thousands of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Acquisition cost	¥808,896	¥660,311	\$6,741
Accumulated depreciation ...	474,698	285,658	3,956
Net leased property	¥334,198	¥374,653	\$2,785

Obligations under finance leases:

	Thousands of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Due within one year	¥196,961	¥183,629	\$1,641
Due after one year	151,143	216,940	1,260
Total	¥348,104	¥400,569	\$2,901

Depreciation expense and interest expense under finance leases for the years ended March 31, 2003 and 2002:

	Thousands of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Depreciation expense	¥206,708	¥174,958	\$1,723
Interest expense	20,057	23,813	167
Total	¥226,765	¥198,771	\$1,890

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

12. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2003 and 2002 is as follows:

Year Ended March 31, 2003	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income	Weighted-average Shares	EPS	
Basic EPS—				
Net income available to common shareholders	¥1,073	63,004	¥17,030	\$141.92
Effect of dilutive securities—				
Warrants	—	778		
Diluted EPS—				
Net income for computation	¥1,073	63,782	¥16,822	\$140.18

Year Ended March 31, 2002

Basic EPS—				
Net income available to common shareholders	¥ 457	61,360	¥ 7,460	
Effect of dilutive securities—				
Warrants	—	1,404		
Diluted EPS—				
Net income for computation	¥ 457	62,764	¥ 7,293	

13. SUBSEQUENT EVENTS

On April 4, 2003, the Company acquired 1,030 shares of Gigaflops Japan Inc., and Gigaflops became a subsidiary of the Company. Gigaflops is primarily engaged in information processing service, aggressively expanding its unofficial site related business, and had net assets of ¥46 million (\$383 thousand) at July 31, 2002 and revenue of ¥126 million (\$1,050 thousand) for the fiscal year then ended. This acquisition is aimed at strengthening the Company's mobile contents business by further increasing its paid subscribers as well as promoting broader integrated business with Gigaflops.

14. SEGMENT INFORMATION

The Group is mainly engaged in the business of handset-based mobile internet content services in Japan. The net sales and operating income from and the assets of such business segment in Japan exceeded 90% of the Group's total business. Therefore, segment information for the years ended March 31, 2003 and 2002, is not required to be disclosed.

Independent Auditors' Report

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Minato-ku, Tokyo 108-8530, Japan

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Fax : +81 -3-3457-1694
www.tehmatsu.co.jp

**Deloitte
Touche
Tohmatsu**

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Cybird Co., Ltd. and subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cybird Co., Ltd. and subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

Our audits 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, 2003

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.

Board of Directors and Auditors

As of March 31, 2003

President and CEO

Kazutomo Robert Hori

Executive Vice President and CTO

Tetsuya Sanada

Executive Vice Presidents

Yosuke Iwai

Kenichiro Nakajima

Senior Vice Presidents

Shinichiro Yamashita

Tomosada Yoshikawa

Mikio Inari

Tomoo Tateishi

Standing Corporate Auditor

Jun Utsumi

Corporate Auditors

Masahisa Takeyama

Hiroshi Shimizu

Company Outline

As of March 31, 2003

Name

CYBIRD Co., Ltd.

Established

September 29, 1998

Capital

¥2,409 million

Head office

4-3-20 Toranomon, Minato-ku,
Tokyo 105-0001, Japan

Opens at the following address as of August 11:

6-10-1 Roppongi, Minato-ku,
Tokyo 106-6122, Japan

Tel: +81-3-5785-6100

Employees

174 (246 in Group companies)

Business lines

- Distribution of mobile content services for Internet-enabled mobile phones
- Providing solutions for corporations through 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

The Aozora Bank Ltd.

Consolidated subsidiaries

K Laboratory Co., Ltd.

DMOVE Co., Ltd.

Affiliate

Cybird Korea Co., Ltd.

Stock Information

As of March 31, 2003

Number of shares issued and outstanding

63,519

Number of shareholders

1,464

Principal shareholders

	(shares)	(%)
Kazutomo Robert Hori	8,398	13.22
Yosuke Iwai	3,827	6.02
Omron Corporation	3,600	5.66
Tetsuya Sanada	3,582	5.63
Omron Finance Co., Ltd.	3,560	5.60
Japan Trustee Services Bank	3,194	5.02
Master Trust Bank of Japan	2,995	4.71
Raumuzu Co., Ltd.	2,520	3.96
Tomoo Tateishi	2,166	3.41
Kenichiro Nakajima	2,062	3.24

*i-mode and is a trademark or registered trademark of NTT DoCoMo, Inc. in Japan and other countries.

*All company and product names mentioned in this document are trademarks or registered trademarks of their respective companies.

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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.



CYBIRD Co., Ltd.

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