

*Easy-to-use Internet*  
**BUFFALO**

# MELCO INC. BUSINESS REPORT 2002

as an Internet solution provider



**MELCO INC.**



President and CEO **Makoto Maki**

## An Internet solutions provider surmounting the challenges of a rapidly changing environment

### The Internet is assuming an even greater role in society

In recent years, the Internet has become increasingly popular and familiar. It has become common in offices, as well as homes. Electronic mail is widely used as the next most common means of communication after telephones and fax machines. Faster telecommunication lines and lower user service charges are further broadening the user base and making possible new functions such as transmission of moving images.

Internet use is not limited to homes and private offices, but is becoming progressively more common in institutional settings such as educational facilities and government

offices. New Internet services using wireless LAN are now being offered in railway stations, restaurants and so on serving the general public.

In this context, not only has effective Internet use become more and more essential to conducting business activities, but also as a means of communication and a source of information it is also bringing about significant changes in individual life styles.

As time and place limitations decrease, society is speeding up and we will soon have a society in which we can utilize necessary data wherever and whenever we need it.

### Responding promptly to sudden changes in the business environment

In the Internet-related market, the use of broadband (high-speed Internet lines comprising a wide band of fre-

quencies) is spreading rapidly, and is attracting attention as a new market with vitality. For some time, we have been

paying close attention to this field and proceeding with a changeover to reallocate corporate resources from traditional enterprises such as memory and storage to preponderantly internet-related enterprises.

On the other hand, severe economic conditions have continued in Japan, while in the IT industry to which we are related, product prices have fallen due to an overstock of products and intensified competition brought about by the global decrease in demand for personal computers. For these reasons, sales returns from products concerned with mature areas such as memory and storage have decreased drastically, and we showed a deficit in our interim account settlement for year for the first time since its founding.

To deal with this severe economic environment, we have staked its survival in the industry on the implementation of wide-sweeping reform of the company structure. At present,

through the synergistic effects of simplified organization, improved efficiency of operations throughout the whole group, consolidation of business activities, cost reduction, expenditure reduction and so on, we are in the process of strengthening our competitiveness and profitability to create a corporate structure that can increase profits even in a deflationary economy.

In so doing we have been able to create a base for our business structure which combines the stable profitability of traditional enterprises such as memory and storage with the growth of internet-related enterprises.

Through this profit structure reformation, we have learned the important lesson that we can overcome any difficulty if we respond adequately, promptly and enthusiastically to severe business climates and market changes, which may also occur in the future.

## Contributing to the development of a networking society

In the Internet-related field, which continues to grow rapidly, wireless LAN products are attracting attention as broadband becomes more widespread. For some time we have been suggesting that wireless LAN is convenient not merely as a wireless network device, but as a new method for utilizing the Internet. We are confident that our approach in this area has been at least partly responsible for the fact that the diffusion rate of wireless LAN in Japan is at a high level by global standards. We believe that from now on the Internet will assume an even greater role in society. Business people will carry around laptop computers with the ability to access data from their offices anytime and anywhere. To bring such a society to reality, it

is necessary to ensure safety and privacy when data is transmitted, and to broaden the range of places where laptop computers can be used away from the office or home.

It is the creed of us to meet the concrete needs of clients in the products we create. Thus, we shall continue to put forward the necessary technologies and functions, in the form of new products and services, to enable clients to access data anywhere.

By contributing to the formation of a networking society as an Internet Solution Provider, we will strive even harder to raise the enterprise value of the MELCO INC. GROUP as a whole.

## Steps towards an Internet society ... People working anywhere in the same way as they do in their office

### A society where you can use networks anywhere

Broadband (high-speed fixed price internet line) was rapidly popularized in 2001. By actualizing high-speed transmission and a fixed charge system, broadband made possible new functions such as TV telephones and the transmission of moving images. It also had the advantage of being able to be connected to more than one computer at any given time without any extra charge. Thanks to the spread of broadband, wireless LAN came into the limelight as an effective solution for cutting down on the work and cost associated with wire connections.

Due to the increase of wireless LAN usage, new services using wireless LAN have become available throughout Japan. Internet lines have been made available for free public use, first in hotels and airport lobbies, and then in public spaces such as railway stations, restaurants and coffee shops. We might think of this as a grass-roots

social phenomena.

However, is it enough simply to connect to the Internet? Is it not true that the information people want to access most is the personal data in their own offices? It is impossible to carry all this data around. For example, when encountering unexpected questions or request alterations (concerning design specifications, delivery dates, etc.) during a visit to a client, think of how much you could improve customer service if it were possible to check your office data on the spot and respond accordingly. Even in remote destinations or on the move, you could enjoy the same informational environment as you have in your office, and thus work much more efficiently. A time is coming, when people will be able to use networks anywhere in the world.

### What is needed in order that anyone, anywhere, can use the Internet

When it becomes possible to use wireless LAN in homes, offices, and public places, it will be necessary to standardize all usage. To this end, many services offered in public places will require users to use an approved wireless LAN card that meets global standards.

Another important point is the safety concern when accessing confidential company data. For this it will be

necessary to verify that the receiver is qualified (company member) to access the data, and data will need to be encrypted so that it cannot be easily read by an eavesdropper. Technologies concerning the aforementioned are also making rapid progress.

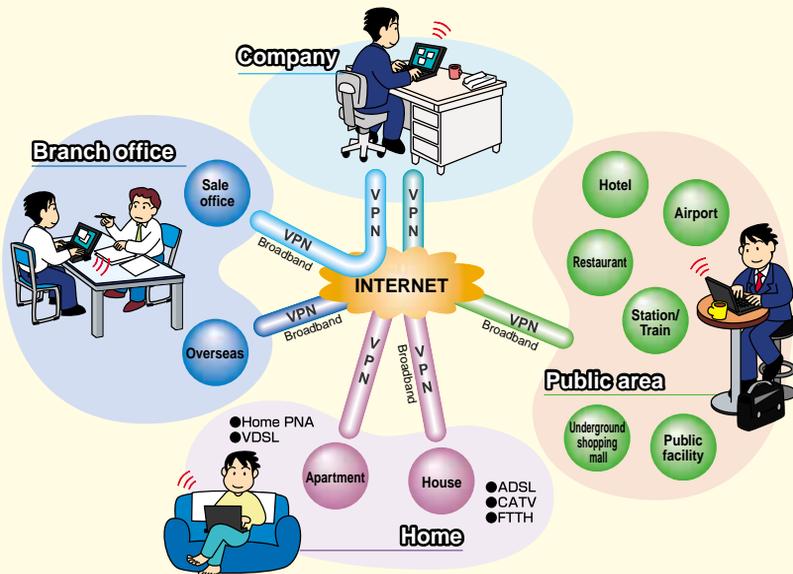
Wireless LAN is not the only area that will require solutions. With the increase in volume of data and number of

users, networking equipment overall will continue to advance in function and speed. For business people who carry laptop computers around with them, there will be a need for peripheral devices that can be used in places with no electrical outlets. Moreover, the use of moving images such as movies and videos will necessitate the provision of devices with large enough memories to

archive these items.

By providing the advanced technologies required to meet the demands of this era, in the form of products and services that anyone can use, we will contribute on an ongoing basis to the development of a networking society in which the Internet can be utilized anywhere.

## An society in which the Internet can be utilized easily anywhere



An environment is taking form in which the Internet can be utilized easily in public areas such as stations and restaurants, not to mention businesses and households. Wireless LAN, communications technology that preserves safety, and standardized communication designations that can be used anywhere in the world are making the networking society more convenient and comfortable. A society where we can utilize the Internet easily anytime, anywhere, is bound to enrich our lives.

\*VPN (Virtual Private Network): Security technology that enables secure communication between terminals by connecting mutually as in dedicated lines.

## We offer total solutions to meet all the needs of the Internet society

### Strengthening enterprises that target corporations Expansion of networking products and services

To promote efficiency in business, corporate network use is continuously diversifying. Corporations, which are becoming more sophisticated, large-scale and complex now require equipment and systems that make smoother, more efficient operations possible. With these corporate needs as our new target, we will continue to strengthen our networking-related enterprises.

Targeting corporations, we are also upgrading and expanding our range of products with enhanced control functions and security, as well as LAN-related products for realizing higher efficiency at lower costs. In the field of wireless LAN, a technology that is proliferating we have launched the Intelligent Access Point "AirStation Pro WLM-L11G". Along with greatly enhanced control functions, security and durability, this product also carries the global standard Wi-Fi (Wireless Fidelity) certification. Because Wi-Fi is a standard specification that guarantees wireless LAN compatibility, it facilitates mutual communication among certified products by various manufacturers. Currently with public

transmission environments becoming widespread, constructing safe and highly convenient networks will enable business people to work more efficiently. We have created several other products aimed at the corporate market including the high-speed, highly functional Layer 3 Switch "LSM-L3-24" which reduces loads on networks, and the VoIP (Voice over Internet Protocol) Gateway "VG-ST1000" which greatly reduces the cost of Internet telephony.

As part of our services for corporations, we also have a reliable support system offering a number of network maintenance support services such as "send-back maintenance service", "delivery maintenance service (delivery of courtesy devices)", "on-site maintenance service (dispatch repair service)", and "CRS (Configuration Restoration Service)".

We will continue to target the expanding corporate market with quality product lineups and total solutions including support systems.



Intelligent Access Point



Layer 3 Switch



VoIP Gateway

## For the convenience of our clients, we have launched a cordless hard disk

Today's information environment is changing so that people can access the internet easily in public areas such as restaurants and railway stations. Working styles are changing for business people, who carry laptop computers and work away from the office. To this end a portable hard disk "DUB-P" that is easier to use in such an environment has been launched by us, and has proved to be very popular.

This product, which does not require the AC electrical source that was necessary until now, can be operated simply by connecting it to the USB port of a laptop computer. It has excellent mobility due to its small size without the constraint of electrical cables. Users can work wherever they choose.

This design concept grew out of a thorough study of how to maximize ease of use for clients, the results of which are reflected in the product. We continuously strive to put ever-improving products on the market that do not emphasize maker-related functional aspects alone, but rather aim for greater customer convenience.

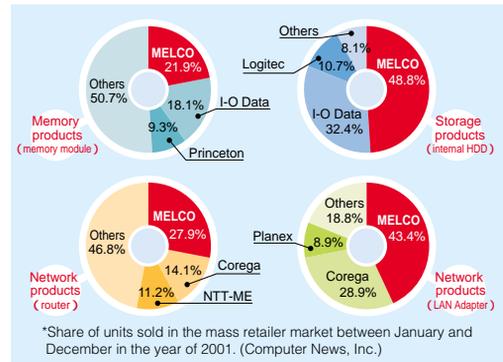


\*USB: Universal Serial Bus  
Common specification for connecting peripheral devices. Can be plugged or unplugged without turning off power.

## 2002 BCN Awards in 8 categories, comprising all categories related to networking

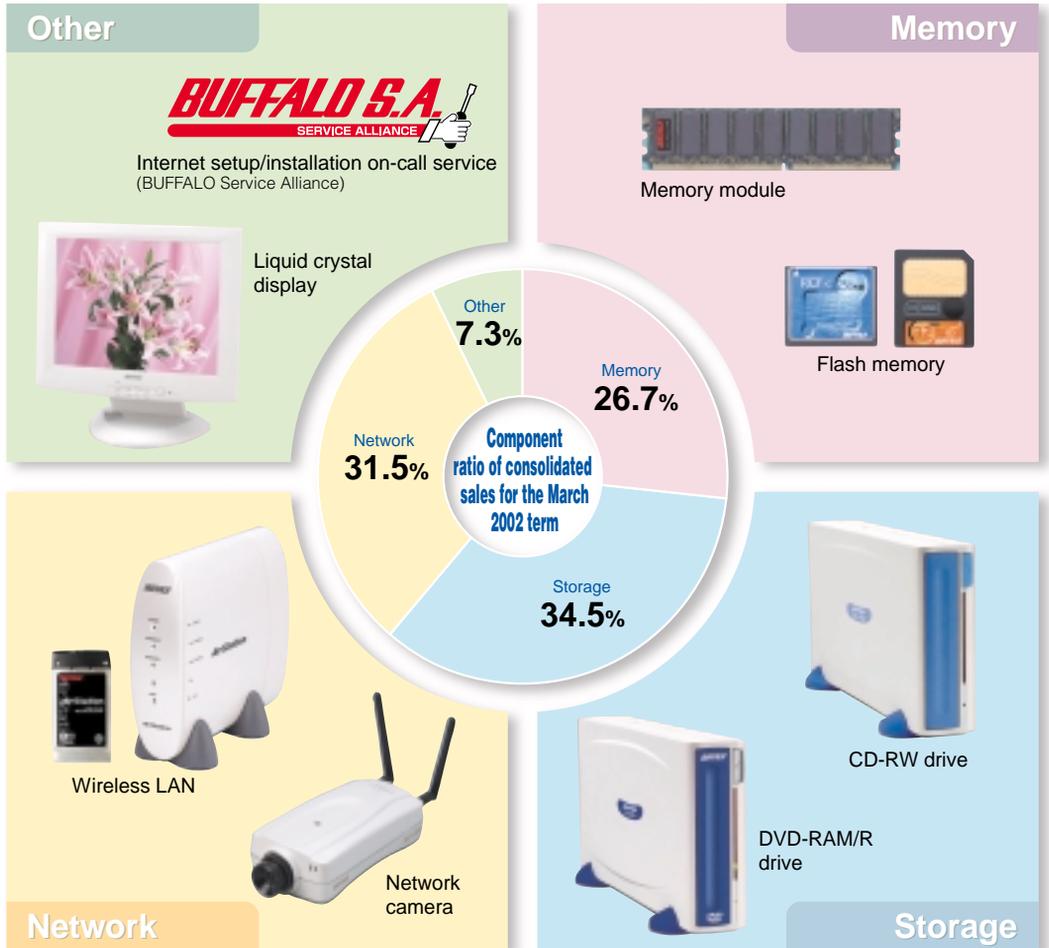
In the "2002 BCN Awards" sponsored by the Computer News, Inc. we received the top prizes in eight categories. These prizes are awarded to the firms whose products were the leading sellers in the larger shops of Tokyo, Osaka and Nagoya during 2001. We had the honor of winning in all eight categories related to LAN networking.

To be more precise, the eight categories are: LAN Adapter, hubs, routers, printer servers, modems, memory, internal hard disks, and CPU accelerators. We are very grateful for this result, which we perceive to demonstrate our customers' high evaluation of the functionality and reliability of our BUFFALO products. With "Easy-to-use Internet" as our corporate motto, we shall continue to focus on convenience for our clients, and to provide products that meet every need.



With "Easy-to-use Internet" as our motto, we will suggest a comfortable environment that everyone can use conveniently.

Consolidated sales per product for the term between April 2001 and March 2002.



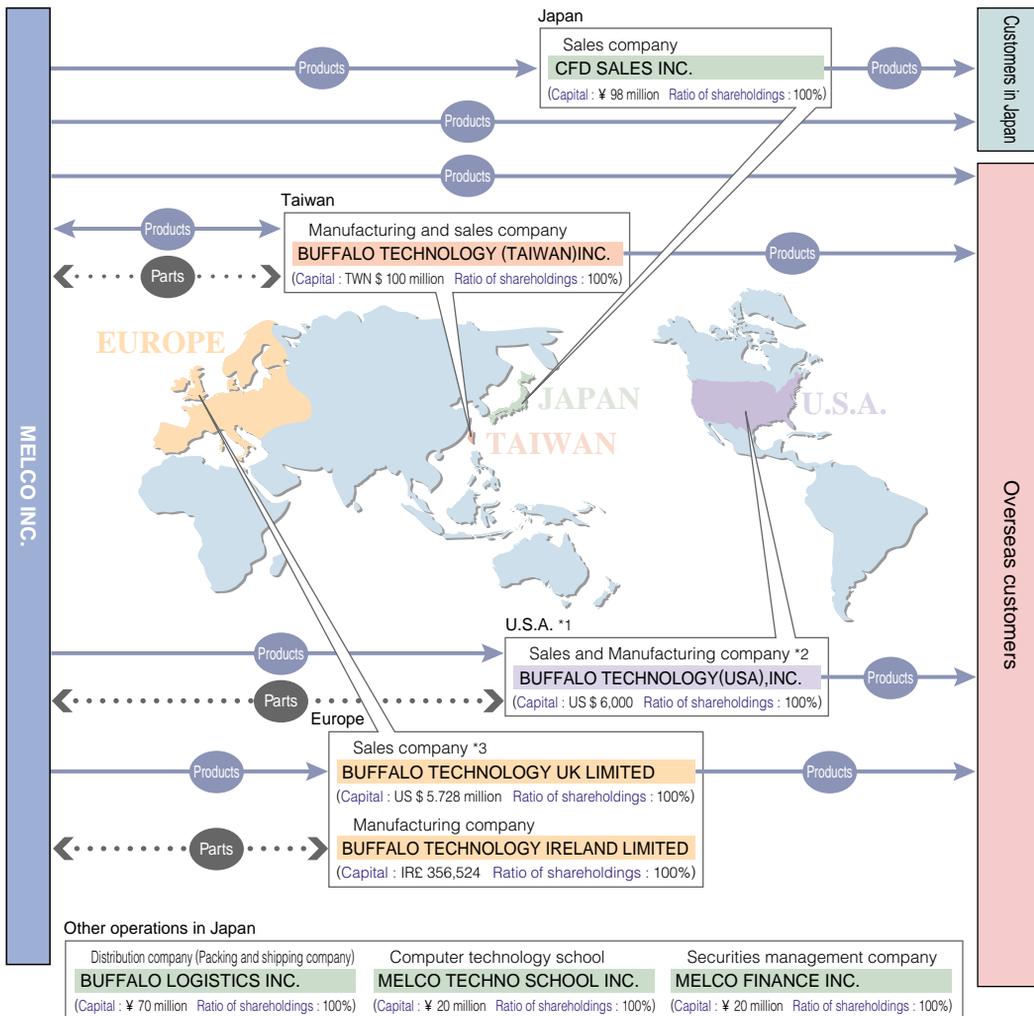
# Group Companies [ MELCO INC.Group ]

## MELCO INC.Group Affiliation Chart ( Consolidated subsidiaries )

\*1 BUFFALO TECHNOLOGY (U.S.A.), INC. has been liquidated as of December 31, 2001.

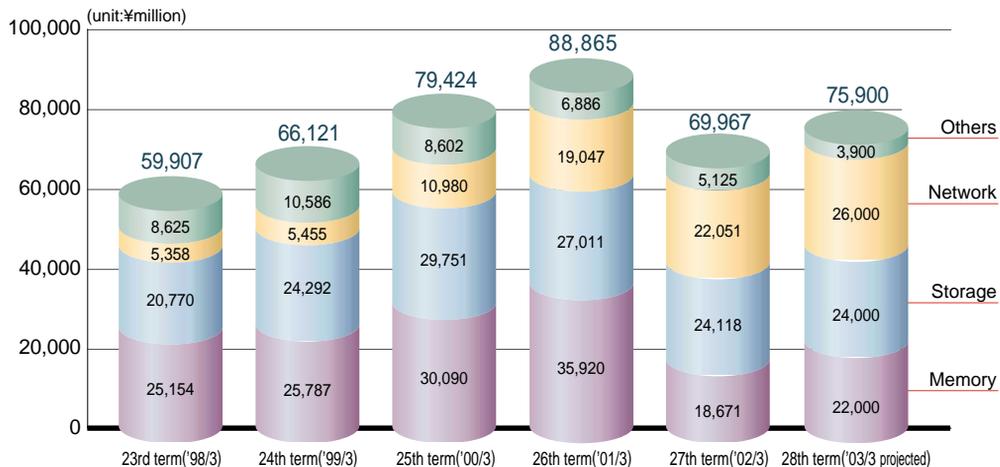
\*2 The ratio of shareholdings for TechWorks (Delaware), Inc. increased from 98.4% to 100% as of December 18, 2001. The company was renamed BUFFALO TECHNOLOGY (USA), INC. as of February 28, 2002.

\*3 The capital was increased to US \$ 5.728 million for BUFFALO TECHNOLOGY UK LIMITED. on December 18, 2001.

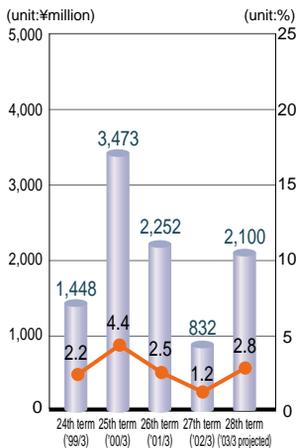


# Financial Report [ Consolidated Statement ]

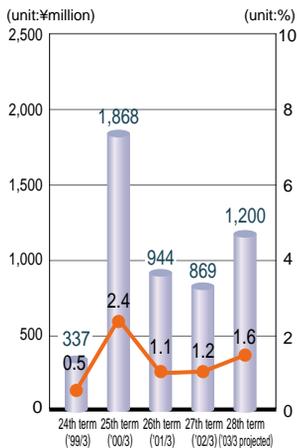
## Consolidated sales



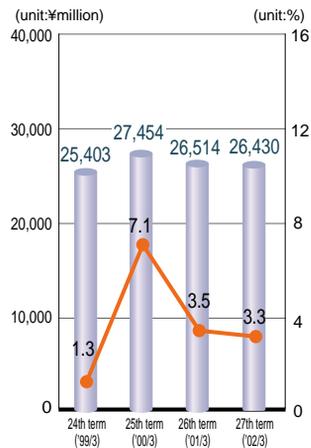
## Consolidated ordinary income and % of sales



## Consolidated net income and % of sales



## Consolidated shareholder's equity and return on equity (ROE)



### Consolidated balance sheet (unit:¥million)

Item	Fiscal year	
	2002 as of March 31, 2002	2001 as of March 31, 2001
(Assets)		
Current assets	28,022	36,429
Tangible fixed assets	2,777	2,938
Intangible fixed assets	156	222
Investments, etc.	11,121	3,329
Total Fixed assets	14,055	6,490
<b>Total assets</b>	<b>42,077</b>	<b>42,919</b>
(Liabilities)		
Current liabilities	14,968	15,715
Long-term liabilities	678	689
<b>Total liabilities</b>	<b>15,646</b>	<b>16,405</b>
(Capital)		
Capital	6,400	6,400
Capital reserve	7,593	7,593
Consolidated surplus	12,741	12,801
Balance of other profits on securities	70	72
Exchange adjustment	160	285
Treasury stock	213	66
<b>Total capital</b>	<b>26,430</b>	<b>26,514</b>
<b>Total liabilities and capital</b>	<b>42,077</b>	<b>42,919</b>

### Consolidated statement of surplus (unit:¥million)

Item	Fiscal year	
	2002 (April 1, 2001 to March 31, 2002)	2001 (April 1, 2000 to March 31, 2001)
Consolidated surplus opening balance	12,801	13,618
Reduction of consolidated surplus	929	1,760
<b>Net income</b>	<b>869</b>	<b>944</b>
<b>Consolidated surplus closing balance</b>	<b>12,741</b>	<b>12,801</b>

### Consolidated statement of income (unit:¥million)

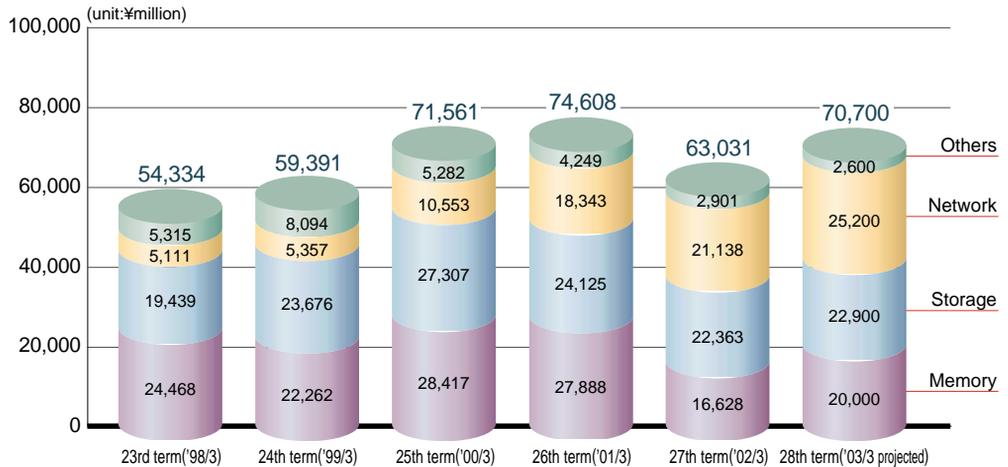
Item	Fiscal year	
	2002 (April 1, 2001 to March 31, 2002)	2001 (April 1, 2000 to March 31, 2001)
Sales	69,967	88,865
Cost of sales	61,389	77,723
Selling, general and administrative expenses	7,922	9,409
<b>Operating income</b>	<b>655</b>	<b>1,732</b>
Non-operating income	421	1,160
Non-operating expenses	244	640
<b>Ordinary income</b>	<b>832</b>	<b>2,252</b>
Extraordinary income	54	37
Extraordinary loss	222	503
<i>Current income before taxes and other adjustments</i>	<i>664</i>	<i>1,785</i>
Corporation, resident and enterprise taxes	397	952
Adjustment for corporation tax, etc.	603	90
Minority loss (added)	-	19
<b>Current net income</b>	<b>869</b>	<b>944</b>

### Consolidated cash flow statement (unit:¥million)

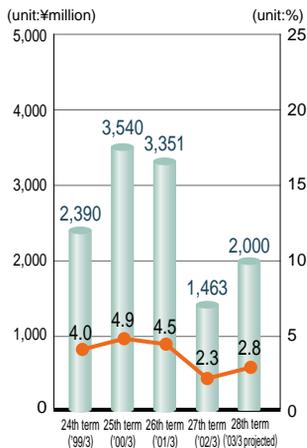
Item	Fiscal year	
	2002 (April 1, 2001 to March 31, 2002)	2001 (April 1, 2000 to March 31, 2001)
Operating activity cash flow	3,422	3,208
Investment activity cash flow	7,444	168
Financial activity cash flow	765	1,902
Balance of cash/cash-equivalent conversions	43	126
<b>Increase of cash/cash-equivalents</b>	<b>4,744</b>	<b>5,153</b>
Cash/cash-equivalent opening balance	6,775	11,928
<b>Cash/cash-equivalent closing balance</b>	<b>2,030</b>	<b>6,775</b>

# Financial Report [ Unconsolidated Statement ]

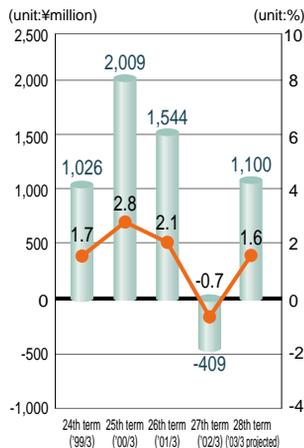
## Sales



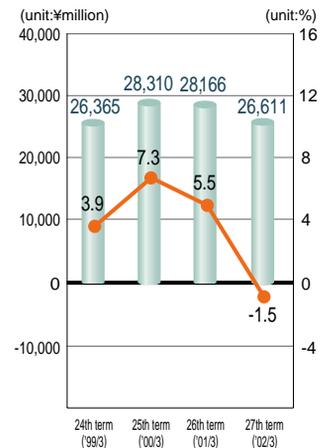
## Ordinary income and % of sales



## Net income and % of sales



## Shareholder's equity and return on equity (ROE)



## Balance sheet

(unit:¥million)

Fiscal year	2002	2001
Item	(As of March 31, 2002)	(As of March 31, 2001)
(Assets)		
Current assets	37,021	34,059
Tangible fixed assets	2,027	2,146
Intangible assets	139	187
Investments, etc.	3,215	6,311
Total Fixed assets	5,382	8,644
Total assets	42,404	42,704
(Liabilities)		
Current liabilities	15,163	13,905
Long-term liabilities	629	633
Total liabilities	15,793	14,538
(Capital)		
Capital	6,400	6,400
Legal reserve	9,193	9,193
Retained earnings	11,161	12,500
Balance of other profits on securities	70	72
Treasury stock	213	-
Total capital	26,611	28,166
Total liabilities and capital	42,404	42,704

## Statement of income

(unit:¥million)

Fiscal year	2002	2001
Item	(April 1, 2001 to March 31, 2002)	(April 1, 2000 to March 31, 2001)
Sales	63,031	74,608
Cost of sales	55,773	65,611
Selling, general and administrative expenses	6,147	6,889
Operating income	1,110	2,107
Non-operating income	529	1,684
Non-operating expenses	176	440
Ordinary income	1,463	3,351
Extraordinary income	56	44
Extraordinary loss	2,506	1,029
Current income before taxes	986	2,367
Corporation, resident and enterprise taxes	333	849
Adjustment for corporation tax, etc.	909	27
Net income	409	1,544
Profit carried over from previous term	5,301	5,508
Earnings allocated to retirement of treasury stock	569	1,358
Interim dividends	160	193
Unappropriated profit for current term	4,161	5,500

## Profit appropriation

(unit:¥million)

Fiscal year	2002	2001
Item	(April 1, 2001 to March 31, 2002)	(April 1, 2000 to March 31, 2001)
Unappropriated profit for current term	4,161	5,500
Disposition of discretionary reserves		
Disposition of special reserves	7,000	-
Total	11,161	5,500
Dividends	160	189
	(¥6/share)	(¥7/share)
Executive bonuses	-	10
Total	160	199
Surplus carried over to next term	11,001	5,301

### Notes:

- 1) Interim dividends ¥193,648,966 in total (¥7/common share) were paid on December 1, 2000.
- 2) Interim dividends ¥160,846,590 in total (¥6/common share) were paid on December 3, 2001.

# Company Data [ Company Profile/Investor Information ]

## Company Profile (As of March 31, 2002)

Company Name: MELCO INC.

Headquarters: 11-50, Ohsu 4-chome, Naka-ku, Nagoya, Aichi Prefecture, Japan

Founded: May 1, 1975

Incorporated: August 5, 1978

President and CEO: Makoto Maki

Capital: ¥6.4 billion

Sales: ¥69.967 billion consolidated  
¥63.031 billion unconsolidated  
(at end of March 2002)

Business content: Development, manufacture and sales of Internet equipment and related services

No. of employees: 656 consolidated, 388 unconsolidated

Group affiliates: 8 companies (4 in Japan and 4 overseas)

Banks: UFJ, Nagoya, Iyo, Tokyo-Mitsubishi, UFJ Trust Bank

## Board of Directors (As of June 27, 2002)

President and CEO Makoto Maki

Senior Managing Director Kuniaki Saiki

Director Hiromi Maki

Director Hiromichi Maki

Director Harumi Maekawa

Director Seishi Toyooka

Director Takayuki Nishioka

Director Hidetoshi Yamaguchi

Senior Corporate Auditor Yozo Ueda

Corporate Auditor Toshio Nishikawa

Corporate Auditor Yuzuru Kawashima

Corporate Auditor Iwao Tsusaka

## Investor Information(As of March 31,2002)

Accounts closed: March 31

Scheduled shareholder's meeting: June

Dates to determine stock ownership: Shareholders entitled to vote  
March 31  
Shareholders entitled to year-end dividend  
March 31  
Shareholders entitled to interim dividend  
September 30

Listed Stock Exchanges: First Section of Tokyo Stock Exchange and  
First Section of Nagoya Stock Exchange

Stock code: 6913

Number of shares issued: 26,841,136

Number of shareholders: 16,333

Number of shares per unit: 100

Newspaper with notice to shareholders: Nihon Keizai Shimbun

Transfer agent: UFJ Trust Bank Limited  
4-3, Marunouchi 1-chome,  
Chiyoda-ku, Tokyo

Handling office: UFJ Trust Bank Limited  
Security Agent Department  
10-11, Higashi-suna, 7-chome,  
Koto-ku, Tokyo 137-8081  
Tel: 81-3-5683-5111

Managing underwriters: (main) Nomura Securities  
(others) Daiwa Securities SMBC  
Mizuho Investors Securities  
Nikko Cordial Securities

## Evolution of the MELCO INC. GROUP

History		Business/Others
Incorporated for the purpose of manufacturing and selling audio equipment	Aug 1978	Aug Began marketing a string-driven turntable
	<b>1980</b>	
	Jul 1981	Jul Entered the personal computer peripherals market in earnest
	1982	Nov Began marketing an internal printer buffer
Opened Tokyo Branch Office (now the Tokyo Head Office)	Oct 1986	
	1988	Oct Began marketing Japan's first EMS board
Established BUFFALO LOGISTICS INC.	Sep 1990	
Opened Osaka Sales Office (now the Osaka Branch Office)	Sep 1991	
Registered with JASDAQ	Oct	
Opened High-Tech Center	Jan 1992	Jul Began marketing CPU accelerator products
Established BAPILU PRODUCTS INC.	Jun	Aug Began marketing LAN products
[now BUFFALO TECHNOLOGY (TAIWAN) INC.]	1993	May Began marketing window accelerators; entered the multimedia market in earnest
	1994	Oct Received Prize for Excellence at PCB Technology Awards
	1994	Feb Began marketing hard disks; shifted emphasis to manufacture of computer peripheral devices
Listed in second section of Nagoya Stock Exchange	Jan 1995	Sep Obtained ISO 9001 certification
Listed in second section of Tokyo Stock Exchange	Aug	Nov Began marketing DOS/V component PCs; shifted emphasis from manufacture of computer peripheral devices to manufacture of PC components
Opened agencies in Sendai and Fukuoka (now the Sendai and Fukuoka sales Offices)	Dec	
MELCO TECHNO SCHOOL INC. commenced operations at its computer technology school	Jul 1996	
Listed in the first sections of the Tokyo and Nagoya Stock Exchanges	Sep	
Made CFD SALES INC. a subsidiary	Oct	Oct Began marketing LCD monitors
Introduced divisional organization	Oct 1997	
Made TechWorks (Delaware), Inc.(now BUFFALO TECHNOLOGY(USA),INC.) a subsidiary	Jan 1998	
Made TechWorks (UK) Limited and TechWorks (Ireland) Limited (now BUFFALO TECHNOLOGY UK LIMITED. and BUFFALO TECHNOLOGY IRELAND LIMITED.)subsidiaries	Dec	
	1999	Jan Entered the wireless LAN market; released "AIRCONNECT"
MELCO FINANCE INC. commenced operations in securities management and related areas	Aug	Nov Began marketing memory for Rambus devices
	<b>2000</b>	
	Apr	Began marketing the wireless LAN "AirStation"
	Oct	Received Good Design Award for AirStation wireless LAN
		Developed worldwide standard specification of DDR memory for notebook computers
Opened BUFFALO Solution Square (formerly Akihabara Customer Support Center)	Dec	
	<b>2001</b>	
Formed BUFFALO Service Alliance	Jan	Jan Began Internet service business
Established joint venture company, Digital Reuse Inc.	Mar	Obtained Environmental Management System ISO14001 Certification
	<b>2002</b>	
	Nov	Obtained Good Design Awards for card reader and CD-RW drive

## MELCO INC.

11-50, Ohsu 4-chome, Naka-ku, Nagoya, 460-0011, Japan  
Tel: 81-52-251-6891 FAX: 81-52-241-7979

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

### Offices

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Headquarters	Kamiya Bldg., 11-50, Ohsu 4-chome, Naka-ku, Nagoya, 460-0011, Japan	Tel:81-52-251-6891	Fax:81-52-241-7979
Tokyo Head Office	Fukuoka Bldg., 8-7, Yaesu 2-chome, Chuo-ku, Tokyo, 104-0028, Japan	Tel:81-3-3242-7777	Fax:81-3-5203-8551
<b>Subsidiaries Japan</b>			
CFD SALES INC.	Kamiya Bldg., 11-50, Ohsu 4-chome, Naka-ku, Nagoya, 460-0011, Japan	Tel:81-52-261-7771	Fax:81-52-261-7775
BUFFALO LOGISTICS INC.	1-3, Mutsuno 2-chome, Atsuta-ku, Nagoya, 456-0023, Japan	Tel:81-52-883-3035	Fax:81-52-883-3042
MELCO TECHNO SCHOOL INC.	15, Shibata hondori 4-chome, Minami-ku, Nagoya, 457-8520, Japan	Tel:81-52-619-7727	Fax:81-52-619-7759
MELCO FINANCE INC.	Kamiya Bldg., 11-50, Ohsu 4-chome, Naka-ku, Nagoya, 460-0011, Japan	Tel:81-52-251-6891	Fax:81-52-241-7979
<b>Subsidiaries Overseas</b>			
BUFFALO TECHNOLOGY (TAIWAN) INC.	4F, NO.18, LANE609, SEC.5, CHUNG HSIN RD., SANCHUNG CITY, TAIPEI HSIEN, TAIWAN	Tel:886-2-2999-9860	Fax:886-2-2999-2264
BUFFALO TECHNOLOGY (USA), INC.	4030 West Braker Lane, Suite 350, Austin, TEXAS 78759-5319 U.S.A.	Tel:1-512-794-8533	Fax:1-512-794-8606
BUFFALO TECHNOLOGY UK LIMITED	176 Buckingham Avenue, Slough, Berkshire SL1 4RD, United Kingdom	Tel:44-1753-555-000	Fax:44-1753-535-420
BUFFALO TECHNOLOGY IRELAND LIMITED	Unit 14B, Shannon Industrial Estate, Shannon, Co. Clare Ireland	Tel:353-61-474711	Fax:353-61-474770